



# County of Eastland

EASTLAND COUNTY, TEXAS

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

September 30, 2009

FOUNDED ON PRINCIPLE  
FOCUSED ON SERVICE

EASTLAND COUNTY, TEXAS

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September 30, 2009

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# CONDLEY AND COMPANY, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

993 North Third Street ■ P. O. Box 2993 ■ Abilene, Texas 79604-2993 ■ 325-677-6251 ■ FAX 325-677-0006 ■ www.condley.com ■ E-Mail: info@condley.com

May 14, 2010

**The Honorable County Judge and Commissioners  
Comprising the Commissioner's Court of  
Eastland County, Texas**

## **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eastland County, Texas, as of and for the year ended September 30, 2009, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Eastland County, Texas' management. Our responsibility is to express an opinion 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 general-purpose 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 general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Eastland County, Texas, as of September 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 14, 2010, on our consideration of Eastland County, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 9 and budgetary comparison information on pages 30 through 31 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Eastland County, Texas' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining fund financial statements, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

*Condley and Company, L.L.P.*  
Certified Public Accountants

*REQUIRED SUPPLEMENTARY INFORMATION -  
MANAGEMENT'S DISCUSSION AND ANALYSIS*

EASTLAND COUNTY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2009

Our discussion and analysis of the County's financial performance provides an overview of the County's financial activities for the fiscal year ended September 30, 2009. Please read it in conjunction with the County's financial statements that begin on page 10.

**USING THIS ANNUAL REPORT**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34.

**Report Components**

This annual report consists of five parts as follows:

**Government-Wide Financial Statements:** The statement of net assets and the statement of activities (on pages 10 through 11) provide information about the activities of the County government-wide (or "as a whole") and present a longer term view of the County's finances.

**Fund Financial Statements:** Fund financial statements, (starting on page 12) focus on the individual parts of the County government. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant ("major") funds. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending.

**Notes to the Financial Statements:** The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Required Supplementary Information:** Management's discussion and analysis and the general fund budgetary comparison schedule (starting on page 30) represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

**Other Supplementary Information:** This part of the annual report (starting on page 32) includes optional financial information such as combining statements for nonmajor funds (which are added together and shown in the fund financial statements in a single column). Also included in this section are fiduciary fund statements which 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. This other supplemental financial information is provided to address certain specific needs of various users of the County's annual report.

## **Reporting the County as a Whole**

### **The County's Reporting Entity Presentation**

This annual report includes all activities for which the County is fiscally responsible.

### **The Government-Wide Statement of Net Assets and the Statement of Activities**

Our financial analysis of the County as a whole begins on page 10. The government-wide financial statements are presented on pages 10 through 11. One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The statement of net assets and the statement of activities report information about the County as a whole and about its activities in a way that helps answer this question.

These two statements report the County's net assets and changes in them. The statement of net assets presents information on all of Eastland County's assets and liabilities, with the difference between the two being reported as net assets. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the County's sales tax base and the condition of the County's capital assets, to assess the overall health of the County. In the statement of activities we present 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 the related cash flows.

## **Reporting the County's Most Significant Funds**

### **The Fund Financial Statements**

The fund financial statements begin on page 12 and provide detailed information about the most significant funds of the County as a whole, but do not portray the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County establishes certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two kinds of funds - governmental and fiduciary - use different accounting approaches.

*Governmental funds* - Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliations on pages 13 and 15. The County considers the general fund and the road and bridge fund to be its significant or major governmental funds. All other governmental funds are aggregated in a single column entitled other nonmajor governmental funds.

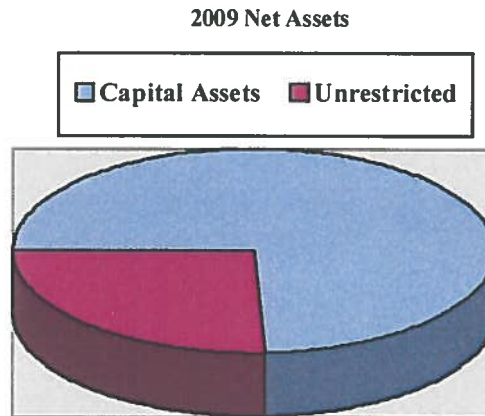
*Fiduciary funds* - The County is the trustee, or fiduciary, for certain funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County's fiduciary activities are reported in a separate statement of fiduciary net assets on page 16. 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

### Net Assets

Eastland County's combined net assets were approximately \$6.32 million at September 30, 2009. The largest portion (approximately 75%) of the County's net assets reflects its investment in capital assets (e.g. land, buildings, machinery, equipment), less accumulated depreciation and any related outstanding debt. The remaining balance of unrestricted net assets may be used to meet the County's ongoing obligations to citizens and creditors.



Eastland County's combined total assets amounted to \$8,632,790. This amount included current and other assets of \$3,297,262 and capital and non-current assets of \$5,335,528. Total liabilities of the County at September 30, 2009, were \$2,305,092. The portion of liabilities classified as current was \$1,935,354 and long term liabilities were \$369,738. See **Table 1** for additional variances between September 30, 2009 and 2008.

**Table 1**

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
<b>Assets:</b>		
Current and other assets	\$ 3,297,262	\$ 4,884,199
Capital assets	<u>5,335,528</u>	<u>4,833,860</u>
<b>Total Assets</b>	<b><u>\$ 8,632,790</u></b>	<b><u>\$ 9,718,059</u></b>
<b>Liabilities:</b>		
Current liabilities	\$ 1,935,354	\$ 2,957,603
Long-term liabilities	<u>369,738</u>	<u>455,425</u>
<b>Total Liabilities</b>	<b><u>2,305,092</u></b>	<b><u>3,413,028</u></b>
<b>Net assets:</b>		
Invested in capital assets net of related debt	4,696,436	4,174,696
Restricted for debt service	0	17,249
Unrestricted	<u>1,631,262</u>	<u>2,113,086</u>
<b>Total Net Assets</b>	<b><u>\$ 6,327,698</u></b>	<b><u>\$ 6,305,031</u></b>

Total assets decreased primarily because the County spent cash received from FEMA totaling \$1,348,185 to repair

roads damaged by flooding. These funds were received in fiscal year 2008 which increased deferred revenue in the prior year and as the funds were spent in fiscal year 2009 deferred revenue decreased along with cash. Deferred revenue remaining that relates to the FEMA funds totaled \$643,638 at September 30, 2009.

**Changes in Net Assets**

Eastland County’s net assets increased by \$22,667 during fiscal year 2009. The County improved their net asset position primarily due to an increase in property tax revenue of \$286,196 and an increase in grant income of \$376,107. Total revenues for the fiscal year ending September 30, 2009, were \$9,672,502. Approximately 44% of the County’s revenue comes from property taxes. Charges for services increased by \$224,970, and fines and forfeitures increased by \$49,688.

**Sources of Funds for Governmental Activities - Fiscal Year 2009**



For the years ended September 30, 2009 and 2008, net assets of the primary government changed as follows:

<b>Table 2</b>	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Revenues:		
Program revenues:		
Charges for services	\$ 2,002,816	\$ 1,777,846
Operating grants and contributions	2,371,965	1,995,858
General revenues:		
Property taxes	4,265,439	3,979,243
Fines and forfeitures and other taxes	671,635	622,476
Investment earnings	26,596	84,131
Miscellaneous	334,051	341,503
<b>Total revenues</b>	<u>9,672,502</u>	<u>8,801,057</u>

	2009	2008
<b>Expenses</b>		
General government	1,960,004	2,209,348
Health and welfare	544,560	273,234
Judicial and legal	2,023,947	1,900,576
Public safety	2,257,326	2,024,323
Public facilities	457,721	500,279
Road maintenance	2,351,505	2,713,367
Interest on long-term debt	54,772	37,712
<b>Total expenses</b>	<b>9,649,835</b>	<b>9,658,839</b>
Increase (decrease) in net assets	22,667	(857,782)
Beginning net assets	6,305,031	7,162,813
Ending net assets	<u>\$ 6,327,698</u>	<u>\$ 6,305,031</u>

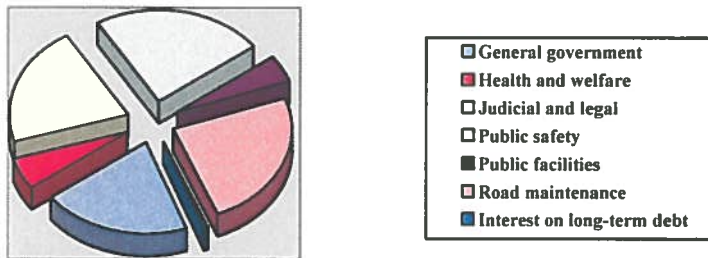
### Governmental Activities

To aid in the understanding of the statement of activities, some additional explanation is given. Of particular interest is the format that is significantly different from a typical statement of revenues, expenses, and changes in fund balance. You will notice that expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a net (expense)/revenue. This type of format highlights the relative financial burden of each of the functions on the County's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

Expenditures stayed relatively flat as they decreased by \$9,004 from the prior year.

For the year ended September 30, 2009, the County's governmental resources were used as follows:

#### Uses of Funds in Governmental Activities



Total expenses for governmental activities amounted to \$9,649,835 during the year ended September 30, 2009. Of these total expenses, taxpayers and other general revenues funded \$5,275,054. While those directly benefiting from the program funded \$2,371,965 from grants and other contributions; \$2,002,816 was provided from charges for services for the year ended September 30, 2009.

## **A FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS**

### **Financial Highlights**

- As of the end of the fiscal year, Eastland County's governmental funds reported a combined fund balance of \$2,638,770, a decrease of \$1,835,686 or 44% in comparison with the prior year. The primary factor for this decrease is the road repairs caused by flooding in 2007 that were completed by the County in fiscal year 2009 which totaled \$1,348,185. The fund balance of the road and bridge fund decreased by \$1,449,934 because there was no revenue in the current fiscal year to offset these expenditures as it was recognized in the prior year at the fund level when the cash was actually received.
- The General Fund is the chief operating fund of the County. At the end of the fiscal year, the total fund balance of \$2,490,080 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 44% of total general fund expenditures.
- The County's total expenditures exceeded total revenues by \$1,835,686 for the year.

### **General Fund Budgetary Highlights**

Over the course of the year, the County revised the general fund budget at various times. With these adjustments, actual expenditures were \$121,023 lower than final budgeted amounts. The most significant positive variance from budgeted expenses resulted from less public safety expenditures than anticipated. The actual revenues were \$242,469 lower than expected due in large part to less property taxes received and charges for services than anticipated.

### **Road and Bridge Fund Budgetary Highlights**

Over the course of the year, the County revised the road and bridge fund budget at various times. With these adjustments, actual expenditures were \$301,671 higher than final budgeted amounts due to costs associated with road repair. Actual revenues were \$1,093,298 lower than expected due primarily to lower transfers in, grants and contributions, and charges for services received than anticipated.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

As of September 30, 2009, the County had invested \$29,597,725 in a broad range of capital assets, including land, buildings, roads, bridges and equipment. This amount represents a net increase (including additions, retirements and adjustments) of \$934,686 or 4% over last year. The main events affecting capital assets during the year were the purchases of additional equipment for the road and bridge precincts. See Note 5 in the notes to the financial statements for additional detail.

**Primary Government Capital Assets - (Net of accumulated depreciation)**

	<b>Governmental Activities 2009</b>
Land	\$ 158,678
Buildings and improvements	2,190,423
Furniture and equipment	1,940,107
Infrastructure	<u>1,046,320</u>
 Total	 \$ <u>5,335,528</u>

**Long-Term Debt**

At year end, the County had outstanding long-term liabilities in the form of capital leases totaling \$639,092 that were obtained in order to finance acquisition of various equipment. See Note 6 in the notes to the financial statements for additional details.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

For the upcoming fiscal year ending September 30, 2010, the County's budget is fairly consistent with this year. Budgeted expenditures for next fiscal year are approximately the same as they were for the 2008-2009 year. The County's fund balance is projected to remain consistent.

**CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Eastland County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Auditor's office at: Eastland County, Texas, 100 W. Main Street, Eastland, Texas 76448.

*GOVERNMENT – WIDE FINANCIAL STATEMENTS*

EASTLAND COUNTY, TEXAS

STATEMENT OF NET ASSETS

September 30, 2009

	<u>Governmental Activities</u>
<b>ASSETS:</b>	
Current Assets:	
Cash and cash equivalents	\$ 1,658,873
Investments	1,143,511
Taxes receivable - net of allowance for uncollectible taxes of \$229,443	284,722
Accounts receivable, net of uncollectibles	74,941
Due from other governments	44,793
Prepaid expenses and other assets	90,422
Capital Assets:	
Land	158,678
Buildings and improvements	3,785,933
Infrastructure	20,888,375
Furniture and equipment	4,764,739
Less accumulated depreciation	<u>(24,262,197)</u>
 TOTAL ASSETS	 <u>8,632,790</u>
 <b>LIABILITIES:</b>	
Current Liabilities:	
Accounts payable and accrued expenses	628,403
Accrued wages	15,367
Accrued interest payable	16,197
Deferred revenue	928,360
Compensated absences	77,673
Leases payable - current	269,354
Noncurrent Liabilities:	
Leases payable - long term	<u>369,738</u>
 TOTAL LIABILITIES	 <u>2,305,092</u>
 <b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	4,696,436
Unrestricted	<u>1,631,262</u>
 TOTAL NET ASSETS	 <u>\$ 6,327,698</u>

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

**EASTLAND COUNTY, TEXAS**

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2009

		Program Revenues		Net (Expense) Revenues and Changes in Net Assets
Function/Program Activities	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
Primary Government:				
Governmental Activities:				
General government	\$ 1,960,004	\$ 755,164	\$ 80,671	\$ (1,124,169)
Judicial and legal	2,023,947	589,047	400,952	(1,033,948)
Public safety	2,257,326	420,289	110,653	(1,726,384)
Public facilities	457,721	28,568	888	(428,265)
Road and bridge	2,351,505	199,878	1,609,309	(542,318)
Health and welfare	544,560	9,870	169,492	(365,198)
Interest on long-term debt	54,772			(54,772)
Total governmental activities	9,649,835	2,002,816	2,371,965	(5,275,054)
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				4,265,439
Other taxes				14
Fines and forfeitures				671,621
Gain on sale of assets				38,404
Other revenue				295,647
Interest income				26,596
Total General Revenues and Transfers				5,297,721
Change in Net Assets				22,667
Net assets - Beginning				6,305,031
Net assets - Ending				\$ 6,327,698

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



*FUND FINANCIAL STATEMENTS*

EASTLAND COUNTY, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2009

<u>ASSETS</u>	<u>General</u>	<u>Road and Bridge</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 71,407	\$ 12,206	\$ 1,575,260	\$ 1,658,873
Investments	962,137		181,374	1,143,511
Taxes receivable	514,165			514,165
Allowance for uncollectible taxes	(229,443)			(229,443)
Accounts receivable, net of uncollectibles			74,941	74,941
Due from (to) other funds	1,651,795	(880,279)	(771,516)	0
Due from other governments	42,879		1,914	44,793
Prepaid expenses and other assets	79,882	10,540		90,422
<b>Total Assets</b>	<b>\$ 3,092,822</b>	<b>\$ (857,533)</b>	<b>\$ 1,061,973</b>	<b>\$ 3,297,262</b>
 <u>LIABILITIES AND FUND BALANCES</u>				
<b>Liabilities:</b>				
Accounts payable and accrued expenses	\$ 310,047	\$ 213,795	\$ 104,561	\$ 628,403
Accrued wages	7,973	2,061	5,333	15,367
Deferred revenues	284,722			284,722
<b>Total Liabilities</b>	<b>602,742</b>	<b>215,856</b>	<b>109,894</b>	<b>928,492</b>
 <b>Fund Balances:</b>				
<b>Unreserved, reported in:</b>				
General fund	2,490,080			2,490,080
Special revenue funds		(1,073,389)	952,079	(121,310)
<b>Total Fund Balance</b>	<b>2,490,080</b>	<b>(1,073,389)</b>	<b>952,079</b>	<b>2,368,770</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 3,092,822</b>	<b>\$ (857,533)</b>	<b>\$ 1,061,973</b>	<b>\$ 3,297,262</b>

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

EASTLAND COUNTY, TEXAS

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS

September 30, 2009

Fund Balances - Total Governmental funds		\$	2,368,770
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Governmental capital assets	\$	29,597,725	
Less accumulated depreciation		<u>(24,262,197)</u>	5,335,528
Long-Term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.			
Interest payable		(16,197)	
Compensated absences		(77,673)	
Governmental leases payable		<u>(639,092)</u>	(732,962)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue. The net effect of these reclassifications and recognitions is to decrease net assets.			
			<u>(643,638)</u>
Net assets of governmental activities		\$	<u><u>6,327,698</u></u>

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

EASTLAND COUNTY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended September 30, 2009

	General Fund	Road and Bridge	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Taxes	\$ 4,257,569	\$ 140	\$ 7,743	\$ 4,265,452
Grants and contributions	281,215	261,124	481,441	1,023,780
Charges for services	651,386	447,418	904,012	2,002,816
Fines and forfeitures	629,463		42,158	671,621
Interest	19,117	215	7,264	26,596
Other	272,416	23,434	46,940	342,790
<b>Total Revenues</b>	<b>6,111,166</b>	<b>732,331</b>	<b>1,489,558</b>	<b>8,333,055</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
General government	1,941,700		23,225	1,964,925
Judicial and legal	1,018,870		1,003,063	2,021,933
Public safety	1,812,121		428,913	2,241,034
Public facilities	386,473		65,379	451,852
Road and bridge		3,273,387		3,273,387
Health and welfare	522,671		21,889	544,560
<b>Total Expenditures</b>	<b>5,681,835</b>	<b>3,273,387</b>	<b>1,542,469</b>	<b>10,497,691</b>
Excess (Deficit) Revenues Over (Under) Expenditures	429,331	(2,541,056)	(52,911)	(2,164,636)
<b>OTHER FINANCING SOURCES AND (USES):</b>				
Capital lease proceeds		328,950		328,950
Transfers in (out)	(797,711)	762,172	35,539	0
<b>Total Sources (Uses):</b>	<b>(797,711)</b>	<b>1,091,122</b>	<b>35,539</b>	<b>328,950</b>
Excess (Deficit) Revenues and Other Financing Sources Over (Under) Expenditures and Financing Uses	(368,380)	(1,449,934)	(17,372)	(1,835,686)
Fund Balance, Unreserved, Beginning of Year	2,858,460	376,545	969,451	4,204,456
Fund Balance, Unreserved, End of Year	<u>\$ 2,490,080</u>	<u>\$ (1,073,389)</u>	<u>\$ 952,079</u>	<u>\$ 2,368,770</u>

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

EASTLAND COUNTY, TEXAS

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

For the Year Ended September 30, 2009

Net change in fund balances - total governmental funds \$ (1,835,686)

Amounts reported for governmental activities in the statement of activities are different because:

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 capital outlays and debt principal payments is to increase net assets. 1,387,143

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. (539,287)

The issuance of long-term debt provides current financial resources to government, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in treatment of long-term debt and related items. (328,950)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue. The net effect of these reclassifications and recognitions is to increase net assets. 1,339,447

Change in net assets of governmental activities \$ 22,667

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

EASTLAND COUNTY, TEXAS

STATEMENT OF FIDUCIARY NET ASSETS

September 30, 2009

	Employee Retirement Funds	Agency Funds
	<u>                    </u>	<u>                    </u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$	\$ 2,127,290
Certificates of deposit and savings		226,793
Due from others		13,898
Investments at fair value	<u>422,331</u>	<u>                    </u>
 Total Assets	 <u>422,331</u>	 <u>2,367,981</u>
<b>LIABILITIES:</b>		
Accrued liabilities		208,265
Due to others		2,155,346
Bonds held in trust		<u>4,370</u>
 Total Liabilities	 <u>0</u>	 <u>2,367,981</u>
<b>NET ASSETS:</b>		
Held in trust for pension benefits and other purposes	<u>\$ 422,331</u>	<u>\$ 0</u>

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

EASTLAND COUNTY, TEXAS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Year Ended September 30, 2009

	<u>Employee Retirement Funds</u>
ADDITIONS:	
Contributions:	
Employee	\$ <u>26,571</u>
Investment Earnings:	
Investment income	21,775
Less Investment Expenses:	
Asset fees	<u>214</u>
Net Investment Income	<u>21,561</u>
Total Revenues	<u>48,132</u>
DEDUCTIONS:	
Benefits paid	<u>77,710</u>
Net decrease	(29,578)
Net Assets - Beginning of Year	<u>451,909</u>
Net Assets - End of Year	<u>\$ <u>422,331</u></u>

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

*NOTES TO FINANCIAL STATEMENTS*



## EASTLAND COUNTY, TEXAS

### NOTES TO FINANCIAL STATEMENTS

September 30, 2009

#### **NOTE 1: REPORTING ENTITY**

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. Eastland County (the "County") operates under a county judge/commissioners court type of government as provided by state statute. The financial and reporting policies of the County conform to generally accepted accounting principles ("GAAP") applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), which includes all statements and interpretations of the National Council on Governmental Accounting unless modified by the GASB, and those principles prescribed by the American Institute of Certified Public Accountants Audit and Accounting Guide entitled "State and Local Governments."

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements include all funds, organizations, agencies, boards, commissions, and authorities for which the County is financially accountable. The County has also considered all other potential organizations for which the nature and significance of their relationships with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a majority of an organization's governing body, and 1) the ability of the County to impose its will on that organization, or 2) the potential for that organization to provide specific benefits to or impose specific financial burdens on the County. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

#### **NOTE 2: GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

##### Government-Wide Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the County. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues. The statement of net assets and the statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

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

Interfund activities between governmental funds appear as due to/due from 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 from on the government-wide Statement of Activities.

**Fund Financial Statements:**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the County or meets the following criteria:

Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and

Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

**Governmental Funds**

**General Fund**

The general fund is the primary operating fund of the County and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

**Special Revenue Funds**

Special revenue funds are used to account for the proceeds of specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the County. The following special revenue fund is reported as a major fund:

*Road and Bridge Fund* – The road and bridge fund is established to account for the resources devoted to maintaining the County’s roads and bridges.

**Fiduciary Funds**

The County reports the following fiduciary fund types:

*Agency Funds* – Accounts for assets the County holds on behalf of others as their agent. They are custodial in nature (assets equal liabilities), and do not involve measurement or results of operations.

*Employee Retirement Fund* – Accounts for resources that are required to be held in trust for the members and beneficiaries of the deferred compensation plan.

**Measurement Focus/Basis of Accounting**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and

similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the County; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of expenditure, and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

#### Budget

The County's annual budget is a management tool that assists its users in analyzing financial activity for its fiscal year ending September 30.

The County Auditor submits an annual budget to the County Commission in accordance with state law. In September, the County Commission adopts annual fiscal year budgets for specified County funds. Budgets for the general fund are adopted on a basis consistent with U.S. generally accepted accounting principles. The budget is properly amended throughout the year and is filed with the County Clerk.

Budgeted amounts are as originally adopted, or as amended during the fiscal year by the Commissioners' Court.

#### Cash and Cash Equivalents

Cash and cash equivalents reflected in the financial statements includes petty cash and cash in banks. Petty cash amounts are maintained in various County offices for purposes of collections of payments made to the County.

For purposes of reporting cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

#### Property Tax Calendar

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the County 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 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

## Capital Assets

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the statement of net assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the assets. Donated fixed assets are recorded at their estimated fair value at the date of donation. The County's infrastructure network is valued at historical cost.

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of activities. Depreciation is provided over the assets' estimated useful lives using the straight line method of depreciation. A capitalization threshold of \$5,000 is used to report capital assets.

The range of estimated useful lives by type of asset is as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	40
Building improvements	15
Vehicles	5
Equipment	5-10
Office equipment	5-7
Infrastructure	20-40

## Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

### Long-Term Debt

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as a liability in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

### Equity Classification

#### Government-Wide Statements

Equity is classified as net assets and displayed in three components:

*Invested in capital assets, net of related debt* – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

*Restricted net assets* – Consist of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

*Unrestricted net assets* – All other net assets that do not meet the definition of the "restricted" or "invested in capital assets, net of related debt".

It is the County's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

### Fund Financial Statements

Governmental fund equity is classified as fund balance.

### Use of Estimates

The preparation of financial statements by the County requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

## **NOTE 3: LEGAL COMPLIANCE - BUDGETS**

The County's budgetary process requires that expending agencies of the County submit appropriation requests by mid June of each year. After review by the budget officer and department heads, the requests are combined and submitted to the Commissioners' Court. In August, the proposed budget is filed with the County Clerk for public inspection at least fifteen days prior to hearings, which are open to the public. A final budget must be adopted prior to January 1. At the fund level, actual expenditures cannot exceed budgeted appropriations.

## **NOTE 4: CASH AND INVESTMENTS**

In addition to the \$250,000 insurance on accounts provided by Federal Deposit Insurance Corporation ("FDIC") regulations, securities in the amount of \$7,243,437 were pledged by the depository bank to secure all bank deposits and investments. The largest cash balance amounted to \$6,549,048 and occurred on January 7, 2009. The pledged securities plus FDIC coverage were sufficient to cover the largest cash balance for the County. Cash deposits at September 30, 2009, totaling \$4,552,797 (all funds), were in checking or money market accounts during the year which are allowable types of deposits.

For an indication of the level of risk assumed by the District, all cash deposits are categorized as Category 1, insured by FDIC or collateralized with securities held by the County (or public trust) or by its agent in its name.

Statutes authorize the County to invest in the State's investment pool. The County's investments held at September 30, 2009, are not subject to classifications where securities related to the government cannot be identified. Investments at September 30, 2009, included certificates of deposit totaling \$980,000 and Tex-Pool investments totaling \$163,511.

### Investments

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

### Investment Policy

The County has adopted the provisions of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Pools" ("Statement"). Those provisions require that certain investments be reported at fair value, rather than at cost or amortized cost, and that the changes in the fair value of investments be recognized as investment revenue. The Statement further provides that the County has the option of continuing to report certain investments at cost or amortized cost, but must disclose its policy in that regard.

In accordance with the Statement, the County's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report non-participating interest-earning investment contracts using the cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by

other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term “short-term” refers to investments that have a remaining term of one year or less at time of purchase. The term “nonparticipating” means that the investment’s value does not vary with market interest rate changes. Nonnegotiable certificates of deposits are examples of nonparticipating interest-earning investment contracts. The cost basis was equivalent to the fair value of the investments at year end.

#### Public Funds Investments Pools

Public funds investment pools in Texas (“Pools”) are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the “Act”), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: (1) have an advisory board composed of participants in the Pool and other persons who do not have a business relationship with the Pool and are qualified to advise the Pool; (2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and (3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its share.

The County’s investments in Pools are reported at an amount determined by the fair value per share of the Pool’s underlying portfolio, unless the Pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one, which is not registered with the Securities and Exchange Commission (“SEC”) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940.

#### Investment Risks

GASB Statement No. 40 requires a determination as to whether the County was exposed to the following specific investments risks at year end and if so, the reporting of certain related disclosures.

*Credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At September 30, 2009, the County was not exposed to credit risk.

*Custodial credit risk* relates to deposits that are exposed to the risk that they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities, held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the County's name. At September 30, 2009, the County was not exposed to custodial credit risk.

*Concentration of credit risk* is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At September 30, 2009, the County was not exposed to concentration of credit risk.

*Interest rate risk* is the risk that changes in the interest rates will adversely affect the fair value of an investment. At September 30, 2009, the County was not exposed to interest rate risk.

*Foreign currency risk* is the risk that exchange rates will adversely affect the fair value of an investment. At September 30, 2009, the County was not exposed to foreign currency risk.

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2009, follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
<b>Non-Depreciable Assets:</b>				
Land and improvements	\$ 158,678	\$	\$	\$ 158,678
<b>Depreciable Assets:</b>				
Buildings and improvements	3,691,002	94,931		3,785,933
Furniture and equipment	3,924,984	953,928	(114,173)	4,764,739
Infrastructure – roads and bridges	20,888,375			20,888,375
Total at historical cost	<u>28,504,361</u>	<u>1,048,859</u>	<u>(114,173)</u>	<u>29,439,047</u>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	(1,502,194)	(93,316)		(1,595,510)
Furniture and equipment	(2,547,180)	(383,721)	106,269	(2,824,632)
Infrastructure – roads and bridges	(19,779,805)	(62,250)		(19,842,055)
Total accumulated depreciation	<u>(23,829,179)</u>	<u>(539,287)</u>	<u>106,269</u>	<u>(24,262,197)</u>
Governmental activity capital assets, net	<u>\$ 4,833,860</u>	<u>\$ 509,572</u>	<u>\$ (7,904)</u>	<u>\$ 5,335,528</u>

Depreciation expense was charged to functions as follows:

General government	\$ 318,149
Judicial and legal	2,014
Public safety	61,246
Public facilities	95,627
Road and bridge	<u>62,251</u>
	<u>\$ 539,287</u>

**NOTE 6: LONG-TERM OBLIGATIONS**

As of September 30, 2009, the long-term debt, arising from cash transactions, payable from governmental fund resources consisted of the following:

Capital leases:

A capital lease obtained for the purchase of equipment, payable in annual installments of \$28,645 including interest at 4.75%, final payment due January 2011	\$ 55,085
A capital lease obtained for the purchase of equipment, payable in annual installments of \$28,877 including interest at 3.54%, final payment due September 2011	54,812
A capital lease obtained for the purchase of equipment, payable in annual installments of \$27,480 including interest at 3.54%, final payment due September 2011	52,160
A capital lease obtained for the purchase of equipment, payable in annual installments of \$11,156 including interest at 3.54%, final payment due September 2011	21,176
A capital lease obtained for the purchase of equipment, payable in annual installments of \$15,713 including interest at 3.54%, final payment due September 2011	30,027

A capital lease obtained for the purchase of equipment, payable in annual installments of \$15,783 including interest at 3.54%, final payment due September 2011	10,582
A capital lease obtained for the purchase of equipment, payable in annual installments of \$69,600 including interest at 5.51%, final payment due January 2011	127,602
A capital lease obtained for the purchase of equipment, payable in semi-annual installments of \$9,578 including interest at 5.72%, final payment due September 2016	149,941
A capital lease obtained for the purchase of equipment, payable in annual installments of \$15,783 including interest at 3.54%, final payment due September 2011	29,957
A capital lease obtained for the purchase of equipment, payable in annual installments of \$30,100 including interest at 4.50%, final payment due October 2012	<u>107,750</u>
Total Capital Leases	<u>\$ 639,092</u>

Changes in long-term obligations for the year ended September 30, 2009, are as follows:

	<u>October 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>September 30, 2009</u>	<u>Amount Due Within One Year</u>
Capital leases	\$ 659,164	\$ 328,950	\$ (349,022)	\$ 639,092	\$ 269,354

Interest paid on long-term obligations during the year ended September 30, 2009, totaled \$38,754.

The County is obligated under leases accounted for as capital leases. Capital assets with an original cost basis of \$827,113 were acquired under the capital leases. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2009.

<u>Year Ending September 30,</u>	
2010	\$ 269,354
2011	249,138
2012	56,480
2013	56,480
2014+	<u>79,140</u>
Minimum lease payments for capital lease	710,592
Less: Amount representing interest	<u>(71,500)</u>
Present value of minimum lease payments	<u>\$ 639,092</u>

#### NOTE 7: FEDERAL/STATE SOURCE REVENUES

The majority of the federal grant funds received are for improving the infrastructure that was damaged during the flood, strengthening homeland security, bio terrorism, and voting facilities. State grant funds received and recorded in the general fund are primarily for health sanitation salaries, tobacco grants, salary supplements, and additional law enforcement personnel. These grant funds have been awarded and accounted for by the County.



## **NOTE 8: EMPLOYEE RETIREMENT PLANS**

### Plan Description

The County provides pension, disability and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 575 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the County, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service or with 20 years regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the 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 with 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 (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer, based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The County contributed using the actuarially determined rate of 11% for fiscal year 2009. The contribution rate payable by the employee members is the rate of 7% as adopted by the governing body of the County. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

### Annual Pension Cost

For the employer's accounting year ending September 30, 2009, the annual pension cost for the TCDRS plan for its employees was \$342,786 and the actual contributions were \$342,786.

The required contribution was determined as part of the December 31, 2008 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2008 included (a) 8.0 percent investment rate of return (net of administrative expenses), and (b) projected salary increases of 5.3 percent. Both (a) and (b) included an inflation component of 3.5 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2008 was 18.9 years.

Funded Status and Funding Progress

As of December 31, 2008, the most recent actuarial valuation date, the plan was 77.16 percent funded. The actuarial accrued liability for benefits was \$6,938,547, and the actuarial value of assets was \$5,353,501, resulting in unfunded actuarial accrued liability (UAAL) of \$1,585,046. The covered payroll (annual payroll of active employees covered by the plan) was \$2,929,962, and the ratio of the UAAL to the covered payroll was 54.10 percent.

Trend Information for Eastland County, Texas

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
09/30/07	\$ 302,397	100%	\$ 0
09/30/08	315,781	100%	0
09/30/09	342,786	100%	0

Actuarial Valuation Information

<u>Actuarial valuation date</u>	<u>12/31/06</u>	<u>12/31/07</u>	<u>12/31/08</u>
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, closed	level percentage of payroll, closed	level percentage of payroll, closed
Amortization period	11.2	12.0	18.9
Asset valuation method	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value
Assumptions:			
Investment return	8.00%	8.00%	8.00%
Projected salary increases	5.3%	5.3%	5.3%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	0%	0%	0%

Schedule of Funding Progress for the Retirement Plan for the Employees of Eastland County, Texas

<u>Actuarial valuation date</u>	<u>12/31/06</u>	<u>12/31/07</u>	<u>12/31/08</u>
Actuarial value of assets	\$4,886,940	\$5,320,751	\$5,353,501
Actuarial accrued liability (AAL)	\$5,830,980	\$6,399,920	\$6,938,547
Unfunded AAL (UAAL)	\$944,040	\$1,079,169	\$1,585,046
Funded ratio	83.81%	83.14%	77.16%
Annual covered payroll (actuarial)	\$2,426,949	\$2,581,189	\$2,929,962
UAAL as a percentage of covered payroll	38.90%	41.81%	54.10%

Deferred Compensation Plan

The County established a 457 deferred compensation plan administered by Nationwide Retirement Solutions to provide additional employee benefits for general employees of the County. Contributions to the plan are optional and the County does not provide any employer funding. Plan provisions and contribution requirements are established and may be amended by the County Commissioners. The plan is included as a fiduciary fund and prepared using the accrual basis of accounting. Contributions to the plan are recognized in the period that the contributions are received. Employee contributions for the year ended September 30, 2009, totaled \$26,571. Plan investments are reported at fair value based on quoted market prices if traded on a national exchange or at estimated fair value.

**NOTE 9: DEFERRED REVENUE**

Deferred revenue at September 30, 2009, in the amount of \$928,360 consists of \$643,638 in unearned FEMA grant income and \$284,722 in property taxes.

**NOTE 10: RISK MANAGEMENT**

The County's risks of significant losses from auto and property damage and general, law enforcement, and public official liability are covered by participation in the Texas Association of counties (TAC) Risk Management Pool. Coverage with TAC is handled like commercial insurance by both parties. There have been no significant reductions in insurance coverage for the current year.

**NOTE 11: INTERFUND TRANSACTIONS**

The composition of interfund balances as of September 30, 2009, are as follows:

Due from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Road and bridge fund	\$ 1,523,918
	Other governmental funds	127,877
	Agency funds	26,392
Road and bridge fund	Other governmental funds	<u>643,639</u>
		\$ <u>2,321,826</u>

The above balances reflect temporary cash advances.

Transfers:

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various County operations and re-allocations of special revenues. The following schedule briefly summarizes the County's transfer activity:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General Fund	Road and bridge fund	\$ 762,172
	Courthouse security fund	<u>35,539</u>
		\$ <u>797,711</u>

**NOTE 12: DEFICIT FUND EQUITY**

The following had a fund balance deficit as of the fiscal year end:

Road and Bridge Fund: Deficit: \$1,073,389

The deficit fund equity was caused by several years of significant excess expenditures over revenues. In fiscal year 2009 management decided to begin supplementing the road and bridge fund with transfers from the general fund and plans to defease the deficit in the near future.

Special Revenue Funds:

District Attorney Hot Check Fund Deficit: \$ 10,447

The deficit fund equity was caused by several years of significant excess expenditures over revenues. The County has taken steps to closely monitor expenses and defease the deficit in the near future.

Juvenile Probation Deficit: \$ 11,925

The deficit fund equity was caused by timing of receipt of state funding and management believes this deficit will be defeased in the next fiscal year.

*REQUIRED SUPPLEMENTARY INFORMATION – BUDGET AND ACTUAL*

EASTLAND COUNTY, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended September 30, 2009

	Budgeted Amounts		Actual Amount (Budgetary Basis)	Variance with Final Budget Positive or (Negative)
	Original	Final		
Budgetary fund balances, October 1	\$ 2,245,306	\$ 2,606,528	\$ 2,858,460	\$ 251,932
<b>RESOURCES (INFLOWS):</b>				
Taxes	4,334,478	4,334,478	4,257,569	(76,909)
Grants and contributions	63,680	273,387	281,215	7,828
Charges for services	827,785	828,460	651,386	(177,074)
Fines and forfeitures	654,000	654,000	629,463	(24,537)
Interest	21,000	21,000	19,117	(1,883)
Other	220,962	242,311	272,416	30,105
Amounts available for appropriation	6,121,905	6,353,635	6,111,166	(242,469)
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Current:				
General government	1,986,557	1,991,362	1,941,700	49,662
Judicial and legal	1,004,870	1,027,469	1,018,870	8,599
Public safety	1,897,900	1,924,790	1,812,121	112,669
Public facilities	262,843	405,479	386,473	19,006
Health and welfare	255,837	427,926	522,671	(94,745)
Transfers out	823,543	823,543	797,711	25,832
Total charges to appropriations	6,231,550	6,600,569	6,479,546	121,023
Budgetary fund balances, September 30	\$ 2,135,661	\$ 2,359,594	\$ 2,490,080	\$ 130,486

Notes to Budgetary Comparison Schedule -Modified Cash Basis - General Fund

Note 1: Basis of Accounting

The budget is prepared on the same modified cash basis of accounting as applied to the governmental fund in the basic financial statements. Revenues and expenditures are reported when they result from cash transactions.

EASTLAND COUNTY, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - ROAD AND BRIDGE FUND

For the Year Ended September 30, 2009

	Budgeted Amounts		Actual Amount (Budgetary Basis)	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Budgetary fund balances, October 1	\$ (1,273,608)	\$ (1,972,397)	\$ 376,545	\$ 2,348,942
<b>RESOURCES (INFLOWS):</b>				
Taxes	200	200	140	(60)
Grants and contributions	27,720	559,953	261,124	(298,829)
Charges for services	507,500	507,500	447,418	(60,082)
Interest	40	40	215	175
Other	0	22,859	23,434	575
Capital lease proceeds	0	0	328,950	328,950
Transfers in	762,172	1,826,200	762,172	(1,064,028)
Amounts available for appropriation	1,297,632	2,916,751	1,823,453	(1,093,298)
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Current:				
Road and bridge	1,297,632	2,971,716	3,273,387	(301,671)
Total charges to appropriations	1,297,632	2,971,716	3,273,387	(301,671)
Budgetary fund balances, September 30	\$ (1,273,608)	\$ (2,027,362)	\$ (1,073,389)	\$ 953,973

Notes to Budgetary Comparison Schedule -Modified Cash Basis - Road and Bridge Fund

Note 1: Basis of Accounting

The budget is prepared on the same modified cash basis of accounting as applied to the governmental fund in the basic financial statements. Revenues and expenditures are reported when they result from cash transactions.

*SUPPLEMENTARY INFORMATION - COMBINING FINANCIAL STATEMENTS  
NONMAJOR GOVERNMENTAL FUNDS*



<u>County Clerk Records Management</u>	<u>County Farm</u>	<u>Courthouse Security</u>	<u>D.A. E.C.C.C.</u>	<u>D.A. Forfeiture</u>	<u>D.A. LEOSE</u>	<u>D.A. State Allocation</u>
\$ 44,333	\$ 22,084 180,000	\$ 30,353	\$ 1,658	\$ 184,068	\$ 2,388	\$ 19,580
4,666		28,537 617	(11,688)	12,798		(2,222)
<u>\$ 48,999</u>	<u>\$ 202,084</u>	<u>\$ 59,507</u>	<u>\$ (10,030)</u>	<u>\$ 196,866</u>	<u>\$ 2,388</u>	<u>\$ 17,358</u>
\$ 5,135	\$ 2,100	\$ 362 508	\$ 328 89	\$	\$	\$ 21
<u>5,135</u>	<u>2,100</u>	<u>870</u>	<u>417</u>	<u>0</u>	<u>0</u>	<u>21</u>
<u>43,864</u>	<u>199,984</u>	<u>58,637</u>	<u>(10,447)</u>	<u>196,866</u>	<u>2,388</u>	<u>17,337</u>
<u>43,864</u>	<u>199,984</u>	<u>58,637</u>	<u>(10,447)</u>	<u>196,866</u>	<u>2,388</u>	<u>17,337</u>
<u>\$ 48,999</u>	<u>\$ 202,084</u>	<u>\$ 59,507</u>	<u>\$ (10,030)</u>	<u>\$ 196,866</u>	<u>\$ 2,388</u>	<u>\$ 17,358</u>

<u>Records Management and Preservation</u>	<u>Sheriff's LEOSE</u>	<u>Sheriff's Commissary</u>	<u>Historical Commission</u>	<u>Vital Statistics Preservation</u>	<u>Total Nonmajor Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 20,324	\$ 7,954	\$ 16,018	\$ 2,790	\$ 46,650	\$ 1,551,564	\$ 23,696	\$ 1,575,260
					180,000	1,374	181,374
					74,941		74,941
					(771,516)		(771,516)
					1,914		1,914
<u>\$ 20,324</u>	<u>\$ 7,954</u>	<u>\$ 16,018</u>	<u>\$ 2,790</u>	<u>\$ 46,650</u>	<u>\$ 1,036,903</u>	<u>\$ 25,070</u>	<u>\$ 1,061,973</u>
\$ 2,898	\$	\$	\$	\$	\$ 104,561	\$	\$ 104,561
					5,333		5,333
<u>2,898</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>109,894</u>	<u>0</u>	<u>109,894</u>
<u>17,426</u>	<u>7,954</u>	<u>16,018</u>	<u>2,790</u>	<u>46,650</u>	<u>927,009</u>	<u>25,070</u>	<u>952,079</u>
<u>17,426</u>	<u>7,954</u>	<u>16,018</u>	<u>2,790</u>	<u>46,650</u>	<u>927,009</u>	<u>25,070</u>	<u>952,079</u>
<u>\$ 20,324</u>	<u>\$ 7,954</u>	<u>\$ 16,018</u>	<u>\$ 2,790</u>	<u>\$ 46,650</u>	<u>\$ 1,036,903</u>	<u>\$ 25,070</u>	<u>\$ 1,061,973</u>

<u>County Clerk Records Management</u>	<u>County Farm</u>	<u>Courthouse Security</u>	<u>D.A. E.C.C.C.</u>	<u>D.A. Forfeiture</u>	<u>D.A. LEOSE</u>	<u>D.A. State Allocation</u>
\$ 20,403		\$ 28,568	\$ 16,175		\$ 660	\$ 35,611
147	2,601	88	3	6,144		30
<u>20,550</u>	<u>9,535</u>	<u>28,656</u>	<u>16,178</u>	<u>6,600</u>	<u>660</u>	<u>35,641</u>
38,927			17,197	8,292		19,729
		65,379			403	
	<u>21,355</u>	<u>65,379</u>	<u>17,197</u>	<u>8,292</u>	<u>403</u>	<u>19,729</u>
<u>(18,377)</u>	<u>(9,219)</u>	<u>(36,723)</u>	<u>(1,019)</u>	<u>(1,692)</u>	<u>257</u>	<u>15,912</u>
		35,539				
<u>(18,377)</u>	<u>(9,219)</u>	<u>(1,184)</u>	<u>(1,019)</u>	<u>(1,692)</u>	<u>257</u>	<u>15,912</u>
<u>62,241</u>	<u>209,203</u>	<u>59,821</u>	<u>(9,428)</u>	<u>198,558</u>	<u>2,131</u>	<u>1,425</u>
<u>\$ 43,864</u>	<u>\$ 199,984</u>	<u>\$ 58,637</u>	<u>\$ (10,447)</u>	<u>\$ 196,866</u>	<u>\$ 2,388</u>	<u>\$ 17,337</u>

Records Management and Preservation	Sheriff's LEOSE	Sheriff's Commissary	Historical Commission	Vital Statistics Preservation	Total Nonmajor Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
\$	\$	\$	\$	\$	\$ 0	\$ 7,743	\$ 7,743
			888		481,441		481,441
10,848	3,732	28,335		9,458	904,012		904,012
45				108	42,158		42,158
					7,186	78	7,264
					46,940		46,940
<u>10,893</u>	<u>3,732</u>	<u>28,335</u>	<u>888</u>	<u>9,566</u>	<u>1,481,737</u>	<u>7,821</u>	<u>1,489,558</u>
					23,225		23,225
15,501	7,951	27,986			1,003,063		1,003,063
					428,913		428,913
					65,379		65,379
					21,889		21,889
<u>15,501</u>	<u>7,951</u>	<u>27,986</u>	<u>0</u>	<u>0</u>	<u>1,542,469</u>	<u>0</u>	<u>1,542,469</u>
<u>(4,608)</u>	<u>(4,219)</u>	<u>349</u>	<u>888</u>	<u>9,566</u>	<u>(60,732)</u>	<u>7,821</u>	<u>(52,911)</u>
					35,539		35,539
<u>(4,608)</u>	<u>(4,219)</u>	<u>349</u>	<u>888</u>	<u>9,566</u>	<u>(25,193)</u>	<u>7,821</u>	<u>(17,372)</u>
<u>22,034</u>	<u>12,173</u>	<u>15,669</u>	<u>1,902</u>	<u>37,084</u>	<u>952,202</u>	<u>17,249</u>	<u>969,451</u>
<u>\$ 17,426</u>	<u>\$ 7,954</u>	<u>\$ 16,018</u>	<u>\$ 2,790</u>	<u>\$ 46,650</u>	<u>\$ 927,009</u>	<u>\$ 25,070</u>	<u>\$ 952,079</u>

*SUPPLEMENTARY INFORMATION - COMBINING FINANCIAL STATEMENTS  
FIDUCIARY FUNDS*

<u>District Clerk Court Fund</u>	<u>Sheriff's Fund</u>	<u>District Registry Fund</u>	<u>District Clerk Trustee Funds</u>	<u>District Attorney Hot Check Fund</u>	<u>District Attorney Trustee Seizure Fund</u>	<u>Sheriff's Seizure Fund</u>
\$ 27,780	\$ 21,351	\$ 1,514,239	\$ 197,022	\$ 14,613	\$ 382 29,771	\$ 2,210
<u>27,780</u>	<u>21,351</u>	<u>1,514,239</u>	<u>197,022</u>	<u>14,613</u>	<u>30,153</u>	<u>2,210</u>
27,780	21,351	1,514,239	197,022	14,613	30,153	2,210
<u>27,780</u>	<u>21,351</u>	<u>1,514,239</u>	<u>197,022</u>	<u>14,613</u>	<u>30,153</u>	<u>2,210</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

<u>Justice of the Peace #1</u>	<u>Justice of the Peace #2</u>	<u>Justice of the Peace #4</u>	<u>Adult Supervision and Correction Fund</u>	<u>Juvenile Probation Restitution</u>	<u>Total Agency Funds</u>
\$ 13,278	\$ 13,074	\$ 13,206	\$ 138	\$ 1,923	\$ 2,127,290
					226,793
					13,898
<u>13,278</u>	<u>13,074</u>	<u>13,206</u>	<u>138</u>	<u>1,923</u>	<u>2,367,981</u>
					208,265
11,500	12,410	11,278	138	1,923	2,155,346
<u>1,778</u>	<u>664</u>	<u>1,928</u>			<u>4,370</u>
<u>13,278</u>	<u>13,074</u>	<u>13,206</u>	<u>138</u>	<u>1,923</u>	<u>2,367,981</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

*COMPLIANCE AND INTERNAL CONTROLS*



EASTLAND COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL/STATE AWARDS

Year Ended September 30, 2009

<u>FEDERAL GRANTOR / PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>EXPENDITURES</u>
FEDERAL FINANCIAL ASSISTANCE:		
U.S. DEPARTMENT OF JUSTICE HOMELAND SECURITY		
Passed through Texas Department of Public Safety Division of Emergency Management	97.044	\$ <u>96,973</u>
Total U.S. Department of Justice Homeland Security		<u>96,973</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY		
Passed through Texas Department of Public Safety Division of Emergency Management	97.036	<u>1,348,185</u>
Total Federal Emergency Management Agency		<u>1,348,185</u>
BUREAU OF JUSTICE		
Passed through Texas Attorney General	N/A	<u>11,769</u>
Total Bureau of Justice		<u>11,769</u>
U.S. DEPARTMENT OF H.U.D.		
Passed through Texas Department of Rural Affairs	14.228	<u>229,726</u>
Total U.S. Department of H.U.D.		<u>229,726</u>
HELP AMERICA VOTE ACT		
Passed through Secretary of State	90.401 39.011	688 <u>2,921</u>
Total Help America Vote Act		<u>3,609</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>1,690,262</u>
STATE FINANCIAL ASSISTANCE:		
TEXAS DEPARTMENT OF CRIMINAL JUSTICE		
Basic Supervision	N/A	103,592
Community Corrections Program	N/A	<u>14,129</u>
Total Department of Criminal Justice		<u>117,721</u>

EASTLAND COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL/STATE AWARDS (CONTINUED)

Year Ended September 30, 2009

<u>FEDERAL GRANTOR / PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>EXPENDITURES</u>
<b>TEXAS JUVENILE PROBATION COMMISSION</b>		
State Aid	N/A	\$ 32,815
Community Corrections	N/A	51,138
Progressive Sanctions	N/A	21,558
Progressive Sanctions 123	N/A	9,430
Salary Adjustment	N/A	5,691
Title IV-E	N/A	18,863
Residential Reimbursement	N/A	1,906
Commitment Reduction Program	N/A	885
Diversionary	N/A	<u>23,598</u>
Total Texas Juvenile Probation Commission		<u>165,884</u>
<b>TEXAS STATE COMPTROLLER</b>		
Lateral Road	N/A	<u>27,802</u>
Total Texas State COMPTROLLER		<u>27,802</u>
<b>TEXAS DEPARTMENT OF STATE HEALTH SERVICES</b>		
Tobacco Settlement	N/A	<u>16,419</u>
Total Texas Department of State Health Services		<u>16,419</u>
<b>TEXAS TASK FORCE ON INDIGENT DEFENSE</b>		
Indigent Defense	N/A	<u>40,761</u>
Total Texas Task Force on Indigent Defense		<u>40,761</u>
<b>TEXAS DEPARTMENT OF JUDICIARY</b>		
County Judge	N/A	15,000
District Attorney Longevity	N/A	4,150
Jury Reimbursement	N/A	<u>6,902</u>
Total Texas Department of Judiciary		<u>26,052</u>
TOTAL STATE FINANCIAL ASSISTANCE		<u>394,639</u>
TOTAL FEDERAL AND STATE FINANCIAL ASSISTANCE		<u>\$ 2,084,901</u>

EASTLAND COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL/STATE AWARDS

September 30, 2009

**NOTE 1: ACCOUNTING POLICIES**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental fund types are accounted for using a current financial resources measurement focus. All state/federal grant funds were accounted for in the general or special revenue funds, components of the governmental funds type. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases, (i.e., revenues and other financing sources) and decreases, (i.e., expenditures and other financing uses) in net current assets.

The modified cash basis of accounting is used for the governmental fund types, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting recognizes revenues when collected and expenditures recognized in the period they are paid.



# CONDLEY AND COMPANY, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

993 North Third Street ■ P.O. Box 2993 ■ Abilene, Texas 79604-2993 ■ 325-677-6251 ■ FAX 325-677-0006 ■ www.condley.com ■ E-Mail: info@condley.com

May 14, 2010

**The Honorable County Judge and Commissioners  
Comprising the Commissioners' Court of  
Eastland County, Texas**

**Independent Auditor's 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***

We have audited the financial statements of Eastland County, Texas as of and for the year ended September 30, 2009, and have issued our report thereon dated May 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable for 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 Eastland County, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for purpose of expressing an opinion on the effectiveness of Eastland County, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Eastland County, Texas' internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs (09-01 and 09-02) that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Eastland 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 the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the County in a separate letter dated May 14, 2010.

Eastland County's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Eastland County's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Eastland County, Texas' Commissioners' Court, management, federal awarding agencies, State of Texas awarding agencies, and other granting agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Condley and Company, L.L.P.*  
Certified Public Accountants



# CONDLEY AND COMPANY, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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May 14, 2010

**The Honorable County Judge and Commissioners  
Comprising the Commissioners' Court of  
Eastland County, Texas**

**Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and Internal Control over  
Compliance in Accordance with OMB Circular A-133**

**Compliance**

We have audited the compliance of Eastland County, Texas with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. Eastland County, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Eastland County, Texas' management. Our responsibility is to express an opinion on Eastland County, Texas' compliance based on our audit.

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

In our opinion, Eastland County, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

**Internal Control Over Compliance**

The management of Eastland County, Texas is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Eastland County, Texas' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Eastland County, Texas' internal control over compliance.

Our consideration of internal control over compliance 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items (09-01 and 09-02) to be significant deficiencies.

Eastland County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questionable Costs. We did not audit Eastland County's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Eastland County, Texas' Commissioners' Court, management, federal awarding agencies, State of Texas awarding agencies, and other granting agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Conolly and Company, L.L.P.*

Certified Public Accountants

EASTLAND COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended September 30, 2009

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

A. Type of Report Issued on the Financial Statements

The Independent Auditors' Report on the financial statements of Eastland County, Texas as of and for the year ended September 30, 2009, was an unqualified opinion.

B. Material weaknesses or significant deficiencies in Internal Control Disclosed by the Audit of the Financial Statements.

The audit of the financial statements of Eastland County, Texas as of and for the year ended September 30, 2009, disclosed no material weaknesses and two significant deficiencies in internal control.

C. Noncompliance Material to the Financial Statements

The audit disclosed no instances of noncompliance which are material to the financial statements of Eastland County, Texas as of and for the year ended September 30, 2009.

D. Material weaknesses or significant deficiencies in Internal Control Over Major Programs

The audit of compliance of Eastland County, Texas for the year ended September 30, 2009, disclosed no material weaknesses and two significant deficiencies in internal control over major programs.

E. Type of Report Issued on Compliance for Major Programs

The Independent Auditor's Report on compliance with requirements applicable to each major Federal and State program for the year ended September 30, 2009, was an unqualified opinion.

F. Findings Relating to the Financial Statement Audit

As indicated in Section II below, the audit disclosed findings relating to the financial statement audit that are required to be reported in accordance with Generally Accepted Government Auditing Standards (GAGAS).

G. Major Programs

Grants from the Federal Emergency Management Agency totaling \$1,348,185.

H. Threshold for Distinguishing Between Type A or Type B Programs

The threshold for distinguishing between Type A or Type B programs was \$300,000 for the year ended September 30, 2009.

I. Qualification of Auditee as a High-Risk Auditee

Eastland County qualified as a high-risk auditee under applicable provisions of OMB Circular No. A-133, for the year ended September 30, 2009.



## II. FINANCIAL STATEMENT FINDINGS

### A. Significant Deficiencies in Internal Control

09-01

Condition: Precinct road employees and commissioners are not documenting their time separately for FEMA projects on the time sheets. The commissioners turn in a summary sheet with names and total number of hours worked on each project but there is no payroll documentation to support these hours.

Effect: The allocation of labor hours could be incorrect related to FEMA projects.

Cause: Hourly employees were not documenting a project code on their time sheets to allow management to properly allocate their time to the FEMA projects.

Recommendation: We recommend that each employee document on his/her time sheet the FEMA project worksheet number for any hours spent working on the road repairs identified by FEMA. This will serve as proper documentation for the allocation of labor hours to specific FEMA projects.

Views of responsible officials and planned corrective actions: The independent auditors' recommendation has been relayed to the commissioners since this was also a finding in the prior year. The current method of documentation which consists of a time sheet and number of hours worked has been acceptable to both FEMA and the Office of Rural Community Affairs (ORCA) and no further corrective action will be taken.

09-02

Condition: Vouchers payable accounts for the General, Road and Bridge, and Other Nonmajor Governmental Funds are not maintained and reconciled on a monthly basis.

Effect: Vouchers payable balances were not correct as of the audit date which resulted in audit adjustments for most funds.

Cause: Management is not reviewing vouchers payable balances on a regular basis; therefore corrections are not being made to the appropriate accounts.

Recommendation: We recommend that management adjust vouchers payable to actual each month for each fund with a large number of monthly transactions (general fund, road and bridge fund, cooperative dispatch fund, etc.) so that differences are more easily identified and will not accumulate over the fiscal year.

Views of responsible officials and planned corrective action: The planned corrective action for fiscal year 2010 is to review and reconcile on a monthly basis the balance sheet accounts for all funds that generate a large number of monthly transactions.

### B. Compliance Findings

None.

## III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AND STATE AWARDS

### Significant Deficiencies

09-01

Condition: Precinct road employees and commissioners are not documenting their time separately for FEMA projects on the time sheets. The commissioners turn in a summary sheet with names and total number of hours worked on each project but there is no payroll documentation to support these hours.

Effect: The allocation of labor hours could be incorrect related to FEMA projects.

Cause: Hourly employees were not documenting a project code on their time sheets to allow management to properly allocate their time to the FEMA projects.

Recommendation: We recommend that each employee document on his/her time sheet the FEMA project worksheet number for any hours spent working on the road repairs identified by FEMA. This will serve as proper documentation for the allocation of labor hours to specific FEMA projects.

Views of responsible officials and planned corrective actions: The independent auditors' recommendation has been relayed to the commissioners since this was also a finding in the prior year. The current method of documentation which consists of a time sheet and number of hours worked has been acceptable to both FEMA and the Office of Rural Community Affairs (ORCA) and no further corrective action will be taken.

09-02

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Cause: Management is not reviewing vouchers payable balances on a regular basis; therefore corrections are not being made to the appropriate accounts.

Recommendation: We recommend that management adjust vouchers payable to actual each month for each fund with a large number of monthly transactions (general fund, road and bridge fund, cooperative dispatch fund, etc.) so that differences are more easily identified and will not accumulate over the fiscal year.

Views of responsible officials and planned corrective actions: The planned corrective action for fiscal year 2010 is to review and reconcile on a monthly basis the balance sheet accounts for all funds that generate a large number of monthly transactions.

EASTLAND COUNTY, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For The Year Ended September 30, 2009

Identifying Number: 08-01

Audit Finding: In fiscal year 2008, grant proceeds received from FEMA to assist in the repair of county roads was being accounted for in the general fund.

Corrective Action Taken: In fiscal year 2009, a grant fund and a separate bank account was used to account for the funds received from FEMA.

Identifying Number: 08-02

Audit Finding: Precinct road employees and commissioners are not documenting their time separately for FEMA projects on the time sheets. The commissioners turn in a summary sheet with names and total number of hours worked on each project but there is no payroll documentation to support these hours.

Planned Corrective Action: Management has decided to accept the risk associated with this finding and no corrective action will be taken.

Identifying Number: 08-03

Audit Finding: Balance sheet accounts for the General, Road and Bridge, and Other Nonmajor Governmental Funds such as cash, due to/due from, prepaid insurance, vouchers payable, and accrued wages and related taxes are not maintained and reconciled on a monthly basis.

Corrective Action Taken: Certain balance sheet accounts such as cash and due to/due from accounts were reconciled as of September 30, 2009. Management plans to continue to reconcile these accounts as well as reconcile other balance sheet accounts.

Identifying Number: 08-04

Audit Finding: Cash accounts are either not reconciled or reconciled incorrectly for the majority of the funds. Incorrect manual journal entries were posted to cash to try to correct prior month's activity.

Corrective Action Taken: The majority of the cash accounts were correctly reconciled as of September 30, 2009, and management continues to work towards properly recording all transactions in the correct period to ensure that reconciling items are correct.

Identifying Number: 08-05

Audit Finding: The accounts used to record the interfund activity for the County were not recorded properly by management. The due to/due from accounts should net to zero; however they did not at the end of the year.

Corrective Action Taken: As of September 30, 2009, all due to/due from accounts netted to zero.