

**COUNTY OF STEPHENS, TEXAS**  
*ANNUAL FINANCIAL REPORT*  
*FOR THE YEAR ENDED DECEMBER 31, 2009*

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**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

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# Cameron L. Gulley

CERTIFIED PUBLIC ACCOUNTANT

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## Independent Auditor's Report

County Commission  
County of Stephens, Texas  
200 W. Walker  
Breckenridge, Texas 76424

Members of the Commissioners' Court:

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of County of Stephens, Texas (the "County") as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's administrators. My responsibility is to express an opinion on them based on my audit.

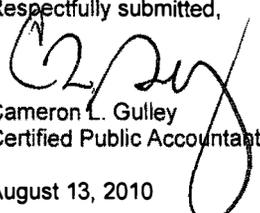
I conducted my audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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. I believe that my audit provide a reasonable basis for my opinion.

In my 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 County of Stephens, Texas as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with account principles generally accepted in the United States of America.

Management's discussion and analysis and the budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiring of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion in it.

In accordance with GOVERNMENT AUDITING STANDARDS, I have also issued my report dated August 13, 2010, on my consideration of the County's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with GOVERNMENT AUDITING STANDARDS and should be read in conjunction with this report in considering the results of my audit.

Respectfully submitted,

  
Cameron L. Gulley  
Certified Public Accountant

August 13, 2010

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of County of Stephens, Texas, discuss and analyze the County's financial performance for the fiscal year ended December 31, 2009. Please read it in conjunction with the independent auditor's report on page 1 and the County's Basic Financial Statements which begin on page 9.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 9 - 10). These provide information about the activities of the County as a whole and present a longer-term view of the County's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 11) report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the County were sold to external customers and how the sales revenues covered the expenses of the goods or services.

The notes to the financial statements (starting on page 16) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

### Reporting the County as a Whole

#### *The Statement of Net Assets and the Statement of Activities*

The analysis of the County's overall financial condition and operations begins on page 3. Its primary purpose is to show whether the County is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the County's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the County's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The County's revenues are divided into those provided by outside parties who share the costs of some programs, such as revenue sharing programs from other governments received and fees charged for utility services (program revenues), and revenues provided by the taxpayers or by the State of Texas (general revenues). All the County's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the County's net assets and changes in them. The County's net assets (the difference between assets and liabilities) provide one measure of the County's financial health, or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the County, however, you should consider nonfinancial factors as well, such as changes in the County's property tax base and the condition of the County's facilities.

In the Statement of Net Assets and the Statement of Activities, the County has one activity:

Governmental activities - Most of the County's basic services are reported here, including public safety, maintenance of County roads, community services, and general administration. Property taxes, fines and other fees, and state and federal grants finance most of these services.

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

### ***Fund Financial Statements***

The fund financial statements begin on page 11 and provide detailed information about the most significant funds - not the County as a whole. Laws and contracts require the County to establish some funds, such as a debt service fund used to provide sources of revenues to service the County's general obligation bonds. The County's administration establishes many other funds to help it control and manage money for particular purposes. The County's one kind of fund - governmental - uses the following accounting approach.

Governmental funds - Most of the County's basic services are reported in governmental funds. These use the modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the County's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Total net assets of the County's governmental activities increased from \$20,204,632 to \$20,970,119. The primary reason for the increase is due mainly to an increase in property tax revenues by approximately \$905,000 due to an increase in rates to support the newly issued debt in the current fiscal year. Current assets decreased by over \$4,344,000 (consisting primarily of decreases in cash) due to the costs associated with construction of a new jail facility. Capital assets increased by approximately \$4,810,000 due to current year asset additions in excess of current year depreciation expense (also primarily due to jail construction costs). Long-term liabilities decreased by \$358,242 due to the liquidation of outstanding long-term notes payable. Other liabilities increased by \$57,172 due to increases in ending accounts payable due to the jail construction costs.

Table 1  
County of Stephens, Texas  
Net Assets

	Governmental Activities 2009	Governmental Activities 2008	Variance Increase/ (Decrease)
Current and other assets	\$ 10,300,733	\$ 14,645,496	\$ (4,344,763)
Capital assets	21,330,726	16,521,546	4,809,180
Total assets	31,631,459	31,167,042	464,417
Long-term liabilities	9,902,121	10,260,363	(358,242)
Other liabilities	759,219	702,047	57,172
Total liabilities	10,661,340	10,962,410	(301,070)
Net assets:			
Invested in capital assets net of related debt	13,710,893	13,957,881	(246,988)
Restricted for debt service	382,096	352,140	29,956
Unrestricted	6,877,130	5,894,611	982,519
Total net assets	\$ 20,970,119	\$ 20,204,632	\$ 765,487

Table II County of Stephens, Texas Changes in Net Assets			
	Governmental Activities 2009	Governmental Activities 2008	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 1,069,217	\$ 1,077,602	\$ (8,385)
Operating grants and contributions	217,589	105,254	112,335
General Revenues:			
Property taxes	5,508,557	4,604,034	904,523
Other taxes	15,012	16,567	(1,555)
Miscellaneous income	371,106	361,013	10,093
Investment earnings	181,313	382,371	(201,058)
Total Revenues	7,362,794	6,546,841	815,953
Expenses:			
Judicial	392,379	360,489	(31,890)
Public transportation	1,852,314	1,709,308	(143,006)
General government	1,722,882	1,662,777	(60,105)
Public facilities	206,953	193,255	(13,698)
Health and welfare	598,729	372,838	(225,891)
Public safety	1,357,057	1,219,960	(137,097)
Recreation and culture	28,657	28,763	106
Debt service	438,336	313,911	(124,425)
Total Expenses	6,597,307	5,861,301	(736,006)
Increase in Net Assets	765,487	685,540	79,947
Net Assets - beginning of year	20,204,632	19,519,092	685,540
Beginning net asset adjustment	0	0	0
Net Assets - end of year	\$ 20,970,119	\$ 20,204,632	\$ 765,487

Total revenues of the County were up \$815,953 from the previous year. Property taxes were up most significantly due to increases in tax rates from the previous year. Operating grants and contributions were higher due to federal and state grants received during the year. Investment income was down due to lower investment rates of return plus a decrease in invested cash balances.

Total expenses of the County were up \$736,006 from the previous year. Debt service expenses were up due to a full year's interest accrual on the \$9M debt issued to finance the new jail construction in the previous year. Public safety expenses were up due to higher payroll costs and out-of-county prisoner housing costs from the previous year. Public transportation costs were higher due to FEMA rehabilitation expenses and increased depreciation expense. Health and welfare expenses were higher due to increased subsidy payments made for emergency equipment purchases at the county hospital.

**THE COUNTY'S FUNDS**

As the County completed the year, its governmental funds (as presented in the balance sheet on page 11) reported a combined fund balance of \$6,282,990, a decrease of \$4,857,231 in the County's governmental funds from last year's fund balance of \$11,140,221. This differs substantially from the increase in net assets reported above. Those differences are disclosed on the exhibits on pages 12 and 14 (primarily consisting of capitalized asset costs).

Over the course of the year, the County Commission revised its budget throughout the year as expenditures and revenues differed from originally planned.

The County's General Fund balance of \$2,923,323 reported on pages 11 and 13 differs from the projected budgetary fund balance of \$2,280,426 on page 15. The major variances were due to revenues (primarily tax revenues) being approximately \$568,000 more than budgeted while expenditures were \$75,000 less than budgeted.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2009, the County had \$42,631,260 invested in a broad range of capital assets including infrastructure, county government facilities and road and maintenance equipment. This amount represents an increase of \$5,789,736 (net of dispositions) from last fiscal year. This year's major additions included:

Patrol car video recording system (3)	\$ 15,807
Airport AWOS weather reporting system	29,616
Kubota M7040 tractor and shredder	26,329
John Deere 770D motor grader	168,900
2010 Ford F150 pickup	30,092
Construction in progress - law enforcement ctr	5,533,767
Courtroom speaker system	7,469
2010 Ford Explorer	21,256
Total	\$ 5,833,236

**Debt**

At December 31, 2009, the County had two outstanding debt obligations in the form of notes payable. Payments on the one of the loans will fully mature in 2014 and the other in 2023. The County retired \$358,242 in principal on the loans for an ending combined balance of \$9,902,121. Future annual payments will approximate \$1,113,000 until 2015 when they drop to approximately \$847,000 until fully retired in 2023.

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

The County should maintain its financial health during the 2010 fiscal year. Budgeted expenditures for next fiscal year are approximately the same as they were for the 2009 fiscal year. Taxable values for the County have remained consistent with previous years and should generate approximately the same revenues as in previous years. Total expenditures of the County were budgeted to be nearly the same as was budgeted in 2009. Total fund balances of the County's general fund are projected to approximate \$2,900,000 at the end of the next fiscal year.

**CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the County's finances and to show the County's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the County Treasurer's office at: County of Stephens, Texas, 200 W. Walker, Breckenridge, Texas 76424.

**BASIC FINANCIAL STATEMENTS**

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COUNTY OF STEPHENS, TEXAS  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2009

	Primary Govt Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,728,529
Current investments	3,515,078
Property taxes receivable	3,551,661
Allowance for uncollectible taxes	(237,779)
Accounts receivable	1,660,118
Capitalized bond issue costs	83,126
Capital assets:	
Land	301,285
Infrastructure, net	10,295,295
Buildings and improvements, net	9,482,736
Furniture and equipment, net	1,251,410
	31,631,459
<b>Total assets</b>	<b>31,631,459</b>
<b>LIABILITIES</b>	
Accounts payable	592,871
Accrued liabilities	27,864
Accrued interest payable	138,484
Noncurrent liabilities:	
Due within one year	715,100
Due in more than one year	9,187,021
	10,661,340
<b>Total liabilities</b>	<b>10,661,340</b>
<b>NET ASSETS</b>	
Invested in capital, net of related debt	13,710,893
Restricted for debt service	382,096
Unrestricted net assets	6,877,130
	\$ 20,970,119
<b>Total net assets</b>	<b>\$ 20,970,119</b>

The notes to the financial statements are an integral part of this statement.

COUNTY OF STEPHENS, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>PRIMARY GOVERNMENT:</b>				
Governmental activities:				
Judicial	\$ 392,379	\$ 5,320	\$	\$ (387,059)
Public transportation	1,852,314	495,853	102,164	(1,254,297)
General government	1,722,882	357,526	45,986	(1,319,370)
Public facilities	206,953			(206,953)
Health and welfare	598,729		9,252	(589,477)
Public safety	1,357,057	210,518	60,187	(1,086,352)
Recreation and culture	28,657			(28,657)
Debt service	438,336			(438,336)
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 6,597,307</b>	<b>\$ 1,069,217</b>	<b>\$ 217,589</b>	<b>(5,310,501)</b>

General revenues:

Taxes:	
Property taxes, levied for general purposes	5,508,557
Other taxes	15,012
Investment and royalty earnings	181,313
Miscellaneous	371,106
Total general revenues	6,075,988
Change in net assets	765,487
Net assets - beginning of year	20,204,632
Prior period adjustment	0
Net assets - ending	\$ 20,970,119

The notes to the financial statements are an integral part of this statement.

COUNTY OF STEPHENS, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2009

	General Fund	Road & Bridge Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 894,631	\$ 596,898	\$ 62,096	174,904	\$ 1,728,529
Investments - current	676,130	92,401	2,746,547		3,515,078
Property taxes	3,551,661				3,551,661
Allowance for uncollectible taxes (credit)	(237,779)				(237,779)
Accounts receivable	1,456,909	191,022		12,187	1,660,118
<b>TOTAL ASSETS</b>	<b>\$ 6,341,552</b>	<b>\$ 880,321</b>	<b>\$ 2,808,643</b>	<b>187,091</b>	<b>\$ 10,217,607</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 84,709	\$ 11,071	\$ 470,997	26,094	\$ 592,871
Accrued payroll	19,638	8,226			27,864
Deferred revenues	3,313,882				3,313,882
<b>Total Liabilities</b>	<b>3,418,229</b>	<b>19,297</b>	<b>470,997</b>	<b>26,094</b>	<b>3,934,617</b>
<b>Fund Balances:</b>					
<b>Reserved for:</b>					
Retirement of long-term debt	382,096				382,096
<b>Unreserved designated for:</b>					
Construction			2,337,646		2,337,646
Other purposes				160,997	160,997
Unreserved and undesignated	2,541,227	861,024			3,402,251
<b>Total Fund Balances</b>	<b>2,923,323</b>	<b>861,024</b>	<b>2,337,646</b>	<b>160,997</b>	<b>6,282,990</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 6,341,552</b>	<b>\$ 880,321</b>	<b>\$ 2,808,643</b>	<b>187,091</b>	<b>\$ 10,217,607</b>

The notes to the financial statements are an integral part of this statement.

COUNTY OF STEPHENS, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2009

Total fund balances - governmental funds	\$ 6,282,990
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$36,841,524 and the accumulated depreciation was \$20,319,978. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.	6,113,938
2 Prior year property tax levies which are considered collectible are recognized as revenue in the accounting period in which levied. However, they are reported as deferred revenue in the fund level financial statements until received. Additionally, billed but uncollected receivables related to fines and fees are not recognizable as revenue until received in the fund level financial statements. The net effect of including the beginning balances for deferred revenues related to delinquent taxes receivable and fines and fees receivable in the governmental activities is to increase net assets.	2,950,473
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2009 capital outlays and debt principal payments is to increase (decrease) net assets.	6,191,478
4 The 2009 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(1,024,056)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	455,296
Net assets of governmental activities	\$ 20,970,119

The notes to the financial statements are an integral part of this statement.

**COUNTY OF STEPHENS, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	General Fund	Road & Bridge Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>					
Property taxes	\$ 4,479,284	\$ 665,864	\$		\$ 5,145,148
Licenses and fees	413,327	484,468		171,422	1,069,217
Other taxes	15,012				15,012
State and federal grants and contracts	113,475	102,164		1,950	217,589
Investment earnings	36,051	10,624	27,469		74,144
Royalties	107,169				107,169
Miscellaneous revenues	354,742	16,364			371,106
<b>Total revenues</b>	<u>5,519,060</u>	<u>1,279,484</u>	<u>27,469</u>	<u>173,372</u>	<u>6,999,385</u>
<b>EXPENDITURES:</b>					
Judicial	359,012			33,367	392,379
Public transportation	40,462	1,238,210			1,278,672
General government	1,696,302			11,136	1,707,438
Public facilities	206,954		5,533,766		5,740,720
Health and welfare	467,982				467,982
Public safety	1,241,398			110,905	1,352,303
Recreation and culture	28,657				28,657
Debt service	852,678	35,787			888,465
<b>Total expenditures</b>	<u>4,893,445</u>	<u>1,273,997</u>	<u>5,533,766</u>	<u>155,408</u>	<u>11,856,616</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>625,615</u>	<u>5,487</u>	<u>(5,506,297)</u>	<u>17,964</u>	<u>(4,857,231)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in (out)	(279,900)	268,900		11,000	0
Proceeds from long-term notes payable					0
<b>Total other financing sources (uses)</b>	<u>(279,900)</u>	<u>268,900</u>	<u>0</u>	<u>11,000</u>	<u>0</u>
<b>Net change in fund balances</b>	<u>345,715</u>	<u>274,387</u>	<u>(5,506,297)</u>	<u>28,964</u>	<u>(4,857,231)</u>
Fund balance - beginning	2,577,608	586,637	7,843,943	132,033	11,140,221
Adjustments to beginning fund balances					0
<b>Fund balance - ending</b>	<u>\$ 2,923,323</u>	<u>\$ 861,024</u>	<u>\$ 2,337,646</u>	<u>160,997</u>	<u>\$ 6,282,990</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF STEPHENS, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2009

Total net change in fund balances - governmental funds	\$ (4,857,231)
1 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 2009 capital outlays and debt principal payments is to increase (decrease) net assets.	6,191,478
2 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.	(1,024,056)
3 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	455,296
Change in net assets of governmental activities	\$ 765,487

The notes to the financial statements are an integral part of this statement.

COUNTY OF STEPHENS, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 3,831,788	\$ 3,963,579	\$ 4,479,284	\$ 515,705
Licenses and fees	246,924	419,488	413,327	(6,161)
Other taxes	12,200	15,037	15,012	(25)
State and federal grants and contracts	48,025	52,925	113,475	60,550
Investment earnings	54,080	37,096	36,051	(1,045)
Royalties	108,500	102,618	107,169	4,551
Miscellaneous revenues	212,400	360,441	354,742	(5,699)
<b>Total revenues</b>	<b>4,513,917</b>	<b>4,951,184</b>	<b>5,519,060</b>	<b>567,876</b>
<b>EXPENDITURES:</b>				
Judicial	324,097	375,429	359,012	16,417
Public transportation	19,944	46,533	40,462	6,071
General government	1,684,638	1,701,705	1,696,302	5,403
Public facilities	186,837	210,620	206,954	3,666
Health and welfare	299,404	470,203	467,982	2,221
Public safety	1,156,829	1,283,158	1,241,398	41,760
Recreation and culture	28,200	28,141	28,657	(516)
Debt service	810,378	852,677	852,678	(1)
<b>Total expenditures</b>	<b>4,510,327</b>	<b>4,968,466</b>	<b>4,893,445</b>	<b>75,021</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>3,590</b>	<b>(17,282)</b>	<b>625,615</b>	<b>642,897</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (out)	(10,000)	(279,900)	(279,900)	0
Proceeds from long-term notes payable	0	0	0	0
<b>Total other financing sources (uses)</b>	<b>(10,000)</b>	<b>(279,900)</b>	<b>(279,900)</b>	<b>0</b>
<b>Net change in fund balances</b>	<b>(6,410)</b>	<b>(297,182)</b>	<b>345,715</b>	<b>642,897</b>
Fund balance - beginning	2,577,608	2,577,608	2,577,608	0
Adjustments to beginning fund balances				0
<b>Fund balance - ending</b>	<b>\$ 2,571,198</b>	<b>\$ 2,280,426</b>	<b>\$ 2,923,323</b>	<b>\$ 642,897</b>

The notes to the financial statements are an integral part of this statement.

COUNTY OF STEPHENS, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - ROAD & BRIDGE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 609,121	\$ 630,478	\$ 665,864	\$ 35,386
Licenses and fees	486,300	494,219	484,468	(9,751)
Other taxes	0	0		0
State and federal grants and contracts	14,000	123,273	102,164	(21,109)
Investment earnings	15,100	12,868	10,624	(2,244)
Royalties	0	0		0
Miscellaneous revenues	6,500	17,848	16,364	(1,484)
Total revenues	1,131,021	1,278,686	1,279,484	798
<b>EXPENDITURES:</b>				
Judicial	0	0		0
Public transportation	1,134,021	1,441,219	1,238,210	203,009
General government	0	0		0
Public facilities	0	0		0
Health and welfare	0	0		0
Public safety	0	0		0
Recreation and culture	0	0		0
Debt service	0	35,787	35,787	0
Total expenditures	1,134,021	1,477,006	1,273,997	203,009
Excess (deficiency) of revenues over (under) expenditures	(3,000)	(198,320)	5,487	203,807
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (out)	0	268,900	268,900	0
Proceeds from long-term notes payable	0	0		0
Total other financing sources (uses)	0	268,900	268,900	0
Net change in fund balances	(3,000)	70,580	274,387	203,807
Fund balance - beginning	586,637	586,637	586,637	0
Adjustments to beginning fund balances				0
Fund balance - ending	\$ 583,637	\$ 657,217	\$ 861,024	\$ 203,807

The notes to the financial statements are an integral part of this statement.

**COUNTY OF STEPHENS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT AND FOR THE YEAR ENDED DECEMBER 31, 2009**

I. Summary of significant accounting policies

County of Stephens, Texas (the "County") was incorporated in 1883, under provisions of the State of Texas. The County is governed by a Commissioners' Court consisting of a County Judge and four Commissioners. The financial statements of the County are prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). The County's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements. Proprietary funds (if applicable) apply only those Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

A. Reporting entity

The County was created in accordance with, and continues to operate under, the statutes and regulations of the State of Texas. The County operates under the direction of the Commissioners' Court which is made up of four elected commissioners, one from each precinct within the county, and the County Judge who presides over the Court. The county departments are headed by elected officials who hire and maintain their staff within the restraints of the official county budget.

For financial reporting purposes, management does not consider Stephens Memorial Hospital a component unit of the County. The hospital is treated as a separate entity since it is audited as such.

B. Government-wide and fund financial statements

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

The Statement of Activities demonstrates how other people or entities that participate in programs the County operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the County. Examples include fees charged for auto licenses, county clerk fees, fines, etc. The "grants and contributions" column includes amounts paid by organizations outside the County to help meet the operational or capital requirements of a given function. Examples include grants under the U.S. Department of Agriculture Rural Development Program. If a revenue is not a program revenue, it is a general revenue used to support all of the County's functions. Taxes are always general revenues.

Interfund activities between governmental 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.

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

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

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is

incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The County considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the County to refund all or part of the unused amount.

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

#### D. Fund accounting

The County reports the following major governmental funds:

1. **The General Fund** – The general fund is the County's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Road & Bridge Special Revenue Fund** - The County's activities for which revenues and assessments relative to vehicle licenses, permits and an allocated portion of property tax revenues for the purposes of supporting and maintaining the County's public transportation system are accounted for in these special revenue funds.
3. **Capital Projects Fund** - The County's activities for funds received for a specific capital-related project are accounted for in the Capital Projects fund. The County's fund activity was for the purpose of debt acquired for the construction of a new 54-bed jail facility.

The County reports the following nonmajor fiduciary funds:

4. **Special Revenue Funds** - The County's activities for which revenues and assessments relative to specific revenue sources and uses can be used to support those specific programs are accounted for in these special revenue funds.

E. Other accounting policies

1. For purposes of the statement of cash flows for proprietary and similar fund-types, the County considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The County reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

4. The County's policy does permits employees to accumulate unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.
5. Capital assets, which include land, buildings, furniture and equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Asset:</u>	<u>Years</u>
Buildings	10-40
Building Improvements	10-40
Infrastructure	40
Vehicles	5
Equipment	10
Technology Equipment	5

6. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
7. When the County incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.

II. Stewardship, compliance, and accountability

A. Budgetary data

The County Treasurer submits an annual budget to the County Commission in accordance with the County Charter. 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.

B. Excess of expenditures over appropriations

None.

C. Deficit fund equity

None.

III. Detailed notes on all funds

A. Deposits and investments

County Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the County complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk - The County limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not investing in any foreign currency.

County Policies and Legal and Contractual Provisions Governing Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the County to adopt, implement, and publicize an investment policy. Statutes authorize the County to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

As of December 31, 2009, the County had the following investments.

Investment Type	Investment Maturities (in years)				
	Fair Value	Less than 1 Year	1-5	6-10	More Than 10
Certificates of Deposit	\$ 768,531	\$ 768,531			
TexSTAR investment pool	2,746,547	2,746,547			
<b>Total</b>	<b>\$3,515,078</b>	<b>\$3,515,078</b>			

Additional policies and contractual provisions governing deposits and investments for the County are specified below:

Credit Risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the County limits investments in certificates of deposit or publicly funded investment pools to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of December 31, 2009, the County's investments in certificates of deposit and investment pools were rated A1 by Standard and Poor's.

**Custodial Credit Risk for Investments** - To limit the risk that, in the even of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the County requires counterparties to register the securities in the name of the County and hand them over to the County or its designated agent. This included securities in securities lending transactions. All of the securities are in the County's name and held by the County or its agent.

**Concentration of Credit Risk** - To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the County limits investments to less than 5% of its total investments. The County further limits investments in a single issuer when they would cause investment risk to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

**Interest Rate Risk** - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the County requires at least half of the investment portfolio to have maturities of less than one year on a weighted average maturity basis.

**Foreign Currency Risk for Investments** - The County limits the risk that changes in exchange rates will adversely affect the fair value of an investment by limiting all investments denominated in a foreign currency to zero.

**B. Property taxes**

The County's property tax is levied each October 1, on the assessed value listed as of the prior January 1, for all real and certain personal property located in the County. The appraisal of property within the County is the responsibility of the Stephens County Appraisal District as required by legislation passed by the Texas Legislature. The Appraisal District is required under such legislation to assess all property within the Appraisal District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The assessed value upon which the fiscal 2009 levy was based was approximately \$837,126,403. The value of property within the Appraisal District must be reviewed every five years; however, the County may, at its own expense, require annual review of appraised values. The County may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action.

General property taxes are limited by the Texas Constitution to \$2.50 per \$100 of assessed valuation. The combined tax rate to finance general governmental service for the year ended December 31, 2009, was \$0.7220 per \$100 of assessed valuation.

Property taxes attach as an enforceable lien on property as of January 1, following the levy date. Taxes are due by January 31, following the levy date. Total tax collections for the year were 94.41% of the tax levy.

**C. Delinquent taxes receivable**

Delinquent taxes are prorated between maintenance and special revenue funds based on rates adopted for the year of the levy. Allowances for uncollectible taxes receivable within the General and Road and Bridge Special Revenue Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically written off, but the County is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

**D. Interfund balances and transfers**

	Transfer To	Transfer From	Purpose
General fund		\$ 279,900	Operating activities
Road & Bridge fund	\$ 268,900		Operating activities
Special revenue fund	11,000		Operating activities
	<u>\$ 279,900</u>	<u>\$ 279,900</u>	

E. Disaggregation of receivables and payables

Receivables at December 31, 2009 were as follows:

	Accounts	Taxes	Total Receivables
Governmental Activities:			
General Fund	\$1,456,909	\$3,551,661	\$5,008,570
Road & Bridge Fund	191,022		191,022
Special Revenue Funds	12,187		12,187
<b>Total Governmental Activities</b>	<b>\$1,660,118</b>	<b>\$3,551,661</b>	<b>\$5,211,779</b>

Payables at December 31, 2009 were as follows:

	Accounts	Accrued Payroll	Total Payables
Governmental Activities:			
General Fund	\$84,709	\$19,638	\$104,347
Road & Bridge Fund	11,071	8,226	19,297
Capital Projects Fund	470,997		470,997
Special Revenue Funds	26,094		26,094
<b>Total Governmental Activities</b>	<b>\$592,871</b>	<b>\$ 27,864</b>	<b>\$620,735</b>

F. Capital asset activity

Capital asset activity for the County for the year ended December 31, 2009, was as follows:

	Balance 12/31/08	Additions	Deletions	Balance 12/31/09
Governmental activities:				
Land	\$ 301,285			\$ 301,285
Infrastructure - roads	25,622,952	\$ 29,616		25,622,952
Buildings and improvements	7,766,786	5,533,767		13,300,553
Furniture and equipment	3,150,501	269,853	\$ 43,500	3,376,854
<b>Totals</b>	<b>36,841,524</b>	<b>5,833,236</b>	<b>43,500</b>	<b>42,631,260</b>
Less accum depreciation for:				
Infrastructure - roads	14,715,001	642,272		15,357,273
Buildings and improvements	3,699,227	118,590		3,817,817
Furniture and equipment	1,905,750	263,194	43,500	2,125,444
<b>Total accum depreciation</b>	<b>20,319,978</b>	<b>1,024,056</b>	<b>43,500</b>	<b>21,300,534</b>
<b>Governmental activities capital assets, net</b>	<b>\$16,521,546</b>	<b>\$ 4,809,180</b>	<b>\$ 0</b>	<b>\$21,330,726</b>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 22,913
Public health and welfare	130,747
Public safety	71,909
Public transportation	798,487
Total depreciation expense - governmental activities	<u>\$1,024,056</u>

G. Accumulated unpaid vacation and sick leave benefits

County employees are entitled to certain compensated absences based on their length of employment. However, total accrued leave benefits were inconsequential in amount and were not recorded as a liability.

H. Texas County and District Retirement System

Plan Description

The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the state-wide 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 574 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P. O. Box 2034, Austin, 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 30 years regardless of age, or when the sum of their age and years of service equals 75 or more. A member is vested after 8 years but must leave his accumulated contributions in the plan to receive any employer-financed benefit. Member 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 County within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

**Funding Policy.** The employer has elected the annually determined contribution rate (ADCR) plan provisions if 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 12% for calendar year 2009.

The contribution rate payable by the employee members is the rate of 7% as adopted by the County. The employee contribution rate and the employer contribution rate may be changed by the County within the options available in the TCDRS Act.

**Annual Pension Cost.** For the County's accounting year ending December 31, 2009, the annual pension cost for the TCDRS plan for its employees was \$205,084 and the actual contributions were \$324,716.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuation as of December 31, 2008, the basis for determining the contribution rates for calendar year 2009. The December 31, 2008, actuarial valuation is the most recent valuation.

**Actuarial Valuation Information**

Actuarial Valuation Date	12/31/06	12/31/07	12/31/08
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 (in years)	4.8	3.3	9.9
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

Actuarial Assumptions:

Investment Return	8.0%	8.0%	8.0%
Projected Salary Increases	5.3%	5.3%	5.3%
Inflation	3.5%	3.5%	3.5%
Cost-of-Living Adjustments	0.0%	0.0%	0.0%

**Schedule of Funding Progress for the Retirement Plan for the Employees of the County**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
12/31/06	5,271,360	5,647,904	376,544	93.33%	1,370,182	27.48%
12/31/07	5,300,498	5,608,331	307,833	94.51%	1,445,561	21.30%
12/31/08	5,420,631	6,123,279	702,648	88.52%	1,508,052	46.59%

I. Deferred revenues

	Deferred Taxes	Total Deferred Revenue
General Fund	<u>\$3,313,882</u>	<u>\$3,313,882</u>

J. Long-term debt

During the year ended December 31, 2009, the County had four outstanding loans payable as follows:

Issue	Beginning Balance	Advanced	Retired	Ending Balance	Current Portion
First National Bank - Albany/Breckenridge note payable dated 08/06/06 bearing interest at 7.50% due 08/06/09	\$ 34,748		\$ 34,748	\$ 0	\$ 0
\$1,600,000 Combination Tax and Revenue Certificates of Obligation, Series 2006 bearing interest at 4.90% due monthly until 12/15/14	1,225,615		323,494	902,121	225,100
\$9,000,000 Certificates of Obligation, Series 2008 bearing interest at 4.0262% due incrementally on 02/15 and 08/15 of each year until 02/15/23	9,000,000		0	9,000,000	490,000
	<u>\$10,260,363</u>	<u>\$ 0</u>	<u>\$ 358,242</u>	<u>\$9,902,121</u>	<u>\$ 715,100</u>

Future debt service requirements are as follows:

Year ended December 31,	Principal	Interest	Total Requirements
2010	\$ 715,100	\$398,794	\$1,113,894
2011	746,502	367,392	1,113,894
2012	778,354	334,740	1,113,094
2013	742,165	300,990	1,043,155
2014	575,000	274,590	849,590
2015-2019	3,230,000	1,002,850	4,232,850
2020-2023	3,115,000	273,750	3,388,750
Total	<u>\$9,902,121</u>	<u>\$2,953,106</u>	<u>\$12,855,227</u>

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*OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION*

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# Cameron L. Gulley

CERTIFIED PUBLIC ACCOUNTANT

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## Independent Auditor's Report

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

County Commission  
County of Stephens, Texas  
200 W. Walker  
Breckenridge, Texas 76424

Members of the Commissioners' Court:

I have audited the financial statements of the governmental activities, each major fund, and the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of County of Stephens, Texas as of and for the year ended December 31, 2009. These collectively comprise the County's basic financial statements. I have issued my report on them dated August 13, 2010.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing my audit, I considered the County's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the County's internal control over financial reporting. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that the misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

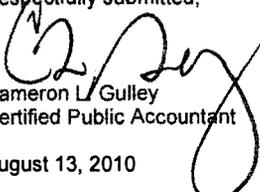
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I identified no items as deficiencies in internal control over financial reporting that I considered to be material weaknesses as defined above.

#### Compliance

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

This report is intended for the information of the County commissioners, the administration, and federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.

Respectfully submitted,

  
Cameron L. Gulley  
Certified Public Accountant

August 13, 2010

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**COUNTY OF STEPHENS, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

A. Summary of Auditor's Results

Type of auditor's report issued: Unqualified.

Internal control over financial reporting:

Material weakness(es) identified? None.

Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported.

Noncompliance material to financial statements noted? No.

An unqualified opinion was issued on the general purpose financial statements.

The audit disclosed no noncompliance which is material to the general purpose financial statements.

B. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

None.

C. Findings and Questioned Costs for Federal Awards

N/A.

**COUNTY OF STEPHENS, TEXAS**  
**SUMMARY OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

<u>Program</u>	<u>Findings</u>	<u>Questioned Costs</u>
General Operating	<p>The General and Road &amp; Bridge Fund budgets were exceeded during the 2008 fiscal year.</p> <p><u>Status:</u></p> <p>The current year budget was amended properly throughout the year with no negative budget variances for any functional categories.</p>	0