

Red River County, Texas

**Financial Statements
And Independent Auditor's Report**

For the year ended September 30, 2009

Red River County, Texas
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INDEPENDENT AUDITOR'S REPORT

The Honorable Judge and
County Commissioners
Red River County, Texas
Clarksville, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Red River County, Texas as of and for the year ended September 30, 2009, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's administrators. 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Red River County, Texas as of September 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2009, on our consideration of the County's internal control over financial reporting and on 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.

The management's discussion and analysis and budgetary comparison information on pages 3 through 11 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 inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.

December 11, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the County of Red River County, Texas, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities and performance for the year ended September 30, 2009. The information presented here should be read in conjunction with the independent auditor's report and the County's financial statements.

FINANCIAL HIGHLIGHTS

The County's total combined net assets were \$15.6 million at September 30, 2009. \$13.5 million of the net assets is invested in capital assets, net of related debt. During the year, the County's expenses were \$651 thousand more than the \$5.5 million generated in taxes, charges for services and other revenues from governmental activities.

The total cost of all the County's activities was about \$6.86 million, an increase of \$748 thousand, or 12% more than the prior year. Health and welfare costs were up \$369 thousand. Intergovernmental costs were up \$197 thousand. Revenue was up \$1.04 million. Operating grants and contributions increased \$636 thousand.

The general fund balance is \$703 thousand at September 30, 2009, which is an increase of \$44 thousand.

During the year, \$713 thousand of fixed assets were added. \$521 thousand of new debt was obtained. \$327 thousand of principal was paid on debt.

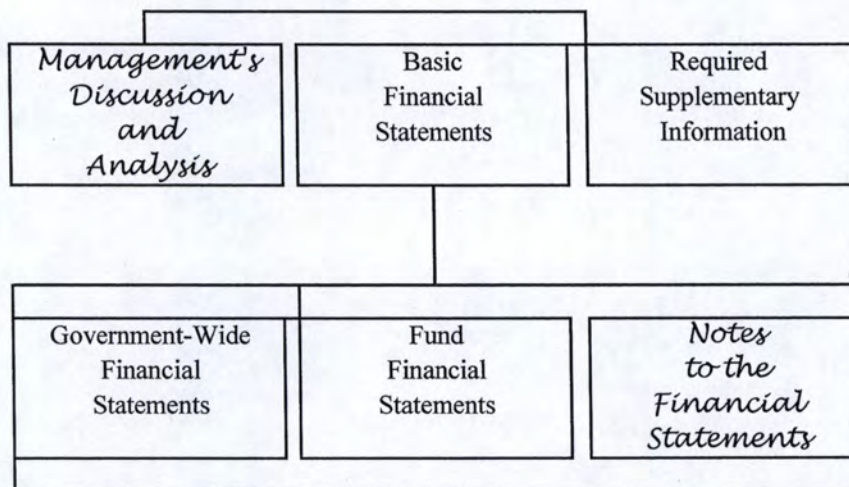
Approximately 94% of the taxes levied for 2008-09 were collected by September 30, 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts--*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the County:

- The first two statements are *government-wide financial statements* that provide information about the County's activities as a whole and present a longer-term view of the County's property and debt obligations. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the County's operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as a commissary operation.
 - *Fiduciary fund* statements provide information about the financial relationships in which the County acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong. This fund contains trust funds.

Figure A-1. Required Components of the County's Annual Financial Report



Summary ⇄ Detail

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

| Figure A-2. Major Features of the County's Government-wide Fund Financial Statements | | | | |
|--|--|---|---|--|
| <i>Type of Statements</i> | Government-wide | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| <i>Scope</i> | Entire County's government (except fiduciary funds) and the County's component units | The activities of the County that are not proprietary or fiduciary | Activities the County operates similar to private businesses: self insurance | Instances in which the County is the trustee or agent for someone else's resources |
| <i>Required financial statements</i> | Statement of net assets | Balance sheet | Statement of net assets | Statement of fiduciary net assets |
| | Statement of activities | Statement of revenues, Expenditures & changes in fund balances | Statement of revenues, expenses and changes in fund net assets Statement of cash flows | Statement of changes in fiduciary net assets |
| <i>Accounting basis and measurement focus</i> | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| <i>Type of asset/liability information</i> | All assets and liabilities, both financial and capital, short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can |
| <i>Type of inflow/outflow information</i> | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon after | All revenues and expenses during year, regardless of when cash is received or paid | All revenues and expenses during year, regardless of when cash is received or paid |

Government-wide Statements

The government-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the County's *net assets* and how they have changed. Net assets—the difference between the County's assets and liabilities—is one way to measure the County's financial health or *position*.

- Over time, increases or decreases in the County's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the County, consideration should be given to additional nonfinancial factors such as changes in the County's tax base.

The government-wide financial statements of the County include the *Governmental activities*. Most of the County's basic services are included here, such as public safety, highways, streets and bridges, judicial and general administration. Property taxes and charges for services finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the County's most significant *funds*—not the County as a whole. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Commissioner's Court establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The County has three kinds of funds:

- *Governmental funds*—Most of the County's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship (or differences) between them.
- *Proprietary funds*—Services for which the County charges customers a fee are generally reported in enterprise funds. Enterprise funds, like the government-wide statements, provide both long-term and short-term financial information. *Internal service funds* are used to report activities that provide supplies and services for the County's other programs and activities. The County has no internal service funds.
- *Fiduciary funds*—The County is the trustee, of *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The County's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the County's 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. The County's combined net assets were approximately \$15.57 million at September 30, 2009.

Table A-1
The County's Net Assets
(in thousands of dollars)

| | Governmental Activities | | Business Type Activities | | Total | |
|---|----------------------------|---------------|-----------------------------|--------------|---------------|---------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Current and other assets | 3,821 | 3,259 | 119 | 404 | 3,940 | 3,663 |
| Capital and non-current assets | 13,116 | 13,401 | 1,141 | 1,173 | 14,257 | 14,574 |
| TOTAL ASSETS | 16,937 | 16,660 | 1,260 | 1,577 | 18,197 | 18,237 |
| Long-term liabilities | 748 | 554 | - | - | 748 | 554 |
| Other liabilities | 1,875 | 1,627 | - | - | 1,875 | 1,627 |
| TOTAL LIABILITIES | 2,623 | 2,181 | - | - | 2,623 | 2,181 |
| Invested in capital assets net of related debt | 12,369 | 12,847 | 1,141 | 1,173 | 13,510 | 14,020 |
| Restricted | 1,083 | 849 | - | - | 1,083 | 849 |
| Unrestricted | 862 | 783 | 119 | 404 | 981 | 1,187 |
| TOTAL NET ASSETS | 14,314 | 14,479 | 1,260 | 1,577 | 15,574 | 16,056 |

Net assets invested in capital assets net of related debt reflects the book value of the County's capital assets in excess of the debt which financed those assets. The \$981 thousand of unrestricted net assets represents resources available to fund the programs of the County for the next fiscal year.

The \$1.08 million is restricted as follows:

| | |
|--------------------------------------|--------------|
| Restricted for debt service | - |
| Restricted for special revenue funds | <u>1,083</u> |
| | <u>1,083</u> |

Net assets of the County decreased \$482 thousand. The County recorded depreciation of \$758 thousand. \$521 thousand of new debt was obtained. \$327 thousand of debt was paid off. \$713 thousand of fixed assets were added.

Changes in net assets.

The County's total revenues were \$6.2 million. 48% of this came from property taxes, 11% came from sales taxes and other taxes, 18% came from charges for services, and 18% came from operating grants and contributions.

The total cost of all programs was \$6.86 million. Approximately 27% of this was for public safety and 26% was for highways, streets and bridges.

Net assets decreased by \$482 thousand because of the excess of expenses over revenues. Depreciation expense was \$758 thousand for the year.

Table A-2
The County's Changes in Net Assets
(in thousands of dollars)

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|----------------------------|---------------|-----------------------------|--------------|---------------|---------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenues | | | | | | |
| <u>Program Revenues</u> | | | | | | |
| Charges for Services | 658 | 570 | 475 | 611 | 1,133 | 1,181 |
| Operating Grants and Contributions | 1,092 | 456 | - | - | 1,092 | 456 |
| <u>General Revenues</u> | | | | | | |
| Property Taxes | 2,994 | 2,803 | - | - | 2,994 | 2,803 |
| Other taxes | 710 | 695 | - | - | 710 | 695 |
| Investment earnings | 12 | 60 | 2 | 6 | 14 | 66 |
| Other | 283 | 136 | - | - | 283 | 136 |
| Total Revenues | <u>5,749</u> | <u>4,720</u> | <u>477</u> | <u>617</u> | <u>6,226</u> | <u>5,337</u> |
| Expenses | | | | | | |
| General Government | 353 | 342 | - | - | 353 | 342 |
| Judicial | 425 | 400 | - | - | 425 | 400 |
| Legal | 127 | 109 | - | - | 127 | 109 |
| Financial | 394 | 345 | - | - | 394 | 345 |
| Public Facility | 196 | 126 | - | - | 196 | 126 |
| Public Safety | 1,777 | 1,828 | 90 | 94 | 1,867 | 1,922 |
| Health and Welfare | 575 | 206 | - | - | 575 | 206 |
| Roads & Streets | 1,790 | 1,860 | - | - | 1,790 | 1,860 |
| Cultural and Recreational | 98 | 93 | - | - | 98 | 93 |
| Conservation | 124 | 127 | - | - | 124 | 127 |
| Intergovernmental | 346 | 149 | - | - | 346 | 149 |
| General-miscellaneous | 555 | 423 | - | - | 555 | 423 |
| Debt service | 15 | 15 | - | - | 15 | 15 |
| Total Expenses | <u>6,775</u> | <u>6,023</u> | <u>90</u> | <u>94</u> | <u>6,865</u> | <u>6,117</u> |
| Other Sources (Uses) | | | | | | |
| Transfers in (out) | 707 | 623 | (707) | (623) | - | - |
| Gain on sale of assets | 157 | 77 | - | - | 157 | 77 |
| Increase (Decrease) in Net Assets | (162) | (603) | (320) | (100) | (482) | (703) |
| Beginning Net Assets | 14,479 | 15,082 | 1,577 | 1,684 | 16,056 | 16,766 |
| Prior Period Adjustment | (3) | - | 3 | (7) | - | (7) |
| Ending Net Assets | <u>14,314</u> | <u>14,479</u> | <u>1,260</u> | <u>1,577</u> | <u>15,574</u> | <u>16,056</u> |

Table A-3 presents the cost of each of the County's largest functions as well as each function's *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$6.86 million.
- However, the amount that taxpayers paid for these activities through property taxes was only \$2.99 million.
- Some of the cost was paid by those who directly benefited from the programs (\$1.1 million), or by grants and contributions (\$1.09 million).

Table A-3
Net Cost of Selected County Functions
(in thousands of dollars)

| | Total Cost of Services | | Net Cost of Services | |
|-------------------------------|------------------------|-------|----------------------|-------|
| | 2009 | 2008 | 2009 | 2008 |
| General Government | 353 | 342 | 225 | 207 |
| Public Safety | 1,777 | 1,828 | 1,491 | 1,480 |
| Highways, Streets and Bridges | 1,790 | 1,860 | 1,780 | 1,833 |

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The County reported fund balance in its governmental funds of approximately \$1.79 million at September 30, 2009. This balance is composed of the following in thousands

| | |
|-----------------|--------------|
| General | 704 |
| Special revenue | 1,083 |
| Debt service | - |
| | <u>1,787</u> |

Fund balance in the governmental funds increased \$281 thousand. The main road and bridge fund increased \$198 thousand. Taxes and licenses revenues were up by a total of \$86 thousand in the road and bridge fund. Operating costs were down \$92 thousand. The general fund balance increased \$48 thousand.

General Fund Budgetary Highlights

Several budget amendments were made during the year. Even with these amendments, actual expenditures were less than budgeted by \$203 thousand. Actual revenues were \$209 thousand more than budgeted. \$236 thousand was budgeted as a decrease to fund balance. Actually, the fund balance increased \$48 thousand.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table A-4
County's Capital Assets
(in thousands of dollars)

| | Governmental Activities | | Business-Type Activities | |
|--------------------------------|----------------------------|----------------------|-----------------------------|---------------------|
| | 2009 | 2008 | 2009 | 2008 |
| Land | 128 | 128 | 22 | 22 |
| Roads | 16,692 | 16,692 | - | - |
| Buildings and improvements | 5,461 | 5,461 | 1,642 | 1,642 |
| Machinery and equipment | 3,154 | 2,930 | - | - |
| Totals at historical cost | <u>25,435</u> | <u>25,211</u> | <u>1,664</u> | <u>1,664</u> |
| Total accumulated depreciation | <u>(12,319)</u> | <u>(11,810)</u> | <u>(524)</u> | <u>(491)</u> |
| Net capital assets | <u><u>13,116</u></u> | <u><u>13,401</u></u> | <u><u>1,140</u></u> | <u><u>1,173</u></u> |

Long-Term Debt

Table A-5
County's Long-Term Debt
(in thousands of dollars)

| | Governmental Activities | | Business-Type Activities | |
|-------------------------------|----------------------------|------------|-----------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| Notes payable | 748 | 554 | - | - |
| Vacation & comp. time payable | 81 | 98 | - | - |
| | <u>829</u> | <u>652</u> | <u>-</u> | <u>-</u> |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The governing body of Red River County considered many things when setting the fiscal year 2010 budget. The tax base continues to remain fairly stable. The total revenue from property taxes will not vary significantly from the prior year. An important and critical part of our revenue has been those funds accrued through prisoner housing. At this time we are not receiving any funds from prisoner housing. We hope this situation will change soon, otherwise we will have to make some budget adjustments.

No significant increases to expenditures are budgeted for 2010. General fund expenditures have been held relatively constant since 2002. No new programs or initiatives are added for 2010. Also, no significant purchases of fixed assets are currently budgeted.

The County believes that the budget is reasonable, attainable and fiscally sound and allows for services to be provided to the citizens of the County in a sound manner unless prisoner housing does not return to its normal state. If no prisoners are housed, the county will have to make budget cuts in personnel and possibly in insurance for employees.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of Red River County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the County's Auditor's Office.

BASIC FINANCIAL STATEMENTS

GOVERNMENT WIDE STATEMENTS

RED RIVER COUNTY, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009

EXHIBIT A-1

| | Primary Government | | |
|---|----------------------------|--------------------------------|----------------------|
| | Governmental Activities | Business Type Activities | Total |
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 1,826,296 | \$ 119,128 | \$ 1,945,424 |
| Receivables (net of allowance for uncollectibles) | 1,994,627 | - | 1,994,627 |
| Capital Assets: | | | |
| Land | 128,149 | 22,431 | 150,580 |
| Infrastructure, net | 7,344,700 | - | 7,344,700 |
| Buildings, net | 4,364,654 | 1,118,106 | 5,482,760 |
| Machinery and Equipment, net | 1,278,655 | - | 1,278,655 |
| Total Assets | <u>16,937,081</u> | <u>1,259,665</u> | <u>18,196,746</u> |
| LIABILITIES | | | |
| Accounts Payable | 139,438 | - | 139,438 |
| Deferred Revenues | 1,735,513 | - | 1,735,513 |
| Noncurrent Liabilities | | | |
| Due Within One Year | 735,840 | - | 735,840 |
| Due in More Than One Year | 11,815 | - | 11,815 |
| Total Liabilities | <u>2,622,606</u> | <u>-</u> | <u>2,622,606</u> |
| NET ASSETS | | | |
| Invested in Capital Assets, Net of Related Debt | 12,368,503 | 1,140,537 | 13,509,040 |
| Restricted for Other Purposes | 1,083,233 | - | 1,083,233 |
| Unrestricted Net Assets | 862,739 | 119,128 | 981,867 |
| Total Net Assets | <u>\$ 14,314,475</u> | <u>\$ 1,259,665</u> | <u>\$ 15,574,140</u> |

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

Red River County, Texas
STATEMENT OF ACTIVITIES
For the year ended September 30, 2009

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | Total |
|--|------------------|-------------------------|--|--|-----------------------------|--------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-Type Activities | |
| GOVERNMENTAL ACTIVITIES | | | | | | |
| General Government | 353,342 | 87,460 | 40,388 | (225,494) | - | (225,494) |
| Judicial | 424,694 | 233,200 | 25,535 | (165,959) | - | (165,959) |
| Legal | 127,394 | 134,324 | 115,235 | 122,165 | - | 122,165 |
| Financial | 394,312 | 131,148 | - | (263,164) | - | (263,164) |
| Public Facilities | 195,775 | - | - | (195,775) | - | (195,775) |
| Public Safety | 1,776,658 | 51,878 | 234,153 | (1,490,627) | - | (1,490,627) |
| Cultural and Recreational | 98,437 | - | - | (98,437) | - | (98,437) |
| Conservation | 124,341 | 20,470 | - | (103,871) | - | (103,871) |
| Intergovernmental | 346,199 | - | 318,052 | (28,147) | - | (28,147) |
| Miscellaneous | 553,447 | - | 27,664 | (525,783) | - | (525,783) |
| Health & Welfare | 575,220 | - | 321,174 | (254,046) | - | (254,046) |
| Roads & Streets | 1,790,173 | - | 10,014 | (1,780,159) | - | (1,780,159) |
| Bond Interest | 15,113 | - | - | (15,113) | - | (15,113) |
| Total Governmental Activities | 6,775,105 | 658,480 | 1,092,215 | (5,024,410) | - | (5,024,410) |
| BUSINESS-TYPE ACTIVITIES | | | | | | |
| Public safety-county | 90,508 | 474,899 | - | - | 384,391 | 384,391 |
| Total Business-Type Activities | 90,508 | 474,899 | - | - | 384,391 | 384,391 |
| TOTAL PRIMARY GOVERNMENT | 6,865,613 | 1,133,379 | 1,092,215 | (5,024,410) | 384,391 | (4,640,019) |
| General Revenues | | | | | | |
| Taxes | | | | | | |
| Property taxes, levied for general puposes | | | | 2,993,927 | - | 2,993,927 |
| Other Taxes | | | | 710,245 | - | 710,245 |
| Miscellaneous Revenue | | | | 282,861 | - | 282,861 |
| Investment Earnings | | | | 12,345 | 2,170 | 14,515 |
| Total General Revenues | | | | 3,999,378 | 2,170 | 4,001,548 |
| Other Sources (Uses) | | | | | | |
| Gain on sale of assets | | | | 156,879 | - | 156,879 |
| Transfers in (out) | | | | 706,513 | (706,513) | - |
| Changes in Net Assets | | | | | | |
| Net Assets -- Beginning | | | | (161,640) | (319,952) | (481,592) |
| Prior Period Adjustment | | | | 14,478,738 | 1,576,994 | 16,055,732 |
| Net Assets -- Ending | | | | (2,623) | 2,623 | - |
| | | | | 14,314,475 | 1,259,665 | 15,574,140 |

The accompanying notes are an integral part of this statement.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

RED RIVER COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

| | General Fund | Major Special Revenue Fund | Other Funds | Total Governmental Funds |
|--|---------------------|----------------------------------|-------------------|--------------------------------|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 712,311 | \$ 555,227 | \$ 558,758 | \$ 1,826,296 |
| Receivable (Net) | 1,849,733 | 112,155 | 32,739 | 1,994,627 |
| Total Assets | \$ 2,562,044 | \$ 667,382 | \$ 591,497 | \$ 3,820,923 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ 13,400 | \$ - | \$ 45,158 | \$ 58,558 |
| Deferred Revenues | 1,845,114 | 112,155 | 18,333 | 1,975,602 |
| Total Liabilities | 1,858,514 | 112,155 | 63,491 | 2,034,160 |
| Fund Balances: | | | | |
| Unreserved and Undesignated: | | | | |
| Reported in the General Fund | 703,530 | - | - | 703,530 |
| Reported in the Special Revenue Fund | - | 555,227 | 528,006 | 1,083,233 |
| Total Fund Balances | 703,530 | 555,227 | 528,006 | 1,786,763 |
| Total Liabilities and Fund Balances | \$ 2,562,044 | \$ 667,382 | \$ 591,497 | \$ 3,820,923 |

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

RED RIVER COUNTY, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2009

| | | |
|--|-----------|-------------------|
| Total Fund Balances - Governmental Funds | \$ | 1,786,763 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$25,211,329 and the accumulated depreciation was \$11,810,227. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets. | | 12,847,316 |
| Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2009 capital outlays and debt principal payments is to increase (decrease) net assets. | | 768,175 |
| The 2009 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. | | (725,737) |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets. | | (362,042) |
| Net Assets of Governmental Activities | \$ | 14,314,475 |

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

RED RIVER COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

| | General Fund | Major Special Revenue Fund | Other Funds | Total Governmental Funds |
|---|-----------------|----------------------------------|----------------|--------------------------------|
| REVENUES: | | | | |
| Taxes | \$ 2,332,040 | \$ 623,379 | \$ 190,215 | \$ 3,145,634 |
| Licenses and Permits | - | 531,266 | - | 531,266 |
| Intergovernmental Revenue and Grants | 64,179 | 36,575 | 847,379 | 948,133 |
| Charges for Services | 301,518 | - | 33,209 | 334,727 |
| Fines & Forfeitures | 166,036 | - | 295,344 | 461,380 |
| Other Revenue | 239,816 | 48,150 | 22,547 | 310,513 |
| Total Revenues | 3,103,589 | 1,239,370 | 1,388,694 | 5,731,653 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government | 262,982 | - | 35,120 | 298,102 |
| Judicial | 341,168 | - | - | 341,168 |
| Legal | 98,753 | - | 28,641 | 127,394 |
| Financial | 372,585 | - | - | 372,585 |
| Public Facilities | 141,628 | - | 54,147 | 195,775 |
| Public Safety | 1,386,946 | - | 352,597 | 1,739,543 |
| Cultural & Recreational | 98,437 | - | - | 98,437 |
| Conservation | 124,341 | - | - | 124,341 |
| Intergovernmental | 28,147 | - | 318,052 | 346,199 |
| General Miscellaneous | 553,447 | - | - | 553,447 |
| Health & Welfare | - | - | 575,220 | 575,220 |
| Roads & Streets | - | 1,274,426 | 4,500 | 1,278,926 |
| Debt Service: | | | | |
| Debt Principal | 7,868 | 312,861 | 6,653 | 327,382 |
| Debt Interest | 714 | 13,794 | 605 | 15,113 |
| Capital Outlay: | | | | |
| Capital Outlay | 24,229 | 688,770 | - | 712,999 |
| Total Expenditures | 3,441,245 | 2,289,851 | 1,375,535 | 7,106,631 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (337,656) | (1,050,481) | 13,159 | (1,374,978) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Sale of Real and Personal Property | 1,840 | 427,250 | - | 429,090 |
| Proceeds from Capital Leases | - | 361,246 | - | 361,246 |
| Proceeds from Loans | - | 160,000 | - | 160,000 |
| Transfers In | 400,000 | 300,000 | 23,109 | 723,109 |
| Transfers Out (Use) | (16,596) | - | - | (16,596) |
| Total Other Financing Sources (Uses) | 385,244 | 1,248,496 | 23,109 | 1,656,849 |
| Net Change in Fund Balances | 47,588 | 198,015 | 36,268 | 281,871 |
| Fund Balance - October 1 (Beginning) | 658,565 | 357,212 | 491,738 | 1,507,515 |
| Prior Period Adjustment | (2,623) | - | - | (2,623) |
| Fund Balance - September 30 (Ending) | \$ 703,530 | \$ 555,227 | \$ 528,006 | \$ 1,786,763 |

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

RED RIVER COUNTY, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

| | | |
|---|-----------|------------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ | 281,871 |
| Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2009 capital outlays and debt principal payments is to increase (decrease) net assets. | | 768,175 |
| 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. | | (725,737) |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets. | | (485,949) |
| Change in Net Assets of Governmental Activities | \$ | (161,640) |

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

RED RIVER COUNTY, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

| | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|---|-------------------|-------------------|--------------------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| Taxes | \$ 2,324,894 | \$ 2,324,894 | \$ 2,332,040 | \$ 7,146 |
| Intergovernmental Revenue and Grants | 58,162 | 58,162 | 64,179 | 6,017 |
| Charges for Services | 247,850 | 247,850 | 301,518 | 53,668 |
| Fines & Forfeitures | 152,500 | 152,500 | 166,036 | 13,536 |
| Other Revenue | 77,750 | 111,550 | 239,816 | 128,266 |
| Total Revenues | <u>2,861,156</u> | <u>2,894,956</u> | <u>3,103,589</u> | <u>208,633</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government | 271,080 | 274,654 | 262,982 | 11,672 |
| Judicial | 365,717 | 365,617 | 341,168 | 24,449 |
| Legal | 104,351 | 112,151 | 98,753 | 13,398 |
| Financial | 389,356 | 358,356 | 372,585 | (14,229) |
| Public Facilities | 166,755 | 158,755 | 141,628 | 17,127 |
| Public Safety | 1,391,271 | 1,411,511 | 1,386,946 | 24,565 |
| Cultural & Recreational | 105,611 | 105,611 | 98,437 | 7,174 |
| Conservation | 142,200 | 142,200 | 124,341 | 17,859 |
| Intergovernmental | 34,020 | 31,520 | 28,147 | 3,373 |
| General Miscellaneous | 615,136 | 615,136 | 553,447 | 61,689 |
| Debt Service: | | | | |
| Debt Principal | 7,918 | 8,577 | 7,868 | 709 |
| Debt Interest | - | - | 714 | (714) |
| Capital Outlay: | | | | |
| Capital Outlay | 45,182 | 59,837 | 24,229 | 35,608 |
| Total Expenditures | <u>3,638,597</u> | <u>3,643,925</u> | <u>3,441,245</u> | <u>202,680</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(777,441)</u> | <u>(748,969)</u> | <u>(337,656)</u> | <u>411,313</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Sale of Real and Personal Property | - | - | 1,840 | 1,840 |
| Transfers In | 530,000 | 530,000 | 400,000 | (130,000) |
| Transfers Out (Use) | (16,596) | (16,596) | (16,596) | - |
| Total Other Financing Sources (Uses) | <u>513,404</u> | <u>513,404</u> | <u>385,244</u> | <u>(128,160)</u> |
| Net Change | (264,037) | (235,565) | 47,588 | 283,153 |
| Fund Balance - October 1 (Beginning) | 658,565 | 658,565 | 658,565 | - |
| Prior Period Adjustment | - | - | (2,623) | (2,623) |
| Fund Balance - September 30 (Ending) | <u>\$ 394,528</u> | <u>\$ 423,000</u> | <u>\$ 703,530</u> | <u>\$ 280,530</u> |

The accompanying notes are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS

RED RIVER COUNTY, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2009

| | Business Type Activities |
|--|-----------------------------|
| <hr/> | |
| ASSETS | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 119,128 |
| Total Current Assets | <u>119,128</u> |
| Noncurrent Assets: | |
| Capital Assets: | |
| Land Purchase and Improvements | 22,431 |
| Buildings | 1,641,823 |
| Accumulated Depreciation - Buildings | <u>(523,717)</u> |
| Total Noncurrent Assets | <u>1,140,537</u> |
| Total Assets | <u>1,259,665</u> |
| NET ASSETS | |
| Investments in Capital Assets, Net of Debt | 1,140,537 |
| Unrestricted Net Assets | <u>119,128</u> |
| Total Net Assets | <u>\$ 1,259,665</u> |

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

RED RIVER COUNTY, TEXAS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT D-2

| | Business Type Activities |
|--|-----------------------------|
| <hr/> | |
| OPERATING REVENUES: | |
| Charges for Services | \$ 420,270 |
| Other Revenue | 54,629 |
| Total Operating Revenues | 474,899 |
| OPERATING EXPENSES: | |
| Public Safety | 57,771 |
| Depreciation | 32,737 |
| Total Operating Expenses | 90,508 |
| Operating Income | 384,391 |
| NON-OPERATING REVENUES (EXPENSES): | |
| Investment Earnings | 2,170 |
| Total Non-operating Revenue (Expenses) | 2,170 |
| Income Before Transfers | 386,561 |
| Transfers Out | (706,513) |
| Change in Net Assets | (319,952) |
| Total Net Assets - October 1 (Beginning) | 1,576,994 |
| Prior Period Adjustment | 2,623 |
| Total Net Assets - September 30 (Ending) | \$ 1,259,665 |

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

RED RIVER COUNTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

| | Business Type Activities |
|---|-----------------------------|
| <u>Cash Flows from Operating Activities:</u> | |
| Cash Received from User Charges | \$ 474,899 |
| Cash Payments to Employees for Services | (5,458) |
| Cash Payments for Benefits | (697) |
| Cash Payments for Other Operating Expenses | (51,616) |
| Net Cash Provided by Operating Activities | 417,128 |
| <u>Cash Flows from Non-Capital Financing Activities:</u> | |
| Operating Transfer Out | (703,890) |
| <u>Cash Flows from Capital & Related Financing Activities:</u> | |
| Acquisition of Capital Assets | - |
| <u>Cash Flows from Investing Activities:</u> | |
| Interest Income | 2,170 |
| Net Increase(Decrease) in Cash and Cash Equivalents | (284,592) |
| Cash and Cash Equivalents at Beginning of the Year: | 403,720 |
| Cash and Cash Equivalents at the End of the Year: | \$ 119,128 |
| <u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u> | |
| Operating Income: | \$ 384,391 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | |
| Depreciation | 32,737 |
| Net Cash Provided by Operating Activities | \$ 417,128 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | |
| Decrease (increase) in Receivables | - |
| Increase (decrease) in Accounts Payable | - |
| Net Cash Provided by Operating Activities | \$ - |

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

FIDUCIARY FUND FINANCIAL STATEMENT

RED RIVER COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2009

| | Agency Funds |
|-------------------|-------------------|
| <hr/> | |
| ASSETS | |
| Taxes Receivable | \$ 321,785 |
| Total Assets | <u>\$ 321,785</u> |
| LIABILITIES | |
| Accounts Payable | \$ 321,785 |
| Total Liabilities | <u>\$ 321,785</u> |

The accompanying notes are an integral part of this statement.

Red River County, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Red River County, Texas is a county government operating under the applicable laws and regulations of the State of Texas. It is governed by a five member Commissioner's Court elected by registered voters of the County. The County prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants.

A. REPORTING ENTITY

The Commissioner's Court is elected by the public and it has the authority to make decisions and significantly influence operations. It has the primary accountability for fiscal matters. Therefore, the County is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

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

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

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

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The County considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

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

D. FUND ACCOUNTING

The County reports the following major governmental funds:

1. **The General Fund** – The general fund is the County's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Special Revenue Funds** --One special revenue fund is considered a major fund. This fund is the main road and bridge. See the definition of these funds below.

Additionally, the County reports the following fund type(s):

Governmental Funds:

1. **Special Revenue Funds** – The County accounts for resources restricted to, or designated for, specific purposes by the County or a grantor in a special revenue fund.
2. **Debt Service Funds** -- The County accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Proprietary Funds:

1. **Enterprise Funds** -- The County's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The County's non-major Enterprise Fund is the jail housing fund.

Fiduciary Funds:

1. **Agency Funds** - The County accounts for resources held for others in a custodial capacity in agency funds. The County's Agency Funds contains trust funds.

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the County considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. In the governmental-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.
3. Capital assets, which include land, buildings, machinery and equipment and roads and bridges are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation

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

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

| <u>Assets</u> | <u>Years</u> |
|-----------------------|--------------|
| Buildings | 50 |
| Building Improvements | 50 |
| Vehicles | 5 |
| Office Equipment | 5-7 |
| Machinery | 7-10 |
| Roads | 50 |

4. Some cash and investments are restricted for future debt payments.
5. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
6. When the County incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
7. Investments are recorded at fair market value.
8. Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

| <u>Capital Assets at the Beginning of the year</u> | <u>Historic Cost</u> | <u>Accumulated Depreciation</u> | <u>Net Value at the Beginning of the Year</u> | <u>Change in Net Assets</u> |
|---|----------------------|-------------------------------------|---|---------------------------------|
| Land | 128,149 | - | 128,149 | |
| Buildings & improvements | 5,461,499 | (994,600) | 4,466,899 | |
| Machinery & equipment | 2,929,181 | (1,801,677) | 1,127,504 | |
| Roads | 16,692,500 | (9,013,950) | 7,678,550 | |
| Change in Net Assets | <u>25,211,329</u> | <u>(11,810,227)</u> | <u>13,401,102</u> | <u>13,401,102</u> |
| | | | | |
| <u>Long-term Liabilities at the Beginning of the year</u> | | | <u>Payable at the Beginning of the Year</u> | |
| Bonds payable | | | - | |
| Notes payable | | | 553,786 | |
| Change in Net Assets | | | <u>553,786</u> | <u>553,786</u> |
| | | | | |
| Net Adjustment to Net Assets | | | | <u><u>12,847,316</u></u> |

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

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

| | <u>Amount</u> | <u>Adjustments to Changes in Net Assets</u> | <u>Adjustments to Net Assets</u> |
|------------------------------------|----------------|---|--------------------------------------|
| <u>Current year Capital Outlay</u> | | | |
| Building & improvement | - | - | - |
| Machinery & equipment | 712,999 | 712,999 | 712,999 |
| Total Capital Outlay | <u>712,999</u> | <u>712,999</u> | <u>712,999</u> |
| Book value of assets sold | <u>272,206</u> | <u>(272,206)</u> | <u>(272,206)</u> |
| <u>Debt Principal Payments</u> | | | |
| Note principal | <u>327,382</u> | <u>327,382</u> | <u>327,382</u> |
| Total Principal Payments | <u>327,382</u> | <u>327,382</u> | <u>327,382</u> |
| Total Adjustment to Net Assets | | <u><u>768,175</u></u> | <u><u>768,175</u></u> |

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

| | <u>Amount</u> | <u>Adjustments to Change in Net Assets</u> | <u>Adjustments to Net Assets</u> |
|---|---------------|--|--|
| <u>Adjustments to Revenue and Deferred Revenue</u> | | | |
| Taxes Collected from Prior Year Levies | 107,521 | (107,521) | - |
| Uncollected taxes (assumed collectible) from Current Year Levy | 111,164 | 111,164 | 111,164 |
| Uncollected Taxes (assumed collectible) from Prior Year Levy | 128,925 | - | 128,925 |
| Effect of prior year tax entry | 14,777 | 14,777 | - |
| <u>Reclassify Proceeds of Bonds, Loans & Capital Leases</u> | | | |
| Loan proceeds | 521,251 | (521,251) | (521,251) |
| <u>Valuation and comp. Time payable</u> | | | |
| End of year liability | 80,880 | - | (80,880) |
| Change in liability from prior year | <u>16,882</u> | <u>16,882</u> | - |
| Total | | <u><u>(485,949)</u></u> | <u><u>(362,042)</u></u> |

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The County prepares its appropriated budget on a basis consistent with generally accepted accounting principles using the organization perspective, that is, the budget follows the formal, usually statutory, patterns of authority and responsibility granted to actually carry out the functions of the government. For example, the county judge's office has a separate budget from the county sheriff's office; although, various offices may be subsidized from revenues generated by maintenance and operation ad valorem taxes.

The county auditor and the county judge prepare an estimated budget based on recommendations and requests submitted by each department head. This estimated budget is presented to the commissioners, who then begin the process of reallocating specific items that, in their opinion, need to be modified. The final budget, when approved by the commissioners court, is filed for public inspection with the county clerk. Public hearings are then held, if required, and the budget is adjusted, if necessary, and approved in its final form by commissioners court. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Revisions to the budget were made throughout the year.

The County does not record encumbrances as part of its accounting records.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

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

Additional contractual provisions governing deposits and investments for the County are as follows:

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the County has adopted a deposit and investment policy. That policy does address the following risks:

1. **Custodial Credit Risk--Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The County's policy regarding types of deposits allowed and collateral requirements is that the funds of the County must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping in an amount sufficient to protect the County's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Deposits of the County are insured or collateralized with securities held by the pledging financial institution's trust department or agent in the name of the County.

At September 30, 2009, the carrying amount of the County's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,135,448 and the bank balance was \$2,227,325. The county's cash deposits at September 30, 2009 and during the year ended September 30, 2009 were entirely covered by FDIC insurance or by pledged collateral held by the County's agent bank in the County's name.

A. DEPOSITS AND INVESTMENTS (continued)

In addition, the following is disclosed regarding coverage of combined balances on the date of September 30, 2009:

- a. Depository: State Bank of Dekalb
 - b. The market value of securities pledged as of September 30, 2009 was \$3,874,648.
 - c. Total amount of FDIC coverage at September 30, 2009 was \$250,000.
- 2. Custodial Credit Risk--Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments of collateral securities that are in the possession of an outside party. Positions in external investment pools are not subject to custodial credit risk. The County has no investments exposed to custodial credit risk at the end of the period.
 - 3. Interest-rate Risk-- Interest-rate risk occurs when potential purchases of debt securities do not agree to pay fair value for these securities if interest rates rise. The County does not purchase investments where the face value is not guaranteed.
 - 4. Concentration Risk--Concentration risk is defined as positions of 4 percent or more in the securities of a single issuer. Investments in external investment pools are not subject to concentration risk. The County is not exposed to any amounts of concentration risk.
 - 5. Other Credit Risk Exposure--The County has no investments in external investment pools.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property 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. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

The County levied property taxes for 2008 totaling approximately \$3.05 million. Such tax is based on an assessed valuation of approximately \$411 million with an applicable tax rate of \$0.74193 per \$100 valuation.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the County is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND TRANSFERS

Transfers between funds were as follows:

Transfers to Nonmajor Governmental Funds from:

| | |
|--|----------------------|
| General Fund | 16,596 |
| Proprietary Fund | <u>6,513</u> |
| Total Transferred to Nonmajor Governmental Funds | <u><u>23,109</u></u> |

D. INTERFUND TRANSFERS cont'd

| | |
|-----------------------------------|----------------|
| Transfers to General Fund from: | |
| Proprietary Fund | <u>400,000</u> |
| Total Transferred to General Fund | <u>400,000</u> |

| | |
|---|----------------|
| Transfers to Major Special Revenue Fund from: | |
| Proprietary Fund | <u>300,000</u> |
| Total Transferred to Major Special Revenue Fund | <u>300,000</u> |

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2009, were as follows:

| | <u>Property Taxes</u> | <u>Fees of Office</u> | <u>Other</u> | <u>Total Receivables</u> |
|---|---------------------------|---------------------------|---------------|------------------------------|
| Governmental Activities: | | | | |
| General Fund | 560,777 | 2,315,915 | 9,619 | 2,886,311 |
| Major Special Revenue Funds | 140,194 | - | - | 140,194 |
| Nonmajor Governmental Funds | - | - | 32,739 | 32,739 |
| Total - Governmental Activities | <u>700,971</u> | <u>2,315,915</u> | <u>42,358</u> | <u>3,059,244</u> |
| Amounts not scheduled for collection during the subsequent year | <u>140,194</u> | <u>924,423</u> | <u>-</u> | <u>1,064,617</u> |
| Business Type Activities: | | | | |
| Major Enterprise Fund | - | - | - | - |
| Total - Business Type Activities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Amounts not scheduled for collection during the subsequent year | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

Payables at September 30, 2009, were as follows:

| | <u>Accounts</u> | <u>Salaries and Benefits</u> | <u>Due to Other Governments</u> | <u>Other</u> | <u>Total Payables</u> |
|--|-----------------|--------------------------------------|---|--------------|---------------------------|
| Governmental Activities: | | | | | |
| General Fund | 13,400 | - | - | - | 13,400 |
| Major Special Revenue Funds | - | - | - | - | - |
| Nonmajor Gov. Funds | 45,158 | - | - | - | 45,158 |
| Total - Gov. Activities | <u>58,558</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>58,558</u> |
| Amounts not scheduled for payment during the subsequent year | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Business Type Activities: | | | | | |
| Major Enterprise Fund | - | - | - | - | - |
| Total - Business Type Activities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Amounts not scheduled for payment during the subsequent year | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

F. CAPITAL ASSET ACTIVITY

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

| | Primary Government | | | |
|--|---------------------|------------------|--------------------|---------------------|
| | <u>Beginning</u> | | | <u>Ending</u> |
| | <u>Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance</u> |
| Governmental Activities: | | | | |
| County: | | | | |
| Land | 128,149 | - | - | 128,149 |
| Buildings and Improvements | 5,461,499 | - | - | 5,461,499 |
| Machinery and Equipment | 2,929,181 | 712,999 | (489,218) | 3,152,962 |
| Roads | 16,692,500 | - | - | 16,692,500 |
| | <u>25,211,329</u> | <u>712,999</u> | <u>(489,218)</u> | <u>25,435,110</u> |
| Totals at Historic Cost | | | | |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Improvements | (994,600) | (102,245) | - | (1,096,845) |
| Machinery and Equipment | (1,801,677) | (289,642) | 217,012 | (1,874,307) |
| Roads | (9,013,950) | (333,850) | - | (9,347,800) |
| Total Accumulated Depreciation | <u>(11,810,227)</u> | <u>(725,737)</u> | <u>217,012</u> | <u>(12,318,952)</u> |
| Governmental Activities Capital Assets, Net | <u>13,401,102</u> | <u>(12,738)</u> | <u>(272,206)</u> | <u>13,116,158</u> |
| | | | | |
| | <u>Beginning</u> | | | <u>Ending</u> |
| | <u>Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance</u> |
| Business-Type Activities: | | | | |
| Land | 22,431 | - | - | 22,431 |
| Buildings and Improvements | 1,641,823 | - | - | 1,641,823 |
| | <u>1,664,254</u> | <u>-</u> | <u>-</u> | <u>1,664,254</u> |
| Totals at Historic Cost | | | | |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Improvements | (490,980) | (32,737) | - | (523,717) |
| Total Accumulated Depreciation | <u>(490,980)</u> | <u>(32,737)</u> | <u>-</u> | <u>(523,717)</u> |
| Business-Type Activities Capital Assets, Net | <u>1,173,274</u> | <u>(32,737)</u> | <u>-</u> | <u>1,140,537</u> |
| Primary Government Capital Assets, net | <u>14,574,376</u> | <u>(45,475)</u> | <u>(272,206)</u> | <u>14,256,695</u> |

Depreciation expense was charged as follows:

| | | | |
|-------------------------------|----------------|---------------------------|---------------|
| Governmental Activities: | | Business-Type Activities: | |
| General Government | 72,122 | Public Safety | 6,334 |
| Public safety | 37,115 | Judicial | 26,403 |
| Highways, streets and bridges | 511,247 | | |
| Financial | 21,727 | | |
| Judicial | 83,526 | | |
| | <u>725,737</u> | | <u>32,737</u> |

G. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the County for the year ended September 30, 2009:

| | Original Amount | Interest Rate | Payable at 10/1/08 | Additions (Reductions) | Payable at 9/30/2009 | Due within One Year |
|--|--------------------|------------------|--------------------------|---------------------------|----------------------------|---------------------------|
| Note Payable--R&B #1 facilities | 59,378 | 1.60% | 15,573 | (6,225) | 9,348 | 6,326 |
| Note Payable--caterpillar motorgrader R&B #1 | 162,314 | 3.50% | 37,003 | (14,105) | 22,898 | 14,105 |
| Note Payable--2008 Mack truck R&B #1 | 89,750 | 3.50% | 86,750 | (86,750) | - | - |
| Note Payable--2008 Mack truck R&B #2 | 89,750 | 3.50% | 84,754 | (84,754) | - | - |
| Note Payable--2008 Mack truck R&B #4 | 89,750 | 4.75% | 86,750 | (86,750) | - | - |
| Note Payable--(2) 2008 Crown Vics | 45,031 | 3.50% | 43,830 | (14,521) | 29,309 | 29,309 |
| Note Payable--caterpillar motorgrader R&B #2 | 200,025 | 3.50% | 199,126 | (9,523) | 189,603 | 189,603 |
| Note Payable--2009 Mack truck R&B #1 | 91,000 | 3.50% | - | 91,000 (4,500) | 86,500 | 86,500 |
| Note Payable--2009 Mack truck R&B #2 | 91,000 | 3.50% | - | 91,000 (4,500) | 86,500 | 86,500 |
| Note Payable--2009 Mack truck R&B #4 | 91,000 | 3.50% | - | 91,000 (4,500) | 86,500 | 86,500 |
| Note Payable--caterpillar motorgrader R&B #2 | 160,000 | 3.50% | - | 160,000 (3,900) | 156,100 | 156,100 |
| Note Payable--caterpillar motorgrader R&B #4 | 88,251 | 3.50% | - | 88,251 (7,354) | 80,897 | 80,897 |
| | | | <u>553,786</u> | <u>193,869</u> | <u>747,655</u> | <u>735,840</u> |

The Counties long-term debt as of September 30, 2009, follows:

| | | | |
|--|---------|--|----------------|
| (A) Note payable, Main Road & Bridge, due in monthly payments of \$535.79, including interest at 1.60% | 9,348 | (H) Note payable, State Bank of DeKalb, due in monthly principal payments of \$1,300 plus interest, and one payment of the remaining balance on June 19, 2010. | 156,100 |
| (B) Note payable, State Bank of DeKalb, due in thirty five monthly payments of \$1,175 plus interest of 3.50%, and one payment for the remaining balance on March 24, 2010 | 22,898 | (I) Note payable, State Bank of DeKalb, due in monthly principal payments of \$2,451 including interest at 3.50% and one payment for the remaining remaining balance on June 19, 2010. | 80,897 |
| (C) Note payable, State Bank of DeKalb, due in monthly principal payments of \$1,320 including interest at 3.50% and one payment for the remaining remaining balance on August 19, 2010. | 29,309 | | |
| (D) Note payable, State Bank of DeKalb, due in monthly principal payments of \$1,300 including interest at 3.50% and one payment for the remaining balance on July 19, 2010. | 189,603 | | |
| (E) Note payable, State Bank of DeKalb, due in monthly principal payments of \$750 plus interest, at 3.50% and one payment of the remaining balance on March 19, 2010. | 86,500 | | |
| (F) Note payable, State Bank of DeKalb, due in monthly principal payments of \$750 plus interest, and one payment of the remaining balance on March 19, 2010. | 86,500 | | |
| (G) Note payable, State Bank of DeKalb, due in monthly principal payments of \$750 plus interest, at 3.50% and one payment of the remaining balance on March 19, 2010. | 86,500 | | |
| | | | <u>747,655</u> |

G. CHANGES IN LONG-TERM DEBT (continued)

The annual requirements to amortize notes payable as of September 30, 2009, follows:

| Years Ending 9/30 | Principal | Interest | Total |
|----------------------|----------------|---------------|----------------|
| 2010 | 732,819 | 13,005 | 745,824 |
| 2011 | 3,021 | 14 | 3,035 |
| 2012 | - | - | - |
| 2013 | - | - | - |
| 2014 | - | - | - |
| | <u>735,840</u> | <u>13,019</u> | <u>748,859</u> |

H. RETIREMENT PLAN

A. Plan Description. The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan the state-wide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the state-wide agent multiple-employer public employee retirement system consisting of 586 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 employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 5 or more years of service, with 30 years of service regardless of age or when the sum of their age and years of service equals 75 or more. Members are vested after 5 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump-sum, are not entitled to any amounts contributed by the employer.

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

B. Funding Policy. The employer has elected the annually determined contribution rate (Variable-Rate) 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 employer contributed using the actuarially determined rate of 7.43% for the months of the accounting year in 2009, and 7.43% for the months of the accounting year in 2009.

The contribution rate payable by the employee members for calendar year 2009 is the rate of 7% as adopted by the governing body of the employer.

H. RETIREMENT PLAN (continued)

C. Annual Pension Cost. For the employer's accounting year ended September 30, 2009 the annual pension cost for the TCDRS plan for its employees was \$156,778, and the actual contributions were \$156,778.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2006, December 31, 2007, the basis for determining contribution rates for calendar years 2008 and 2009. The December 31, 2008 actuarial valuation is the most recent valuation.

Actuarial Valuation Information

| Actuarial valuation date | 12/31/06 | 12/31/07 | 12/31/08 |
|--------------------------------|--|--|---|
| Actuarial cost method | entry age | entry age | Entry age |
| Amortization method | level percentage of payroll, open | level percentage of payroll, open | level percentage of Payroll, open |
| Amortization period | 20 yrs | 30 yrs | 30 yrs |
| Asset valuation method | long-term appreciation with adjustment | long-term appreciation with adjustment | SAF:10-yr smoothed value ESF: fund value |
| Actuarial Assumptions: | | | |
| Investment return (1) | 8% | 8% | 8% |
| Projected salary increases (1) | 5.3% | 5.3% | 5.3% |
| Inflation | 3.5% | 3.5% | 3.5% |
| Cost-of-living adjustments | 0.0% | 0.0% | 0.0% |

(1) Includes inflation at the stated rate

Trend Information

for the Retirement Plan for the Employees of Red River County

| Accounting Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|------------------------|---------------------------|-------------------------------|------------------------|
| 9/30/07 | 118,532 | 100% | -0- |
| 9/30/08 | 132,877 | 100% | -0- |
| 9/30/09 | 148,570 | 100% | -0- |

Schedule of Funding Progress for the Retirement Plan for the Employees of the Red River County

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (1) (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|--------------------|--------------------------------|---|
| 12/31/06 | 4,293,156 | 4,273,474 | (19,682) | 100.46% | 1,708,492 | (1.15%) |
| 12/31/07 | 4,574,230 | 4,505,608 | (68,622) | 101.52% | 1,881,025 | (3.65%) |
| 12/31/08 | 4,340,433 | 4,697,248 | 356,815 | 92.40% | 2,018,958 | 17.67% |

I. HEALTH INSURANCE

The County is covered under a health insurance plan with the Texas Association of County's Health Benefits Program. The County paid \$458 per employee per month and the employee pays \$50 per month for a total premium of \$508 per month.

J. FEDERAL GRANTS

In the normal course of operations, the County receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

K. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2009, the County purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

L. VACATION AND COMP. TIME PAYABLE

Changes in vacation and comp. time payable is as follows:

| <u>9/30/08</u> | <u>9/30/09</u> |
|----------------|----------------|
| 97,762 | 80,880 |

M. COMMITMENTS AND CONTINGENCIES

The County has no significant commitments or contingencies at September 30, 2009.

N. LITIGATION

The County has no pending litigation at September 30, 2009.

O. PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$2,623 is posted to the beginning net assets in the jail housing enterprise fund and to fund balance in the general fund to correct for a prior year error in coding .

COMBINING SCHEDULES

NONMAJOR GOVERNMENTAL FUNDS

RED RIVER COUNTY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2009

| | Permanent Improvement | Law Library | Drug Fund | Court House Security |
|--------------------------------------|--------------------------|------------------|------------------|----------------------------|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 25 | \$ 19,702 | \$ 67,788 | \$ 16,500 |
| Receivables (Net) | - | - | - | - |
| Total Assets | <u>\$ 25</u> | <u>\$ 19,702</u> | <u>\$ 67,788</u> | <u>\$ 16,500</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ - | \$ - | \$ - | \$ - |
| Deferred Revenues | - | - | - | - |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balances: | | | | |
| Unreserved and Undesignated: | | | | |
| Reported in the Special Revenue Fund | 25 | 19,702 | 67,788 | 16,500 |
| Total Fund Balances | <u>25</u> | <u>19,702</u> | <u>67,788</u> | <u>16,500</u> |
| Total Liabilities and Fund Balances | <u>\$ 25</u> | <u>\$ 19,702</u> | <u>\$ 67,788</u> | <u>\$ 16,500</u> |

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

| Indigent Health Care | Book Preservation | Record Management Fund | Right of Way | Juvenile Probation | Juvenile Probation Comm. Corr. | Diversionary Placement | Title IV-E |
|----------------------------|----------------------|------------------------------|--------------------|-----------------------|--------------------------------------|---------------------------|------------------|
| \$ (25,360) | \$ 57,607 | \$ 23,922 | \$ 66,477 | \$ 12,909 | \$ (1,873) | \$ - | \$ 26,777 |
| - | - | - | - | 6,875 | 1,873 | - | - |
| <u>\$ (25,360)</u> | <u>\$ 57,607</u> | <u>\$ 23,922</u> | <u>\$ 66,477</u> | <u>\$ 19,784</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 26,777</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - | - | 18,333 |
| - | - | - | - | - | - | - | 18,333 |
| (25,360) | 57,607 | 23,922 | 66,477 | 19,784 | - | - | 8,444 |
| <u>(25,360)</u> | <u>57,607</u> | <u>23,922</u> | <u>66,477</u> | <u>19,784</u> | <u>-</u> | <u>-</u> | <u>8,444</u> |
| <u>\$ (25,360)</u> | <u>\$ 57,607</u> | <u>\$ 23,922</u> | <u>\$ 66,477</u> | <u>\$ 19,784</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 26,777</u> |

RED RIVER COUNTY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2009

| | Bail Bonds | Hot Check Fee | County Attorney Drug Forfeiture | County Attorney Welfare Fund |
|--------------------------------------|------------------|---------------------|---------------------------------------|------------------------------------|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 11,551 | \$ 21,469 | \$ 129,270 | \$ 17 |
| Receivables (Net) | - | - | - | - |
| Total Assets | <u>\$ 11,551</u> | <u>\$ 21,469</u> | <u>\$ 129,270</u> | <u>\$ 17</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ - | \$ - | \$ - | \$ - |
| Deferred Revenues | - | - | - | - |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balances: | | | | |
| Unreserved and Undesignated: | | | | |
| Reported in the Special Revenue Fund | 11,551 | 21,469 | 129,270 | 17 |
| Total Fund Balances | <u>11,551</u> | <u>21,469</u> | <u>129,270</u> | <u>17</u> |
| Total Liabilities and Fund Balances | <u>\$ 11,551</u> | <u>\$ 21,469</u> | <u>\$ 129,270</u> | <u>\$ 17</u> |

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

| Sheriff's Office Comm. Serv. Prog. | Cops in School Grant | Economic Development | Revolving Loan | Manchester #725075 | Siloam #726016 | Step #726176 | Water #728331 |
|--|-------------------------|-------------------------|-------------------|-----------------------|-------------------|------------------|------------------|
| \$ 477 | \$ (2,242) | \$ 1,978 | \$ 97,844 | \$ - | \$ - | \$ 33,920 | \$ - |
| - | 2,242 | - | 10,511 | 5,564 | 5,674 | - | - |
| <u>\$ 477</u> | <u>\$ -</u> | <u>\$ 1,978</u> | <u>\$ 108,355</u> | <u>\$ 5,564</u> | <u>\$ 5,674</u> | <u>\$ 33,920</u> | <u>\$ -</u> |
| \$ - | \$ - | \$ - | \$ - | \$ 5,564 | \$ 5,674 | \$ 33,920 | \$ - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | 5,564 | 5,674 | 33,920 | - |
| 477 | - | 1,978 | 108,355 | - | - | - | - |
| 477 | - | 1,978 | 108,355 | - | - | - | - |
| <u>\$ 477</u> | <u>\$ -</u> | <u>\$ 1,978</u> | <u>\$ 108,355</u> | <u>\$ 5,564</u> | <u>\$ 5,674</u> | <u>\$ 33,920</u> | <u>\$ -</u> |

RED RIVER COUNTY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2009

| | 2008 Housing TDHCA | Disaster Relief #728587 | Step #728136 | 2009 Housing Grant |
|--------------------------------------|--------------------------|-------------------------------|-----------------|--------------------------|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ - | \$ - | \$ - | \$ - |
| Receivables (Net) | - | - | - | - |
| Total Assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ - | \$ - | \$ - | \$ - |
| Deferred Revenues | - | - | - | - |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balances: | | | | |
| Unreserved and Undesignated: | | | | |
| Reported in the Special Revenue Fund | - | - | - | - |
| Total Fund Balances | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Liabilities and Fund Balances | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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

| Total Nonmajor Special Revenue Funds | Jail I&S | - | Total Nonmajor Governmental Funds |
|---|-------------|----------|--|
| \$ 558,758 | \$ - | - | \$ 558,758 |
| 32,739 | - | - | 32,739 |
| <u>\$ 591,497</u> | <u>\$ -</u> | <u>-</u> | <u>\$ 591,497</u> |
| | | | |
| \$ 45,158 | \$ - | - | \$ 45,158 |
| 18,333 | - | - | 18,333 |
| <u>63,491</u> | <u>-</u> | <u>-</u> | <u>63,491</u> |
| | | | |
| 528,006 | - | - | 528,006 |
| <u>528,006</u> | <u>-</u> | <u>-</u> | <u>528,006</u> |
| <u>\$ 591,497</u> | <u>\$ -</u> | <u>-</u> | <u>\$ 591,497</u> |

RED RIVER COUNTY, TEXAS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

| | Permanent Improvement | Law Library | Drug Fund | Court House Security |
|---|--------------------------|------------------|------------------|----------------------------|
| REVENUES: | | | | |
| Taxes: | | | | |
| Property Taxes | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental Revenue and Grants | - | - | - | - |
| Charges for Services | - | 6,440 | - | - |
| Fines & Forfeitures | - | - | 152,603 | 11,501 |
| Other Revenue | - | 93 | 424 | 15,948 |
| Total Revenues | <u>-</u> | <u>6,533</u> | <u>153,027</u> | <u>27,449</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government | - | - | - | - |
| Legal | - | 7,923 | - | - |
| Public Facilities | - | - | - | 54,147 |
| Public Safety | - | - | 112,751 | - |
| Intergovernmental | - | - | - | - |
| Health & Welfare | - | - | - | - |
| Roads & Streets | - | - | - | - |
| Debt Service: | | | | |
| Debt Principal | - | - | 6,653 | - |
| Debt Interest | - | - | 605 | - |
| Total Expenditures | <u>-</u> | <u>7,923</u> | <u>120,009</u> | <u>54,147</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>-</u> | <u>(1,390)</u> | <u>33,018</u> | <u>(26,698)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers In | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balance | - | (1,390) | 33,018 | (26,698) |
| Fund Balance - October 1 (Beginning) | <u>25</u> | <u>21,092</u> | <u>34,770</u> | <u>43,198</u> |
| Fund Balance - September 30 (Ending) | <u>\$ 25</u> | <u>\$ 19,702</u> | <u>\$ 67,788</u> | <u>\$ 16,500</u> |

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

| Indigent Health Care | Book Preservation | Record Management Fund | Right of Way | Juvenile Probation | Juvenile Probation Comm. Corr. | Diversitory Placement | Title IV-E |
|----------------------------|----------------------|------------------------------|--------------------|-----------------------|--------------------------------------|--------------------------|-----------------|
| \$ 190,215 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 321,174 | - | - | - | 63,312 | 32,736 | 31,945 | - |
| - | 15,480 | 4,989 | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 18 | 258 | 333 | 976 | 1,444 | - | - | 7 |
| <u>511,407</u> | <u>15,738</u> | <u>5,322</u> | <u>976</u> | <u>64,756</u> | <u>32,736</u> | <u>31,945</u> | <u>7</u> |
| - | 14,429 | 20,355 | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | 84,586 | 35,326 | 31,945 | - |
| - | - | - | - | - | - | - | - |
| 575,220 | - | - | - | - | - | - | - |
| - | - | - | 4,500 | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| <u>575,220</u> | <u>14,429</u> | <u>20,355</u> | <u>4,500</u> | <u>84,586</u> | <u>35,326</u> | <u>31,945</u> | <u>-</u> |
| <u>(63,813)</u> | <u>1,309</u> | <u>(15,033)</u> | <u>(3,524)</u> | <u>(19,830)</u> | <u>(2,590)</u> | <u>-</u> | <u>7</u> |
| - | - | - | - | 16,596 | - | - | - |
| - | - | - | - | 16,596 | - | - | - |
| <u>(63,813)</u> | <u>1,309</u> | <u>(15,033)</u> | <u>(3,524)</u> | <u>(3,234)</u> | <u>(2,590)</u> | <u>-</u> | <u>7</u> |
| <u>38,453</u> | <u>56,298</u> | <u>38,955</u> | <u>70,001</u> | <u>23,018</u> | <u>2,590</u> | <u>-</u> | <u>8,437</u> |
| <u>\$ (25,360)</u> | <u>\$ 57,607</u> | <u>\$ 23,922</u> | <u>\$ 66,477</u> | <u>\$ 19,784</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 8,444</u> |

RED RIVER COUNTY, TEXAS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

| | Bail Bonds | Hot Check Fee | County Attorney Drug Forfeiture | County Attorney Welfare Fund |
|---|------------------|---------------------|---------------------------------------|------------------------------------|
| REVENUES: | | | | |
| Taxes: | | | | |
| Property Taxes | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental Revenue and Grants | - | - | - | - |
| Charges for Services | - | 6,300 | - | - |
| Fines & Forfeitures | - | - | 131,240 | - |
| Other Revenue | 1,055 | 91 | 653 | - |
| Total Revenues | <u>1,055</u> | <u>6,391</u> | <u>131,893</u> | <u>-</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government | - | - | - | - |
| Legal | - | 2,513 | 18,205 | - |
| Public Facilities | - | - | - | - |
| Public Safety | 694 | - | - | - |
| Intergovernmental | - | - | - | - |
| Health & Welfare | - | - | - | - |
| Roads & Streets | - | - | - | - |
| Debt Service: | | | | |
| Debt Principal | - | - | - | - |
| Debt Interest | - | - | - | - |
| Total Expenditures | <u>694</u> | <u>2,513</u> | <u>18,205</u> | <u>-</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>361</u> | <u>3,878</u> | <u>113,688</u> | <u>-</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers In | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balance | 361 | 3,878 | 113,688 | - |
| Fund Balance - October 1 (Beginning) | <u>11,190</u> | <u>17,591</u> | <u>15,582</u> | <u>17</u> |
| Fund Balance - September 30 (Ending) | <u>\$ 11,551</u> | <u>\$ 21,469</u> | <u>\$ 129,270</u> | <u>\$ 17</u> |

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

| Sheriff's Office Comm. Serv. Prog. | Cops in School Grant | Economic Development | Revolving Loan | Manchester #725075 | Siloam #726016 | Step #726176 | Water #728331 |
|--|-------------------------|-------------------------|-------------------|-----------------------|-------------------|-----------------|------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | 80,160 | - | - | 5,564 | 65,391 | 53,007 | 17,100 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 204 | - | - | 1,043 | - | - | - | - |
| <u>204</u> | <u>80,160</u> | <u>-</u> | <u>1,043</u> | <u>5,564</u> | <u>65,391</u> | <u>53,007</u> | <u>17,100</u> |
| - | - | 336 | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 622 | 86,673 | - | - | - | - | - | - |
| - | - | - | - | 5,564 | 65,391 | 53,007 | 17,100 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| <u>622</u> | <u>86,673</u> | <u>336</u> | <u>-</u> | <u>5,564</u> | <u>65,391</u> | <u>53,007</u> | <u>17,100</u> |
| <u>(418)</u> | <u>(6,513)</u> | <u>(336)</u> | <u>1,043</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| - | 6,513 | - | - | - | - | - | - |
| - | 6,513 | - | - | - | - | - | - |
| <u>(418)</u> | <u>-</u> | <u>(336)</u> | <u>1,043</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>895</u> | <u>-</u> | <u>2,314</u> | <u>107,312</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>\$ 477</u> | <u>\$ -</u> | <u>\$ 1,978</u> | <u>\$ 108,355</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

RED RIVER COUNTY, TEXAS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

| | 2008 Housing TDHCA | Disaster Relief #728587 | Step #728136 | 2009 Housing Grant |
|---|--------------------------|-------------------------------|-----------------|--------------------------|
| REVENUES: | | | | |
| Taxes: | | | | |
| Property Taxes | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental Revenue and Grants | 161,475 | 10,015 | 5,500 | - |
| Charges for Services | - | - | - | - |
| Fines & Forfeitures | - | - | - | - |
| Other Revenue | - | - | - | - |
| Total Revenues | 161,475 | 10,015 | 5,500 | - |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government | - | - | - | - |
| Legal | - | - | - | - |
| Public Facilities | - | - | - | - |
| Public Safety | - | - | - | - |
| Intergovernmental | 161,475 | 10,015 | 5,500 | - |
| Health & Welfare | - | - | - | - |
| Roads & Streets | - | - | - | - |
| Debt Service: | | | | |
| Debt Principal | - | - | - | - |
| Debt Interest | - | - | - | - |
| Total Expenditures | 161,475 | 10,015 | 5,500 | - |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | - | - | - | - |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers In | - | - | - | - |
| Total Other Financing Sources (Uses) | - | - | - | - |
| Net Change in Fund Balance | - | - | - | - |
| Fund Balance - October 1 (Beginning) | - | - | - | - |
| Fund Balance - September 30 (Ending) | \$ - | \$ - | \$ - | \$ - |

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

| Total Nonmajor Special Revenue Funds | Jail I&S | Total Nonmajor Governmental Funds |
|---|-------------|--|
| \$ 190,215 | \$ - | \$ 190,215 |
| 847,379 | - | 847,379 |
| 33,209 | - | 33,209 |
| 295,344 | - | 295,344 |
| 22,547 | - | 22,547 |
| <u>1,388,694</u> | <u>-</u> | <u>1,388,694</u> |
| 35,120 | - | 35,120 |
| 28,641 | - | 28,641 |
| 54,147 | - | 54,147 |
| 352,597 | - | 352,597 |
| 318,052 | - | 318,052 |
| 575,220 | - | 575,220 |
| 4,500 | - | 4,500 |
| 6,653 | - | 6,653 |
| 605 | - | 605 |
| <u>1,375,535</u> | <u>-</u> | <u>1,375,535</u> |
| 13,159 | - | 13,159 |
| 23,109 | - | 23,109 |
| <u>23,109</u> | <u>-</u> | <u>23,109</u> |
| 36,268 | - | 36,268 |
| <u>491,738</u> | <u>-</u> | <u>491,738</u> |
| <u>\$ 528,006</u> | <u>\$ -</u> | <u>\$ 528,006</u> |

FIDUCIARY FUNDS

Red River County, Texas
COMBINING STATEMENT OF NET ASSETS
FIDUCIARY FUND
As of September 30, 2009

| | State Trust | Arrest Fees | Law Enforcement | Total |
|---------------------------|----------------|----------------|--------------------|----------------|
| ASSETS | | | | |
| Cash and cash equivalents | 232,839 | 76,903 | 12,043 | 321,785 |
| Accounts receivable | - | - | - | - |
| Total Assets | <u>232,839</u> | <u>76,903</u> | <u>12,043</u> | <u>321,785</u> |
| LIABILITIES | | | | |
| Due to other governments | <u>232,839</u> | <u>76,903</u> | <u>12,043</u> | <u>321,785</u> |

FEDERAL AWARDS SECTION



ARNOLD, WALKER, ARNOLD, & Co., P.C.
Certified Public Accountants and Consultants

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American Institute Of
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Texas State Society Of
Certified Public Accountants

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

The Honorable Judge and
County Commissioners
Red River, Texas
Clarksville, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Red River, Texas, as of and for the year ended September 30, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 11, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2009-1 and 2009-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that neither of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

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

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

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.

December 11, 2009

Red River County, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended September 30, 2009

I. Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of the County of Red River, Texas was an unqualified opinion.
- b. Where applicable, a statement that control deficiencies in internal control were disclosed by the audit of the financial statements and whether they were material weaknesses. See II below, no material weaknesses.
- c. A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee. NONE
- d. Where applicable, a statement that control deficiencies in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses. N/A
- e. The type of report the auditor issued on compliance for major programs. N/A
- f. A statement as to whether the audit disclosed any audit findings which the auditor is required to report under Section __.510(a). These include: None
- g. An identification of major programs: None
- h. The dollar threshold used to distinguish between Type A and Type B programs. N/A
- i. A statement as to whether the auditee qualified as a low-risk auditee. N/A

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with Generally Accepted Government Auditing Standards.

09-1 COUNTY ATTORNEY DEPOSITS

Condition- Receipts for September, 2009 were not deposited until November, 2009 and those for October, 2009 were not deposited until December, 2009.

Criteria- Internal controls call for deposit of receipts on a timely basis.

Cause- Clerks failed to make timely deposits.

Effect- Receipts remained in the office for approximately two months without being deposited to the bank.

09-2 VACATION AND SICK ACCRUALS

Condition- Errors are being made in figuring vacation and sick accruals.

Criteria- Proper balances for vacation and sick accruals requires that amounts used and earned each pay period be properly computed.

Cause- The Treasurer's office is not spending enough time on the initial calculation of these accruals.

Effect- The County Auditor's office is reviewing and making corrections each pay period and sending back to the County Treasurer to correct totals on the computer.

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.f Above

NONE

Red River County, Texas
SCHEDULE OF STATUS PRIOR FINDINGS
For the year ended September 30, 2009

N/A

Red River County, Texas
CORRECTIVE ACTION PLAN
For the year ended September 30, 2009

09-1 The County Attorney's Clerks will be sure all receipts are deposited timely in the future.

09-2 The Treasurer's office will take more time in accounting for vacation and sick accruals.

Red River County, Texas
 FEDERAL PROGRAM PROJECT SCHEDULE
 PROJECTS THAT ENDED OR WERE IN OPERATION DURING
 the year ended September 30, 2009

Federal Grantor: U.S. Department of HUD
 Pass through Grantor: TDRA
 CFDA# 14.228, Project #725075, Contract Period 10/18/05-11/21/08

| | <u>Federal</u> | | | <u>Total</u> |
|---------------------------------|----------------|-------------------|---------------------|----------------|
| | <u>Budget</u> | <u>Prior Year</u> | <u>Current Year</u> | |
| REVENUE | | | | |
| Federal | <u>250,000</u> | <u>244,436</u> | <u>5,564</u> | <u>250,000</u> |
| EXPENSES | | | | |
| Water facilities | 173,500 | 172,736 | 764 | 173,500 |
| Rehabilitation | 2,000 | - | 2,000 | 2,000 |
| Acquisition | - | - | - | - |
| Engineering | 46,500 | 46,500 | - | 46,500 |
| Administration | <u>28,000</u> | <u>25,200</u> | <u>2,800</u> | <u>28,000</u> |
| TOTAL EXPENSES | <u>250,000</u> | <u>244,436</u> | <u>5,564</u> | <u>250,000</u> |
| EXCESS REVENUE OVER EXPENSES | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

Red River County, Texas
 FEDERAL PROGRAM PROJECT SCHEDULE
 PROJECTS THAT ENDED OR WERE IN OPERATION DURING
 the year ended September 30, 2009

Federal Grantor: U.S. Department of HUD
 Pass through Grantor: TDRA
 CFDA# 14.228, Project #726016, Contract Period 3/19/06-6/18/09

| | <u>Federal</u> | | | <u>Total</u> |
|---------------------------------|----------------|-------------------|---------------------|----------------|
| | <u>Budget</u> | <u>Prior Year</u> | <u>Current Year</u> | |
| REVENUE | | | | |
| Federal | <u>203,941</u> | <u>101,446</u> | <u>65,391</u> | <u>166,837</u> |
| EXPENSES | | | | |
| Water facilities | 114,391 | 45,259 | 44,528 | 89,787 |
| Acquisition | 12,500 | - | - | - |
| Engineering | 45,250 | 30,875 | 14,375 | 45,250 |
| Administration | <u>31,800</u> | <u>25,312</u> | <u>6,488</u> | <u>31,800</u> |
| TOTAL EXPENSES | <u>203,941</u> | <u>101,446</u> | <u>65,391</u> | <u>166,837</u> |
| EXCESS REVENUE OVER EXPENSES | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

Red River County, Texas
 FEDERAL PROGRAM PROJECT SCHEDULE
 PROJECTS THAT ENDED OR WERE IN OPERATION DURING
 the year ended September 30, 2009

Federal Grantor: U.S. Department of HUD
 Pass through Grantor: TDRA
 CFDA# 14.228, Project #726176, Contract Period: 1/7/07-10/6/09

| | <u>Federal</u> | | | <u>Total</u> |
|---------------------------------|----------------|-------------------|---------------------|---------------|
| | <u>Budget</u> | <u>Prior Year</u> | <u>Current Year</u> | |
| REVENUE | | | | |
| Federal | <u>166,980</u> | <u>29,000</u> | <u>53,007</u> | <u>82,007</u> |
| EXPENSES | | | | |
| Water facilities | 108,530 | - | 35,507 | 35,507 |
| Engineering | 33,450 | 20,000 | 7,500 | 27,500 |
| Administration | <u>25,000</u> | <u>9,000</u> | <u>10,000</u> | <u>19,000</u> |
| TOTAL EXPENSES | <u>166,980</u> | <u>29,000</u> | <u>53,007</u> | <u>82,007</u> |
| EXCESS REVENUE OVER EXPENSES | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

Red River County, Texas
 FEDERAL PROGRAM PROJECT SCHEDULE
 PROJECTS THAT ENDED OR WERE IN OPERATION DURING
 the year ended September 30, 2009

Federal Grantor: U.S. Department of HUD
 Pass through Grantor: Texas Community Development
 CFDA# 14.228, Project #728331, Contract Period: 6/22/08-6/21/10

| | <u>Budget</u> | <u>Federal Current Year</u> | <u>Total</u> |
|---------------------------------|--------------------|---------------------------------|--------------------|
| REVENUE | | | |
| Federal | <u>250,000</u> | <u>17,100</u> | <u>17,100</u> |
| EXPENSES | | | |
| Water facilities | 186,000 | - | - |
| Acquisition | 1,500 | - | - |
| Engineering | 39,979 | 9,600 | 9,600 |
| Administration | <u>22,521</u> | <u>7,500</u> | <u>7,500</u> |
| TOTAL EXPENSES | <u>250,000</u> | <u>17,100</u> | <u>17,100</u> |
| EXCESS REVENUE OVER EXPENSES | <u> -</u> | <u> -</u> | <u> -</u> |

Red River County, Texas
 FEDERAL PROGRAM PROJECT SCHEDULE
 PROJECTS THAT ENDED OR WERE IN OPERATION DURING
 the year ended September 30, 2009

Federal Grantor: U.S. Department of HUD
 Pass through Grantor: TDHCA
 CFDA# 14.239, Project #MO75G480100, Contract Period: 11/30/07-11/30/09

| | <u>Budget</u> | <u>Prior Year</u> | <u>Federal</u> <u>Current Year</u> | <u>Total</u> |
|---------------------------------|----------------|-------------------|---------------------------------------|----------------|
| REVENUE | | | | |
| Federal | <u>300,000</u> | <u>1,200</u> | <u>161,475</u> | <u>162,675</u> |
| EXPENSES | | | | |
| Community Development | 286,000 | - | 148,927 | 148,927 |
| Administration | <u>14,000</u> | <u>1,200</u> | <u>12,548</u> | <u>13,748</u> |
| TOTAL EXPENSES | <u>300,000</u> | <u>1,200</u> | <u>161,475</u> | <u>162,675</u> |
| EXCESS REVENUE OVER EXPENSES | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

Red River County, Texas
 FEDERAL PROGRAM PROJECT SCHEDULE
 PROJECTS THAT ENDED OR WERE IN OPERATION DURING
 the year ended September 30, 2009

Federal Grantor: U.S. Department of HUD
 Pass through Grantor: TDRA
 CFDA# 14.228, Project #728587, Contract Period: 3/5/09-3/4/11

| | <u>Budget</u> | <u>Federal Current Year</u> | <u>Total</u> |
|---------------------------------|-----------------|---------------------------------|-----------------|
| REVENUE | | | |
| Federal | <u>196,185</u> | <u>10,015</u> | <u>10,015</u> |
| EXPENSES | | | |
| Street improvements | 169,125 | 10,015 | 10,015 |
| Administration | <u>27,060</u> | <u>-</u> | <u>-</u> |
| TOTAL EXPENSES | <u>196,185</u> | <u>10,015</u> | <u>10,015</u> |
| EXCESS REVENUE OVER EXPENSES | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> |

Red River County, Texas
 FEDERAL PROGRAM PROJECT SCHEDULE
 PROJECTS THAT ENDED OR WERE IN OPERATION DURING
 the year ended September 30, 2009

Federal Grantor: U.S. Department of HUD
 Pass through Grantor: TDRA
 CFDA# 14.228, Project #728136, Contract Period: 2/28/09-2/27/11

| | <u>Budget</u> | <u>Federal Current Year</u> | <u>Total</u> |
|---------------------------------|--------------------|---------------------------------|--------------------|
| REVENUE | | | |
| Federal | <u>127,656</u> | <u>5,500</u> | <u>5,500</u> |
| EXPENSES | | | |
| Water facilities | 61,756 | - | - |
| Engineering | 39,000 | - | - |
| Administration | <u>26,900</u> | <u>5,500</u> | <u>5,500</u> |
| TOTAL EXPENSES | <u>127,656</u> | <u>5,500</u> | <u>5,500</u> |
| EXCESS REVENUE OVER EXPENSES | <u> -</u> | <u> -</u> | <u> -</u> |

Red River County, Texas
 FEDERAL PROGRAM PROJECT SCHEDULE
 PROJECTS THAT ENDED OR WERE IN OPERATION DURING
 the year ended September 30, 2009

Federal Grantor: U.S. Department of HUD
 Pass through Grantor: TDHCA
 CFDA# 14.239, Project #1001035, Contract Period: 3/11/09-1/11/11

| | <u>Budget</u> | <u>Federal Current Year</u> | <u>Total</u> |
|---------------------------------|----------------|---------------------------------|--------------|
| REVENUE | | | |
| Federal | <u>374,400</u> | <u>-</u> | <u>-</u> |
| EXPENSES | | | |
| Water facilities | 367,200 | - | - |
| Administration | <u>7,200</u> | <u>-</u> | <u>-</u> |
| TOTAL EXPENSES | <u>374,400</u> | <u>-</u> | <u>-</u> |
| EXCESS REVENUE OVER EXPENSES | <u>-</u> | <u>-</u> | <u>-</u> |