

**EASTLAND COUNTY, TEXAS**  
**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITORS' REPORT**

**September 30, 2008**

EASTLAND COUNTY, TEXAS

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September 30, 2008

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# CONDLEY AND COMPANY, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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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

December 1, 2009

**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, 2008, 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, 2008, 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 December 1, 2009, 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 combining fund financial statements, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the general-purpose 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, 2008

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, 2008. 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.

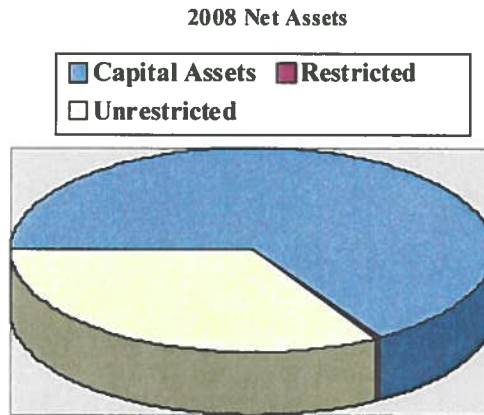
*Fiduciary funds* - The County is the trustee, or fiduciary, for certain funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County's fiduciary activities are reported in a separate statement of fiduciary net assets on 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 \$6.3 million at September 30, 2008. The largest portion (approximately 67%) 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. An additional portion of the County's net assets (approximately 1%) represent resources that are subject to restrictions on how they may be used. 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 \$9,718,059. This amount included current and other assets of \$4,884,199 and capital and non-current assets of \$4,833,860. Total liabilities of the County at September 30, 2008, were \$3,413,028. The portion of liabilities classified as current was \$2,957,603 and long term liabilities were \$455,425. See **Table 1** for additional variances between September 30, 2008 and 2007.

**Table 1**

	Governmental Activities	
	2008	2007
<b>Assets:</b>		
Current and other assets	\$ 4,884,199	\$ 3,051,646
Capital assets	4,833,860	5,898,164
<b>Total Assets</b>	<b>\$ 9,718,059</b>	<b>\$ 8,949,810</b>
<b>Liabilities:</b>		
Current liabilities	\$ 2,957,603	\$ 1,254,481
Long-term liabilities	455,425	532,516
<b>Total Liabilities</b>	<b>3,413,028</b>	<b>1,786,997</b>
<b>Net assets:</b>		
Invested in capital assets net of related debt	4,174,696	4,944,634
Restricted for debt service	17,249	268,202
Unrestricted	2,113,086	1,949,977
<b>Total Net Assets</b>	<b>\$ 6,305,031</b>	<b>\$ 7,162,813</b>

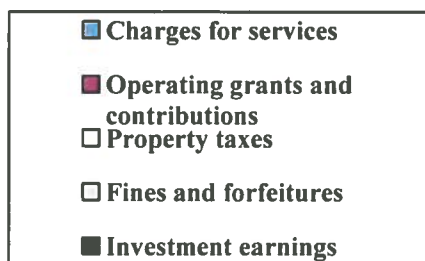
Total assets decreased primarily due to depreciation expense totaling \$1,427,167 while liabilities increased due to deferred revenue relating to unearned FEMA grant income of \$1,991,823.

**Changes in Net Assets**

Eastland County’s net assets decreased by \$857,782 and \$1,641,733 during fiscal year 2008 and 2007, respectively. The County improved their net asset position due to the additional grant money they received from FEMA during fiscal year 2008. The grant income increased by \$1,229,025 from 2007 to 2008. Expenses increased by \$657,394 which was mainly due to the increase in road repairs related to the FEMA projects.

Total revenues for the fiscal year ending September 30, 2008, were \$8,801,057. Approximately 46% of the County’s revenue comes from property taxes and property taxes increased by \$28,693. Charges for services decreased by \$31,191, and fines and forfeitures decreased significantly by \$300,063. Grants and contributions increased significantly by \$1,229,025, due primarily to FEMA funds received for county road flood damage.

**Sources of Funds for Governmental Activities - Fiscal Year 2008**



For the years ended September 30, 2008 and 2007, net assets of the primary government changed as follows:

**Table 2**

	Governmental Activities	
	2008	2007
Revenues:		
Program revenues:		
Charges for services	\$ 1,777,846	\$ 1,809,037
Operating grants and contributions	1,995,858	766,833
General revenues:		
Property taxes	3,979,243	3,649,110
Fines and forfeitures and other taxes	622,476	925,930
Investment earnings	84,131	71,795
Miscellaneous	341,503	137,007
<b>Total revenues</b>	<b>8,801,057</b>	<b>7,359,712</b>

	2008	2007
Expenses		
General government	2,209,348	2,282,308
Health and welfare	273,234	166,582
Judicial and legal	1,900,576	1,635,766
Public safety	2,024,323	1,894,375
Public facilities	500,279	484,501
Road maintenance	2,713,367	2,514,041
Interest on long-term debt	37,712	23,872
Total expenses	<u>9,658,839</u>	<u>9,001,445</u>
Decrease in net assets	(857,782)	(1,641,733)
Beginning net assets, As Restated	<u>7,162,813</u>	<u>8,804,546</u>
Ending net assets	<u>\$ 6,305,031</u>	<u>\$ 7,162,813</u>

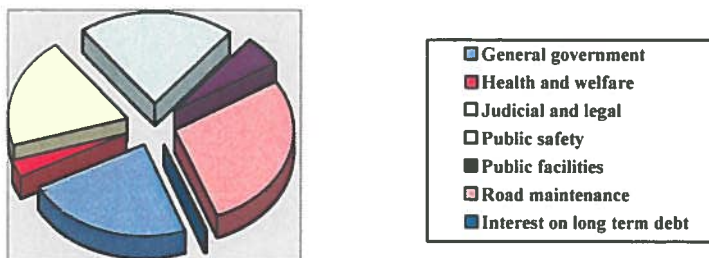
### **Governmental Activities**

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 increased by \$657,394 or 7% from the prior year. For the most part, this increase closely paralleled inflation and growth in the demand for services.

For the year ended September 30, 2008, the County's governmental resources were used as follows:

#### **Uses of Funds in Governmental Activities**



Total expenses for governmental activities amounted to \$9,658,839 during the year ended September 30, 2008. Of these total expenses, taxpayers and other general revenues funded \$5,027,353. While those directly benefiting from the program funded \$1,995,858 from grants and other contributions; \$1,777,846 was provided from charges for services for the year ended September 30, 2008.

## 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 \$4,204,456, an increase of \$1,918,242 or 84% in comparison with the prior year. Approximately 99% of this total amount (\$4,187,207) is unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved, to indicate that it is not available for new spending because it has already been committed to retirement of debt (\$17,249).
- The General Fund is the chief operating fund of the County. At the end of the fiscal year, the total fund balance of \$2,858,460 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 57% of total general fund expenditures.
- The County's total revenues exceeded total expenses by \$1,893,046 for the year.
- The County's Debt Service Fund has a total fund balance of \$17,249, all of which is reserved for the payment of debt service.

### 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 \$2,635,661 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 \$1,791,079 lower than expected. The County's budget included the \$1,991,823 that was received by FEMA, but the money was actually moved to the Road and Bridge fund.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

As of September 30, 2008, the County had invested \$28,663,039 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 \$342,863 or 1% 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)

	Governmental Activities 2008
	<u>2008</u>
Land	\$ 158,678
Buildings and improvements	2,188,808
Furniture and equipment	1,377,804
Infrastructure	<u>1,108,570</u>
Total	\$ <u>4,833,860</u>

### **Long-Term Debt**

At year end, the County had outstanding long-term liabilities in the form of capital leases totaling \$659,164 that were obtained in order to finance acquisition of various equipment. During the year, the County retired the \$300,000 in remaining principal on the 1998 certificates of obligation. See Note 6 in the notes to the financial statements for additional detail.

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

For the upcoming fiscal year ending September 30, 2009, 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 2007-2008 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, 2008

	<u>Governmental Activities</u>
<b>ASSETS:</b>	
Current Assets:	
Cash and cash equivalents	\$ 2,224,373
Investments	2,360,968
Taxes receivable - net of allowance for uncollectible taxes of \$229,443	233,429
Accounts receivable, net of uncollectibles	222
Due from other governments	4,748
Prepaid expenses and other assets	60,459
Capital Assets:	
Land	158,678
Buildings and improvements	3,691,002
Infrastructure	20,888,375
Furniture and equipment	3,924,984
Less accumulated depreciation	<u>(23,829,179)</u>
<b>TOTAL ASSETS</b>	<u><b>9,718,059</b></u>
<b>LIABILITIES:</b>	
Current Liabilities:	
Accounts payable and accrued expenses	321,710
Accrued wages	29
Accrued interest payable	4,625
Deferred revenue	2,349,827
Compensated absences	77,673
Leases payable - current	203,739
Noncurrent Liabilities:	
Leases payable - long term	<u>455,425</u>
<b>TOTAL LIABILITIES</b>	<u><b>3,413,028</b></u>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	4,174,696
Restricted for debt service	17,249
Unrestricted	<u>2,113,086</u>
<b>TOTAL NET ASSETS</b>	<u><u><b>\$ 6,305,031</b></u></u>

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

EASTLAND COUNTY, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2008

Function/Program Activities	<u>Program Revenues</u>			Net (Expense) Revenues and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>
Primary Government:				
Governmental Activities:				
General government	\$ 2,209,348	\$ 784,582	\$ 1,213,672	\$ (211,094)
Judicial and legal	1,900,576	569,616	410,766	(920,194)
Public safety	2,024,323	157,432	270,554	(1,596,337)
Public facilities	500,279	47,404	631	(452,244)
Road and bridge	2,713,367	211,429	27,716	(2,474,222)
Health and welfare	273,234	7,383	72,519	(193,332)
Interest on long-term debt	37,712			(37,712)
	<u>9,658,839</u>	<u>1,777,846</u>	<u>1,995,858</u>	<u>(5,885,135)</u>
Total governmental activities				
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				3,979,243
Other taxes				543
Fines and forfeitures				621,933
Other revenue				341,503
Interest income				84,131
				<u>5,027,353</u>
Total General Revenues and Transfers				
				(857,782)
Change in Net Assets				
Net assets - Beginning				7,439,057
Prior Period Adjustment				(276,244)
Net assets - Beginning, As Restated				<u>7,162,813</u>
Net assets - Ending				<u>\$ 6,305,031</u>

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



*FUND FINANCIAL STATEMENTS*

EASTLAND COUNTY, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2008

	<u>General</u>	<u>Road and Bridge</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,292,415	\$ 125,194	\$ 806,764	\$ 2,224,373
Investments	2,179,605		181,363	2,360,968
Taxes receivable	462,872			462,872
Allowance for uncollectible taxes	(229,443)			(229,443)
Accounts receivable, net of uncollectibles	218	20	(16)	222
Due from (to) other funds	(360,029)	305,752	54,277	0
Due from other governments	2,117		2,631	4,748
Prepaid expenses and other assets	49,919	10,540		60,459
 Total Assets	 <u>\$ 3,397,674</u>	 <u>\$ 441,506</u>	 <u>\$ 1,045,019</u>	 <u>\$ 4,884,199</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable and accrued expenses	\$ 232,636	\$ 64,961	\$ 24,113	\$ 321,710
Accrued wages			29	29
Deferred revenues	306,578		51,426	358,004
 Total Liabilities	 <u>539,214</u>	 <u>64,961</u>	 <u>75,568</u>	 <u>679,743</u>
Fund Balances:				
Reserved for debt retirement			17,249	17,249
Unreserved, reported in:				
General fund	2,858,460			2,858,460
Special revenue funds		376,545	952,202	1,328,747
 Total Fund Balance	 <u>2,858,460</u>	 <u>376,545</u>	 <u>969,451</u>	 <u>4,204,456</u>
 Total Liabilities and Fund Balance	 <u>\$ 3,397,674</u>	 <u>\$ 441,506</u>	 <u>\$ 1,045,019</u>	 <u>\$ 4,884,199</u>

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, 2008

Fund Balances - Total Governmental funds \$ 4,204,456

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	\$ 28,663,039	
Less accumulated depreciation	<u>(23,829,179)</u>	4,833,860

Long-Term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.

Interest payable	(4,625)	
Compensated absences	(77,673)	
Governmental leases payable	<u>(659,164)</u>	(741,462)

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.

(1,991,823)

Net assets of governmental activities \$ 6,305,031

EASTLAND COUNTY, TEXAS

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

For the Year Ended September 30, 2008

	General Fund	Road and Bridge	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Taxes	\$ 3,928,257	\$ 527	\$ 51,002	\$ 3,979,786
Grants and contributions	1,310,781	2,019,539	657,360	3,987,680
Charges for services	658,534	474,968	644,344	1,777,846
Fines and forfeitures	571,855		50,078	621,933
Interest	71,847	38	12,246	84,131
Other	277,521	22,835	41,147	341,503
<b>Total Revenues</b>	<b>6,818,795</b>	<b>2,517,907</b>	<b>1,456,177</b>	<b>10,792,879</b>
<b>EXPENDITURES:</b>				
Current:				
General government	1,931,225		10,300	1,941,525
Judicial and legal	871,111		1,026,131	1,897,242
Public safety	1,656,237		305,902	1,962,139
Public facilities	339,552		67,344	406,896
Road and bridge		2,303,297		2,303,297
Health and welfare	242,372		30,862	273,234
Debt Service:				
Principal			300,000	300,000
Interest			6,000	6,000
<b>Total Expenditures</b>	<b>5,040,497</b>	<b>2,303,297</b>	<b>1,746,539</b>	<b>9,090,333</b>
Excess (Deficiency) Revenues Over (Under) Expenditures	1,778,298	214,610	(290,362)	1,702,546
<b>OTHER FINANCING SOURCES AND (USES):</b>				
Capital lease proceeds		190,500		190,500
Transfers in (out)	(59,127)		59,127	0
<b>Total Sources (Uses):</b>	<b>(59,127)</b>	<b>190,500</b>	<b>59,127</b>	<b>190,500</b>
Excess (Deficiency) Revenues and Other Financing Sources Over (Under) Expenditures and Financing Uses	1,719,171	405,110	(231,235)	1,893,046
Fund Balance, Beginning of Year	1,139,289	(28,565)	1,175,490	2,286,214
Prior Period Adjustment			25,196	25,196
Fund Balance, Beginning of Year, As Restated	1,139,289	(28,565)	1,200,686	2,311,410
Fund Balance, End of Year	<u>\$ 2,858,460</u>	<u>\$ 376,545</u>	<u>\$ 969,451</u>	<u>\$ 4,204,456</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, 2008

Net change in fund balances - total governmental funds	\$ 1,893,046
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.	857,687
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.	(1,427,167)
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.	(189,525)
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>(1,991,823)</u>
Change in net assets of governmental activities	\$ <u><u>(857,782)</u></u>

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

EASTLAND COUNTY, TEXAS

STATEMENT OF FIDUCIARY NET ASSETS

September 30, 2008

	Employee Retirement Funds	Agency Funds
	<u>                    </u>	<u>                    </u>
ASSETS:		
Cash and cash equivalents	\$	\$ 1,670,477
Certificates of deposit and savings		101,850
Investments at fair value	<u>451,909</u>	<u>                    </u>
Total Assets	<u>451,909</u>	<u>1,772,327</u>
LIABILITIES:		
Accrued liabilities		121,449
Due to others		1,645,108
Bonds held in trust		<u>5,770</u>
Total Liabilities	<u>0</u>	<u>1,772,327</u>
NET ASSETS:		
Held in trust for pension benefits and other purposes	<u>\$ 451,909</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, 2008

	<u>Employee Retirement Funds</u>
ADDITIONS:	
Contributions:	
Employee	\$ <u>14,779</u>
Investment Earnings:	
Investment income	15,533
Less Investment Expenses:	
Asset fees	<u>197</u>
Net Investment Income	<u>15,336</u>
Total Revenues	<u>30,115</u>
DEDUCTIONS:	
Benefits paid	<u>50,766</u>
Net decrease	(20,651)
Net Assets - Beginning of Year	<u>472,560</u>
Net Assets - End of Year	<u>\$ <u>451,909</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, 2008

**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 defined benefit pension 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 \$6,757,710 were pledged by the depository bank to secure all bank deposits and investments. The largest cash balance amounted to \$5,779,595 and occurred on March 10, 2008. The pledged securities plus FDIC coverage were sufficient to cover the largest cash balance for the County. Cash deposits at September 30, 2008, totaling \$4,288,739 (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, 2008, are not subject to classifications where securities related to the government cannot be identified. Investments at September 30, 2008, included certificates of deposit totaling \$1,680,000 and Tex-Pool investments totaling \$680,968.

### 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, 2008, 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, 2008, 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, 2008, 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, 2008, 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, 2008, the County was not exposed to foreign currency risk.

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2008, 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			3,691,002
Furniture and equipment	3,582,121	362,863	(20,000)	3,924,984
Infrastructure – roads and bridges	20,888,375			20,888,375
Total at historical cost	<u>28,161,498</u>	<u>362,863</u>	<u>(20,000)</u>	<u>28,504,361</u>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	1,410,701	91,493		1,502,194
Furniture and equipment	2,231,949	335,231	(20,000)	2,547,180
Infrastructure – roads and bridges	18,779,362	1,000,443		19,779,805
Total accumulated depreciation	<u>22,422,012</u>	<u>1,427,167</u>	<u>(20,000)</u>	<u>23,829,179</u>
Governmental activity capital assets, net	\$ <u>5,898,164</u>	\$ <u>1,064,304</u>	\$ <u>0</u>	\$ <u>4,833,860</u>

Depreciation expense was charged to functions as follows:

General government	\$ 267,823
Judicial and legal	3,334
Public safety	62,184
Public facilities	93,383
Road and bridge	<u>1,000,443</u>
	<u>\$ 1,427,167</u>

**NOTE 6: LONG-TERM OBLIGATIONS**

As of September 30, 2008, 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	\$ 76,965
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	\$ 11,279
A capital lease obtained for the purchase of equipment, payable in annual installments of \$32,352 including interest at 5.20%, final payment due October 2008	\$ 12,605
A capital lease obtained for the purchase of equipment, payable in annual installments of \$16,916 including interest at 7.967%, final payment due January 2009	\$ 15,671
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	\$ 186,023

A capital lease obtained for the purchase of equipment, payable in semi-annual installments of \$9,578 including interest at 5.715%, final payment due September 2016	\$	165,622
A capital lease obtained for the purchase of equipment, payable in annual installments of \$15,602 including interest at 4.98%, first payment due October 2008, final payment due October 2011	\$	55,200
A capital lease obtained for the purchase of equipment, payable in annual installments of \$30,100 including interest at 4.50%, first payment due October 2008, final payment due October 2012	\$	135,800

Changes in long-term obligations for the year ended September 30, 2008, are as follows:

	<u>October 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>September 30, 2008</u>	<u>Amount Due Within One Year</u>
Certificates of obligation	\$ 300,000		\$ (300,000)	\$ 0	\$ 0
Capital leases	<u>653,530</u>	<u>190,500</u>	<u>(184,866)</u>	<u>659,164</u>	<u>203,739</u>
	<u>\$ 953,530</u>	<u>\$ 190,500</u>	<u>\$ (484,866)</u>	<u>\$ 659,164</u>	<u>\$ 203,739</u>

Interest paid on long-term obligations during the year ended September 30, 2008, totaled \$34,060.

The County is obligated under leases accounted for as capital leases. Capital assets with an original cost basis of \$1,029,773 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, 2008.

<u>Year Ending September 30,</u>	
2009	\$ 203,739
2010	174,185
2011	173,367
2012	72,082
2013	<u>135,620</u>
Minimum lease payments for capital lease	758,993
Less: Amount representing interest	<u>(99,829)</u>
Present value of minimum lease payments	<u>\$ 659,164</u>

The County issued certificates of obligation dated June 15, 1998, in the amount of \$2,400,000. The certificates were issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and constitute direct obligations of the County, within the limits prescribed by law, as provided in the order authorizing the Certificates. Proceeds from the sale of the certificates were used to finance the construction of a 73-bed expansion of the existing county jail located in Eastland, Texas.

Payment and security for the debt service requirement of the certificates will be from the general ad valorem tax levy on the taxable property in the County at a rate sufficient within the limits prescribed by law.



## **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 2008. 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, 2008, the annual pension cost for the TCDRS plan for its employees was \$315,781 and the actual contributions were \$315,781.

The annual required contributions were actuarially determined as a percentage 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, 2006, the basis of determining the contribution rate for calendar year 2006. The December 31, 2007, actuarial valuation is the most recent valuation.

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>
09/30/06	\$ 279,111	100%	\$ 0
09/30/07	302,397	100%	0
09/30/08	315,781	100%	0

Actuarial Valuation Information

<u>Actuarial valuation date</u>	<u>12/31/05</u>	<u>12/31/06</u>	<u>12/31/07</u>
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, open	level percentage of payroll, closed	level percentage of payroll, closed
Amortization period	14.8	11.2	9.7
Asset valuation method	long-term appreciation with adjustment	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>12/31/05</u>	<u>12/31/06</u>	<u>12/31/07</u>
Actuarial value of assets	\$4,782,532	\$4,886,940	\$5,320,750
Actuarial accrued liability (AAL)	\$5,920,995	\$5,830,980	\$6,259,879
Unfunded AAL (UAAL)	\$1,138,463	\$944,040	\$939,129
Funded ratio	80.77%	83.81%	85.00%
Annual covered payroll (actuarial)	\$2,348,651	\$2,426,949	\$2,581,189
UAAL as a percentage of covered payroll	48.47%	38.90%	36.38%

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, 2008, totaled \$14,779. 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, 2008, in the amount of \$2,349,827 consists of \$1,991,823 in unearned FEMA grant income, \$306,578 in property taxes and \$51,426 in unearned income in the Adult and Juvenile Probation programs.

**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, 2008, are as follows:

Due from/to other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Road and bridge fund	\$ 305,752
	Other governmental funds	<u>54,277</u>
		<u>\$ 360,029</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:

Transfer From	Transfer To	Amount
General Fund	Courthouse security fund	\$ 59,127

**NOTE 12: DEFICIT FUND EQUITY**

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

Special Revenue Fund: District Attorney Hot Check Fund Deficit: \$8,803

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.

**NOTE 13: PRIOR PERIOD ADJUSTMENT**

Adjustments resulting from errors or a change to comply with provisions of the accounting standards are treated as adjustments to prior periods. Accordingly, the County reports these changes as restatements of beginning net assets fund balance.

Beginning net assets for September 30, 2008, were decreased \$276,244. Net Assets were decreased (on the government-wide states only) \$301,440 to properly account for deferred revenue that was recognized in the prior year. Net assets were increased \$25,196 to correct the classification of agency funds to governmental funds.

*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, 2008

	Budgeted Amounts		Actual Amount (Budgetary Basis)	Variance with Final Budget Positive or (Negative)
	Original	Final		
Budgetary fund balances, October 1	\$ 1,587,181	\$ 1,258,091	\$ 1,139,289	\$ 473,848
<b>RESOURCES (INFLOWS):</b>				
Taxes	3,941,004	3,941,004	3,928,257	(12,747)
Grants and contributions	373,965	3,552,091	1,310,781	(2,241,310)
Charges for services	773,190	773,190	658,534	(114,656)
Fines and forfeitures	622,000	632,000	571,855	(60,145)
Interest	21,000	21,000	71,847	50,847
Other	140,618	164,437	277,521	113,084
Amounts available for appropriation	<u>5,871,777</u>	<u>9,083,722</u>	<u>6,818,795</u>	<u>(1,791,079)</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Current:				
General government	1,989,608	2,240,820	1,931,225	309,595
Judicial and legal	890,298	917,623	871,111	46,512
Public safety	1,871,002	3,959,256	1,656,237	2,303,019
Public facilities	247,907	360,416	339,552	20,864
Health and welfare	214,837	257,170	242,372	14,798
Transfers out	<u>0</u>	<u>0</u>	<u>59,127</u>	<u>(59,127)</u>
Total charges to appropriations	<u>5,213,652</u>	<u>7,735,285</u>	<u>5,099,624</u>	<u>2,635,661</u>
Budgetary fund balances, September 30	\$ <u>2,245,306</u>	\$ <u>2,606,528</u>	\$ <u>2,858,460</u>	\$ <u>251,932</u>

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, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amount (Budgetary Basis)</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary fund balances, October 1	\$ <u>(577,819)</u>	\$ <u>(578,482)</u>	\$ <u>(28,565)</u>	\$ <u>81,578</u>
<b>RESOURCES (INFLOWS):</b>				
Taxes	200	200	527	327
Grants and contributions	27,620	27,620	2,019,539	1,991,919
Charges for services	515,000	515,000	474,968	(40,032)
Interest	70	70	38	(32)
Other	0	21,615	22,835	1,220
Capital lease proceeds	<u>0</u>	<u>0</u>	<u>190,500</u>	<u>190,500</u>
Amounts available for appropriation	<u>542,890</u>	<u>564,505</u>	<u>2,708,407</u>	<u>2,143,902</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Current:				
Road and bridge	<u>1,238,679</u>	<u>1,958,420</u>	<u>2,303,297</u>	<u>(344,877)</u>
Total charges to appropriations	<u>1,238,679</u>	<u>1,958,420</u>	<u>2,303,297</u>	<u>(344,877)</u>
Budgetary fund balances, September 30	\$ <u><u>(1,273,608)</u></u>	\$ <u><u>(1,972,397)</u></u>	\$ <u><u>376,545</u></u>	\$ <u><u>2,348,942</u></u>

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.

*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>
\$ 57,580	\$ 29,253 180,000	\$ 60,753	\$ 2,885	\$ 186,870	\$ 2,131	\$ 1,431
4,661		(932)	(11,688)	11,688		(6)
<u>\$ 62,241</u>	<u>\$ 209,253</u>	<u>\$ 59,821</u>	<u>\$ (8,803)</u>	<u>\$ 198,558</u>	<u>\$ 2,131</u>	<u>\$ 1,425</u>
\$	\$ 50	\$	\$ 625	\$	\$	\$
<u>0</u>	<u>50</u>	<u>0</u>	<u>625</u>	<u>0</u>	<u>0</u>	<u>0</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>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>\$ 62,241</u>	<u>\$ 209,253</u>	<u>\$ 59,821</u>	<u>\$ (8,803)</u>	<u>\$ 198,558</u>	<u>\$ 2,131</u>	<u>\$ 1,425</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>
\$ 22,034	\$ 12,173	\$ 15,669	\$ 2,002	\$ 37,084	\$ 790,878	\$ 15,886	\$ 806,764
					180,000	1,363	181,363
					(16)		(16)
					54,277		54,277
					2,631		2,631
<u>\$ 22,034</u>	<u>\$ 12,173</u>	<u>\$ 15,669</u>	<u>\$ 2,002</u>	<u>\$ 37,084</u>	<u>\$ 1,027,770</u>	<u>\$ 17,249</u>	<u>\$ 1,045,019</u>
\$	\$	\$	\$ 100	\$	\$ 19,966	\$	\$ 19,966
					4,147		4,147
					29		29
					51,426		51,426
<u>0</u>	<u>0</u>	<u>0</u>	<u>100</u>	<u>0</u>	<u>75,568</u>	<u>0</u>	<u>75,568</u>
					0	17,249	17,249
<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>952,202</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>\$ 22,034</u>	<u>\$ 12,173</u>	<u>\$ 15,669</u>	<u>\$ 2,002</u>	<u>\$ 37,084</u>	<u>\$ 1,027,770</u>	<u>\$ 17,249</u>	<u>\$ 1,045,019</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>
\$	\$	\$	\$	\$	\$	\$
19,918		47,405	21,518		1,340	33,288
90	6,651	18	1	12,100		5
	<u>19,541</u>		<u>22</u>	<u>239</u>		
<u>20,008</u>	<u>26,192</u>	<u>47,423</u>	<u>21,541</u>	<u>12,339</u>	<u>1,340</u>	<u>33,293</u>
35,568			26,130	21,020		39,572
	26,752	67,294			435	
<u>35,568</u>	<u>26,752</u>	<u>67,294</u>	<u>26,130</u>	<u>21,020</u>	<u>435</u>	<u>39,572</u>
<u>(15,560)</u>	<u>(560)</u>	<u>(19,871)</u>	<u>(4,589)</u>	<u>(8,681)</u>	<u>905</u>	<u>(6,279)</u>
		59,127				
<u>(15,560)</u>	<u>(560)</u>	<u>39,256</u>	<u>(4,589)</u>	<u>(8,681)</u>	<u>905</u>	<u>(6,279)</u>
<u>77,801</u>	<u>209,763</u>	<u>20,565</u>	<u>(4,839)</u>	<u>207,239</u>	<u>1,226</u>	<u>7,704</u>
<u>77,801</u>	<u>209,763</u>	<u>20,565</u>	<u>(4,839)</u>	<u>207,239</u>	<u>1,226</u>	<u>7,704</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>

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
\$	\$	\$	\$	\$	\$	\$	\$
			630		0	51,002	51,002
11,338	15,571	26,328		11,663	657,360		657,360
23				34	644,344		644,344
					50,078		50,078
					8,201	4,045	12,246
					41,147		41,147
<u>11,361</u>	<u>15,571</u>	<u>26,328</u>	<u>630</u>	<u>11,697</u>	<u>1,401,130</u>	<u>55,047</u>	<u>1,456,177</u>
					10,300		10,300
2,815					1,026,131		1,026,131
	3,398	35,855			305,902		305,902
			50		67,344		67,344
					30,862		30,862
					0	300,000	300,000
					0	6,000	6,000
<u>2,815</u>	<u>3,398</u>	<u>35,855</u>	<u>50</u>	<u>0</u>	<u>1,440,539</u>	<u>306,000</u>	<u>1,746,539</u>
<u>8,546</u>	<u>12,173</u>	<u>(9,527)</u>	<u>580</u>	<u>11,697</u>	<u>(39,409)</u>	<u>(250,953)</u>	<u>(290,362)</u>
					59,127		59,127
<u>8,546</u>	<u>12,173</u>	<u>(9,527)</u>	<u>580</u>	<u>11,697</u>	<u>19,718</u>	<u>(250,953)</u>	<u>(231,235)</u>
13,488	0	0	1,322	25,387	907,288	268,202	1,175,490
		25,196			25,196		25,196
<u>13,488</u>	<u>0</u>	<u>25,196</u>	<u>1,322</u>	<u>25,387</u>	<u>932,484</u>	<u>268,202</u>	<u>1,200,686</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>

*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>
\$ 84,671	\$ 7,951	\$ 940,455	\$ 56,344	\$ 4,578	\$ 382 45,506	\$ 5,361
<u>84,671</u>	<u>7,951</u>	<u>940,455</u>	<u>56,344</u>	<u>4,578</u>	<u>45,888</u>	<u>5,361</u>
84,671	5,351 2,600	940,455	56,344	4,578	45,888	5,361
<u>84,671</u>	<u>7,951</u>	<u>940,455</u>	<u>56,344</u>	<u>4,578</u>	<u>45,888</u>	<u>5,361</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Justice of the Peace #1	Justice of the Peace #2	Justice of the Peace #4	Adult Supervision and Correction Fund	Juvenile Probation Restitution	Total Agency Funds
\$ 39,533	\$ 12,680	\$ 21,088	\$ 172	\$ 1,727	\$ 1,670,477
					101,850
<u>39,533</u>	<u>12,680</u>	<u>21,088</u>	<u>172</u>	<u>1,727</u>	<u>1,772,327</u>
					121,449
38,755	12,216	19,160	172	1,727	1,645,108
778	464	1,928			5,770
<u>39,533</u>	<u>12,680</u>	<u>21,088</u>	<u>172</u>	<u>1,727</u>	<u>1,772,327</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, 2008

<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>812</u>
Total U.S. Department of Justice Homeland Security		<u>812</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY		
Passed through Texas Department of Public Safety Division of Emergency Management	97.036	<u>939,057</u>
Total Federal Emergency Management Agency		<u>939,057</u>
BUREAU OF JUSTICE		
Passed through Texas Attorney General	N/A	<u>5,030</u>
Total Bureau of Justice		<u>5,030</u>
U.S. DEPARTMENT OF H.U.D.		
Passed through Texas Department of Housing and Community Affairs	14.239	<u>124,800</u>
Total U.S. Department of H.U.D.		<u>124,800</u>
HELP AMERICA VOTE ACT		
Passed through Secretary of State	90.401	688
	39.011	<u>2,921</u>
Total Help America Vote Act		<u>3,609</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>1,073,308</u>
STATE FINANCIAL ASSISTANCE:		
TEXAS DEPARTMENT OF CRIMINAL JUSTICE		
Basic Supervision	N/A	143,777
Community Corrections Program	N/A	<u>49,633</u>
Total Department of Criminal Justice		<u>193,410</u>

EASTLAND COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL/STATE AWARDS (CONTINUED)

Year Ended September 30, 2008

<u>FEDERAL GRANTOR / PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>EXPENDITURES</u>
TEXAS JUVENILE PROBATION COMMISSION		
State Aid	N/A	\$ 26,812
Community Corrections	N/A	32,478
Progressive Sanctions	N/A	18,482
Progressive Sanctions 123	N/A	8,617
Salary Adjustment	N/A	4,750
Title IV-E	N/A	11,287
Residential Reimbursement	N/A	<u>2,079</u>
Total Texas Juvenile Probation Commission		<u>104,505</u>
TEXAS STATE COMPTROLLER		
Lateral Road	N/A	<u>27,716</u>
Total Texas State COMPTROLLER		<u>27,716</u>
TEXAS DEPARTMENT OF STATE HEALTH SERVICES		
Tobacco Settlement	N/A	<u>13,752</u>
Total Texas Department of State Health Services		<u>13,752</u>
TEXAS TASK FORCE ON INDIGENT DEFENSE		
Indigent Defense	N/A	<u>33,524</u>
Total Texas Task Force on Indigent Defense		<u>33,524</u>
TEXAS DEPARTMENT OF JUDICIARY		
County Judge	N/A	15,000
District Attorney	N/A	<u>33,289</u>
Total Texas Department of Judiciary		<u>48,289</u>
TOTAL STATE FINANCIAL ASSISTANCE		<u>421,196</u>
TOTAL FEDERAL AND STATE FINANCIAL ASSISTANCE		<u>\$ 1,494,504</u>

EASTLAND COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL/STATE AWARDS

September 30, 2008

**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

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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  
December 1, 2009

**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, 2008, and have issued our report thereon dated December 1, 2009. 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.

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

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 principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider deficiencies 08-01, 08-02, 08-03, 08-04, and 08-05 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 08-03 to be a material weaknesses.

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 December 1, 2009.

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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December 1, 2009

**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, 2008. 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, 2008.

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 and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider deficiencies 08-01 and 08-02 in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Question Costs, we consider item 08-03 to be a material weakness.

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.

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

EASTLAND COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended September 30, 2008

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, 2008, 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, 2008, disclosed a material weakness and 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, 2008.

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, 2008, disclosed a material weakness and 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, 2008, 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 \$939,057.

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, 2008.

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, 2008.

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

A. Material Weakness and Significant Deficiencies in Internal Control



## Significant Deficiencies

08-01

Condition: 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.

Effect: The comingling of the funds increases the risk of error or misuse of government funds.

Cause: A grant fund was not set-up until fiscal year 2009; therefore, the grant funds were accounted for in the general fund.

Recommendation: We recommend that a separate fund be established and utilized for the FEMA grant proceeds relating to the flood damage. Due to the large dollar amount of grant proceeds received from FEMA, a separate fund would aid in accounting for these transaction by making the related income and expenditures more visible.

Views of responsible official and planned corrective actions: A separate grant fund was set-up and utilized in fiscal year 2009.

08-02

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 official and planned corrective actions: The independent auditors' recommendation will be relayed to the commissioners. Recording county roads on time sheets will not begin until after fiscal year 2009 due to the timing of the recommendation. The current method of documentation has been acceptable to both FEMA and the Office of Rural Community Affairs (ORCA).

08-04

Condition: 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.

Effect: Cash accounts are misstated throughout the year and corresponding accounts are incorrect as well.

Cause: Management is not reviewing cash reconciliations to ensure they are performed timely and accurately.

Recommendation: We recommend management adjust all cash fund balances and related balances to actual on a monthly basis after reconciliations are completed and reviewed. Management should not post manual entries to cash in prior months where cash accounts have previously been reconciled and the accounting period is closed. We recommend cash transfers be recorded in the general ledger on the day they actually occur at the bank, and do so for each fund involved in the transaction. In addition, deposits should be recorded in the general ledger in a timely manner. This will help ensure that cash accounts and their respective reconciliations are accurate.

Views of responsible official and planned corrective actions: Many of the cash balances are still out of balance due to audit adjusting entries from fiscal years 2006 and 2007. Reversing entries were not

identified by the independent auditors. Sufficient supporting documentation regarding the adjusting entries was not provided to allow the county auditor to identify the reversing entries. The planned corrective action for fiscal year 2010 is to reconcile all cash accounts in a timely manner and to not post any additional entries to cash accounts after reconciliations have been prepared. The software system does not have the ability to close a month.

Notifications of deposits from state funds do not arrive in a timely manner. In fiscal year 2009 efforts were made to verify deposits online and enter the deposits into the general ledger as received. The treasurer's office will continue to monitor checking accounts for direct deposits in a timely manner.

Efforts have been made in fiscal year 2009 to consistently make cash transfers and record the corresponding entries the same day. After receipts are generated in the treasurer's office the auditor's office reviews the receipts and posts them to the general ledger within a few days.

08-05

Condition: 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.

Effect: Misstatements through out the financial statements were discovered when reconciling these accounts during the audit.

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

Recommendation: We recommend management review all Due To / Due From accounts on a weekly basis to ensure the balances net to zero. If they do not net to zero the difference should be identified and corrected.

Views of responsible official and planned corrective actions: Many of the Due To / Due From accounts were out of balance due to audit adjusting entries from fiscal years 2006 and 2007. Reversing entries were not identified by the independent auditors. Sufficient supporting documentation regarding the adjusting entries was not provided to allow the county auditor to identify the reversing entries. Due to time and staff constraints reviewing all Due To / Due From accounts on a weekly basis is not feasible at this time. The planned corrective action for fiscal year 2010 is to review the Due To / Due From accounts on a monthly basis.

#### Material Weakness

08-03

Condition: 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.

Effect: Several of the accounts listed above had balances that could not be supported or explained by management which resulted in numerous audit adjustments.

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

Recommendation: We recommend, at a minimum, that management maintain and reconcile on a monthly basis the balance sheet accounts for all funds that generate a large number of monthly transactions.

Views of responsible official and planned corrective actions: Many of the balance sheet accounts were out of balance due to audit adjusting entries from fiscal years 2006 and 2007. Reversing entries were not identified by the independent auditors. Sufficient supporting documentation regarding the adjusting entries was not provided to allow the county auditor to identify the reversing entries. 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

08-01

Condition: 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.

Effect: The comingling of the funds increases the risk of error or misuse of government funds.

Cause: A grant fund was not set-up until fiscal year 2009; therefore, the grant funds were accounted for in the general fund.

Recommendation: We recommend that a separate fund be established and utilized for the FEMA grant proceeds relating to the flood damage. Due to the large dollar amount of grant proceeds received from FEMA, a separate fund would aid in accounting for these transaction by making the related income and expenditures more visible.

Views of responsible official and planned corrective actions: A separate grant fund was set-up and utilized in fiscal year 2009.

08-02

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 official and planned corrective actions: The independent auditors' recommendation will be relayed to the commissioners. Recording county roads on time sheets will not begin until after fiscal year 2009 due to the timing of the recommendation. The current method of documentation has been acceptable to both FEMA and the Office of Rural Community Affairs (ORCA).

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