

007-000

Palo Pinto County, Texas  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2008

Status of Prior Year Findings

None

Current Year Findings

Findings – Internal Controls over Financial Reporting

X-1 Condition – In the County Treasurer's office recording of cash receipts and depositing of cash receipts to the bank was significantly delinquent most of the fiscal year.

Criteria – Maintaining proper internal controls over cash receipts requires that monies collected be receipted, recorded and deposited in a timely manner in order to safeguard assets and allow for accurate financial reporting to be achieved.

Effect of Condition – Numerous internal control deficiencies were identified during the audit as a result of cash receipts reporting in the County Treasurer's office:

- Commissioners did not receive Treasurer monthly financial reports after April 2008 for oversight and monitoring of those charged with governance.
- Bank reconciliations for May 2008 to September 2008 were not completed until January 2009 which does not allow errors (by the County or bank) or for fraud to be detected in a timely manner.
- At September 30, 2008, there was \$291,369.05 of cash held by the Treasurer which was not deposited until after year end. Deposits were made from October 8, 2008 up to December 23, 2008, all related to the fiscal year under audit. We noted collections were held as long as 111 days from the time received in the Treasurer's office until the time deposited with collections from the Justice of Peace offices being generally the most delinquent in recording and depositing.
- Quarterly reports to the State had to have extensions granted and were submitted late.
- Funds held by the Treasurer and not deposited increase the risk of loss due to misappropriation, uncollectibility or possible disasters. Funds held in the Treasurer's office are not insured, collateralized or protected in any way from a loss.
- The County lost the ability to earn interest on funds which were not deposited timely.
- The County's general ledger was not closed for fiscal year end September 30, 2008 until the middle of January 2009 causing delays in the audit.

Context – Most of the delays in reporting and depositing were from local sources, most notably from the Justice of Peace and cash bond collections. Ad valorem tax revenues were kept current and remittances to the taxing entities made timely. Other state and federal revenues are generally made by ACH credits and were therefore deposited timely

deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. See X - 1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control. We believe that the following deficiencies constitute material weaknesses: X - 1.

#### 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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items X - 2.

We noted certain matters that we reported to management of the County, in a separate letter dated June 22, 2009.

The County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the County Judge, County Commissioners 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.

*Crawford, Carter + Thompson, L.L.P.*

CRAWFORD, CARTER & THOMPSON, L.L.P.

601 008

CERTIFIED PUBLIC ACCOUNTANTS  
200 LYNCH PLAZA  
P.O. BOX 87  
MINERAL WELLS, TEXAS 76068-0087  
TELEPHONE (940) 328-1167  
FAX (940) 328-1541

ALLEN D. CRAWFORD, II, CPA  
CHARLES R. CARTER, CPA  
KAREN G. THOMPSON, CPA

MEMBER  
AMERICAN INSTITUTE OF CPA's  
TEXAS SOCIETY OF CPA's  
AICPA DIVISION FOR CPA FIRMS

JULIE M. DALLAS, CPA  
LAUREN MITCHELL, CPA

June 15, 2009

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

Honorable Judge and County Commissioners  
Palo Pinto County  
Palo Pinto, Texas 76484

Honorable Judge and County Commissioners:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Pinto County (the "County"), as of and for the year ended September 30, 2008, which collectively comprise the County's basic financial statements and have issued our report thereon dated June 15, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control

Palo Pinto County  
Commissary Fund  
Statement of Revenues, Expenditures and  
Changes in Fund Balance  
For the Year Ended September 30, 2008

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Schedule 7

Revenues

Commissary Revenue	\$	16,644.00
Phone Card Revenue		12,467.28
Over the Counter Revenue		1,118.75
Other Income		115.92

<u>Total Revenues</u>		30,345.95
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Expenditures

Commissary - Operation and Mgmt		1,200.00
Commissary - Phone Card Expense		8,995.00
Commissary - Commissary Supplies		128.00
Commissary - Over the Counter Supplies		1,171.63
Commissary - Indigent Supplies		6,244.68
Commissary - Cable TV		465.23
Commissary - Misc Dept Expenses		7,587.43
Commissary - Capital Expense		4,823.87

<u>Total Expenditures</u>		30,615.84
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Excess (Deficiency) of Revenues over Expenditures		(269.89)
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Fund Balance - October 1, 2007		22,526.20
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Fund Balance - September 30, 2008	\$	22,256.31
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Palo Pinto County  
Combining Statement of Fiduciary Net Assets  
September 30, 2008

031 007

Schedule 6  
Concluded

	<u>Agency Funds</u>			
	<u>Tax Collection</u>	<u>Sheriff's Dept. Seizures</u>	<u>Deferred Compensation</u>	<u>Total</u>
<b><u>Assets</u></b>				
Cash	\$ 134,286.25			\$ 1,238,255.09
Investments			\$ 208,358.25	208,358.25
Accounts Receivable				486.49
Due from Other Funds				154,981.24
<b><u>Total Assets</u></b>	<b><u>\$ 134,286.25</u></b>	<b><u>\$ 0.00</u></b>	<b><u>\$ 208,358.25</u></b>	<b><u>\$ 1,602,081.07</u></b>
<b><u>Liabilities</u></b>				
Due to:				
Other Funds	\$ 12,587.67			\$ 82,089.38
Other Jurisdictions	53,541.65			592,667.61
Others	68,156.93		\$ 208,358.25	927,324.08
<b><u>Total Liabilities</u></b>	<b><u>\$ 134,286.25</u></b>	<b><u>\$ 0.00</u></b>	<b><u>\$ 208,358.25</u></b>	<b><u>\$ 1,602,081.07</u></b>

The Accompanying Notes are an Integral  
Part of the Financial Statements

Palo Pinto County  
Combining Statement of Fiduciary Net Assets  
September 30, 2008

VOL 637 000

Schedule 6  
Continued

	<u>Agency Funds</u>				
	<u>District Attorney Seized Funds</u>	<u>District Clerk</u>	<u>Inmate Trust</u>	<u>Public Works</u>	<u>Sheriff's Dept. Civil Process</u>
<b><u>Assets</u></b>					
Cash	\$ 15,803.97	\$ 375,983.36	\$ 3,021.71	\$ 4,720.00	\$ 16,349.34
Investments					
Accounts Receivable					
Due from Other Funds	6,000.00				
<b><u>Total Assets</u></b>	<b><u>\$ 21,803.97</u></b>	<b><u>\$ 375,983.36</u></b>	<b><u>\$ 3,021.71</u></b>	<b><u>\$ 4,720.00</u></b>	<b><u>\$ 16,349.34</u></b>
<b><u>Liabilities</u></b>					
Due to:					
Other Funds	\$ 6,000.00	\$ 930.80		\$ 4,300.00	\$ 1,349.34
Other Jurisdictions				420.00	
Others	15,803.97	375,052.56	\$ 3,021.71		15,000.00
<b><u>Total Liabilities</u></b>	<b><u>\$ 21,803.97</u></b>	<b><u>\$ 375,983.36</u></b>	<b><u>\$ 3,021.71</u></b>	<b><u>\$ 4,720.00</u></b>	<b><u>\$ 16,349.34</u></b>

Palo Pinto County  
Combining Statement of Fiduciary Net Assets  
September 30, 2008

037 005

Schedule 6

	<u>Agency Funds</u>				
	<u>Auto Registration</u>	<u>County Attorney</u>	<u>County Clerk</u>	<u>County Treasurer (Special)</u>	<u>District Attorney</u>
<b><u>Assets</u></b>					
Cash	\$ 414,335.27	\$ 8,106.73	\$ 244,022.14	\$ 9,628.59	\$ 11,997.73
Investments					
Accounts Receivable	486.49				
Due from Other Funds				148,981.24	
<u>Total Assets</u>	<u>\$ 414,821.76</u>	<u>\$ 8,106.73</u>	<u>\$ 244,022.14</u>	<u>\$ 158,609.83</u>	<u>\$ 11,997.73</u>
<b><u>Liabilities</u></b>					
Due to:					
Other Funds	\$ 32,774.05	\$ 966.86	\$ 16,005.81	\$ 1,174.85	\$ 6,000.00
Other Jurisdictions	381,270.98			157,434.98	
Others	776.73	7,139.87	228,016.33		5,997.73
<u>Total Liabilities</u>	<u>\$ 414,821.76</u>	<u>\$ 8,106.73</u>	<u>\$ 244,022.14</u>	<u>\$ 158,609.83</u>	<u>\$ 11,997.73</u>

The Accompanying Notes are an Integral  
Part of the Financial Statements

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Palo Pinto County  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2008

Schedule 5  
Concluded

Capital Project Funds

	2004 Series Tax Notes \$320,000	Dempsey Facility	Capital Improvement Fund	Total Nonmajor Governmental Funds
<b>Revenues</b>				
Ad Valorem Taxes				\$ 346,333.53
Licenses, Fees and Fines				228,936.03
Interest Earned	\$ 94.11	\$ 815.49	\$ 2,839.75	9,513.49
Occupancy Tax				139,316.44
Commissary Revenue				30,345.95
Vending Revenue				5,008.63
Forfeiture Revenue				35,999.80
Federal and State Grants				5,209.31
Lease Income		70,000.00		70,000.00
Other Revenue				34,382.15
<b>Total Revenues</b>	<b>94.11</b>	<b>70,815.49</b>	<b>2,839.75</b>	<b>905,045.33</b>
<b>Expenditures</b>				
Capital Projects	103,959.55	69,615.00	22,960.45	196,535.00
Debt Service - Principal				295,000.00
Debt Service - Interest and Fiscal Charges				25,044.02
Commissary				30,615.84
County Attorney				12,562.92
County Clerk				46,180.00
Courthouse Security				
District Attorney				61,247.02
Forfeiture Expenditures				31,292.74
Hotel/Motel Tax				147,350.62
Sheriff				
Law Library				21,786.62
Justice Technology				7,679.37
Election Expense				5,209.31
Vending Expenditures				3,849.18
<b>Total Expenditures</b>	<b>103,959.55</b>	<b>69,615.00</b>	<b>22,960.45</b>	<b>884,352.64</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>(103,865.44)</b>	<b>1,200.49</b>	<b>(20,120.70)</b>	<b>20,692.69</b>
<b>Other Financing Sources and (Uses)</b>				
Transfers In (Out)			500,000.00	500,000.00
<b>Total Other Financing Sources and (Uses)</b>			<b>500,000.00</b>	<b>500,000.00</b>
<b>Net Change in Fund Balances</b>	<b>(103,865.44)</b>	<b>1,200.49</b>	<b>479,879.30</b>	<b>520,692.69</b>
<b>Fund Balances - Beginning</b>	<b>103,865.44</b>	<b>126,461.49</b>	<b>201,472.69</b>	<b>1,142,852.86</b>
<b>Fund Balances - Ending</b>	<b>\$ 0.00</b>	<b>\$ 127,661.98</b>	<b>\$ 681,351.99</b>	<b>\$ 1,663,545.55</b>

The Accompanying Notes are an Integral  
Part of the Financial Statements

VOL 031 0000

**Palo Pinto County**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended September 30, 2008**

Schedule 5  
Continued

	<u>Special Revenue Funds</u>			<u>Debt Service Funds</u>	
	Tax Assessor- Collector	Law Library Fund	Justice Court Security Fee	2001 Series Tax Notes \$515,000	2003 Series Tax Notes \$1.45 Million
<b>Revenues</b>					
Ad Valorem Taxes				\$ 86,448.97	\$ 259,884.56
Licenses, Fees and Fines	\$ 221.66	\$ 20,965.00	\$ 4,779.19		
Interest Earned	23.03	183.00	67.04	197.46	331.73
Occupancy Tax					
Commissary Revenue					
Vending Revenue					
Forfeiture Revenue					
Federal and State Grants					
Lease Income					
Other Revenue					
<b>Total Revenues</b>	<b>244.69</b>	<b>21,148.00</b>	<b>4,846.23</b>	<b>86,646.43</b>	<b>260,216.29</b>
<b>Expenditures</b>					
Capital Projects					
Debt Service - Principal				75,000.00	220,000.00
Debt Service - Interest and Fiscal Charges				4,077.25	20,966.77
Commissary					
County Attorney					
County Clerk					
Courthouse Security					
District Attorney					
Forfeiture Expenditures					
Hotel/Motel Tax					
Sheriff					
Law Library		21,786.62			
Justice Technology					
Election Expense					
Vending Expenditures					
<b>Total Expenditures</b>		<b>21,786.62</b>		<b>79,077.25</b>	<b>240,966.77</b>
Excess (Deficiency) of Revenues over Expenditures	244.69	(638.62)	4,846.23	7,569.18	19,249.52
<b>Other Financing Sources and (Uses)</b>					
Transfers In (Out)					
<b>Total Other Financing Sources and (Uses)</b>					
Net Change in Fund Balances	244.69	(638.62)	4,846.23	7,569.18	19,249.52
Fund Balances - Beginning	3,219.05	27,735.75	8,153.24	21,878.21	23,462.52
Fund Balances - Ending	<b>\$ 3,463.74</b>	<b>\$ 27,097.13</b>	<b>\$ 12,999.47</b>	<b>\$ 29,447.39</b>	<b>\$ 42,712.04</b>

Palo Pinto County  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2008

Schedule 5  
Continued

Special Revenue Funds

	<u>HAVA Grant</u>	<u>Employee Funds</u>	<u>Hotel/Motel Fund</u>	<u>Justice Technology Fund</u>	<u>Sheriff Forfeited</u>
<u>Revenues</u>					
Ad Valorem Taxes					
Licenses, Fees and Fines				\$ 20,636.72	
Interest Earned		\$ 13.99	\$ 294.31	292.80	\$ 337.62
Occupancy Tax			139,316.44		
Commissary Revenue					
Vending Revenue		5,008.63			
Forfeiture Revenue					7,416.67
Federal and State Grants	\$ 5,209.31				
Lease Income					
Other Revenue					
<u>Total Revenues</u>	<u>5,209.31</u>	<u>5,022.62</u>	<u>139,610.75</u>	<u>20,929.52</u>	<u>7,754.29</u>
<u>Expenditures</u>					
Capital Projects					
Debt Service - Principal					
Debt Service - Interest and Fiscal Charges					
Commissary					
County Attorney					
County Clerk					
Courthouse Security					
District Attorney					
Forfeiture Expenditures					9,243.29
Hotel/Motel Tax			147,350.62		
Sheriff					
Law Library					
Justice Technology				7,679.37	
Election Expense	5,209.31				
Vending Expenditures		3,849.18			
<u>Total Expenditures</u>	<u>5,209.31</u>	<u>3,849.18</u>	<u>147,350.62</u>	<u>7,679.37</u>	<u>9,243.29</u>
Excess (Deficiency) of Revenues over Expenditures		1,173.44	(7,739.87)	13,250.15	(1,489.00)
<u>Other Financing Sources and (Uses)</u>					
Transfers In (Out)					
<u>Total Other Financing Sources and (Uses)</u>					
Net Change in Fund Balances		1,173.44	(7,739.87)	13,250.15	(1,489.00)
Fund Balances - Beginning		1,494.31	15,979.46	38,267.43	40,866.20
Fund Balances - Ending	\$ 0.00	\$ 2,667.75	\$ 8,239.59	\$ 51,517.58	\$ 39,377.20

The Accompanying Notes are an Integral Part of the Financial Statements

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Palo Pinto County  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2008

Schedule 5  
Continued

Special Revenue Funds

	Courthouse Security Fund	District Attorney Fees	District Attorney Forfeited	District Attorney State
<u>Revenues</u>				
Ad Valorem Taxes				
Licenses, Fees and Fines	\$ 32,864.29	\$ 95.42		
Interest Earned	1,232.47		\$ 463.98	
Occupancy Tax				
Commissary Revenue				
Vending Revenue				
Forfeiture Revenue			28,583.13	
Federal and State Grants				
Lease Income				
Other Revenue				\$ 34,382.15
<u>Total Revenues</u>	<u>34,096.76</u>	<u>95.42</u>	<u>29,047.11</u>	<u>34,382.15</u>
<u>Expenditures</u>				
Capital Projects				
Debt Service - Principal				
Debt Service - Interest and Fiscal Charges				
Commissary				
County Attorney				
County Clerk				
Courthouse Security				
District Attorney				61,247.02
Forfeiture Expenditures			22,049.45	
Hotel/Motel Tax				
Sheriff				
Law Library				
Justice Technology				
Election Expense				
Vending Expenditures				
<u>Total Expenditures</u>			<u>22,049.45</u>	<u>61,247.02</u>
Excess (Deficiency) of Revenues over Expenditures	34,096.76	95.42	6,997.66	(26,864.87)
<u>Other Financing Sources and (Uses)</u>				
Transfers In (Out)			(29,600.00)	29,600.00
<u>Total Other Financing Sources and (Uses)</u>			<u>(29,600.00)</u>	<u>29,600.00</u>
Net Change in Fund Balances	34,096.76	95.42	(22,602.34)	2,735.13
Fund Balances - Beginning	166,430.00	1,364.30	26,904.33	8,795.38
Fund Balances - Ending	<u>\$ 200,526.76</u>	<u>\$ 1,459.72</u>	<u>\$ 4,301.99</u>	<u>\$ 11,530.51</u>

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**Palo Pinto County**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended September 30, 2008**

Schedule 5

Special Revenue Funds

	District Clerk PRF	Commissary	County Attorney	County Clerk PRF	Preservation of Records
<b>Revenues</b>					
Ad Valorem Taxes					
Licenses, Fees and Fines	\$ 3,057.50		\$ 12,745.25	\$ 117,606.00	\$ 15,965.00
Interest Earned	74.56			1,980.68	271.47
Occupancy Tax					
Commissary Revenue		\$ 30,345.95			
Vending Revenue					
Forfeiture Revenue					
Federal and State Grants					
Lease Income					
Other Revenue					
<b>Total Revenues</b>	<b>3,132.06</b>	<b>30,345.95</b>	<b>12,745.25</b>	<b>119,586.68</b>	<b>16,236.47</b>
<b>Expenditures</b>					
Capital Projects					
Debt Service - Principal					
Debt Service - Interest and Fiscal Charges					
Commissary		30,615.84			
County Attorney			12,562.92		
County Clerk				46,180.00	
Courthouse Security					
District Attorney					
Forfeiture Expenditures					
Hotel/Motel Tax					
Sheriff					
Law Library					
Justice Technology					
Election Expense					
Vending Expenditures					
<b>Total Expenditures</b>		<b>30,615.84</b>	<b>12,562.92</b>	<b>46,180.00</b>	
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>3,132.06</b>	<b>(269.89)</b>	<b>182.33</b>	<b>73,406.68</b>	<b>16,236.47</b>
<b>Other Financing Sources and (Uses)</b>					
Transfers In (Out)					
<b>Total Other Financing Sources and (Uses)</b>					
<b>Net Change in Fund Balances</b>	<b>3,132.06</b>	<b>(269.89)</b>	<b>182.33</b>	<b>73,406.68</b>	<b>16,236.47</b>
<b>Fund Balances - Beginning</b>	<b>9,639.85</b>	<b>22,526.20</b>	<b>919.01</b>	<b>259,899.27</b>	<b>33,518.73</b>
<b>Fund Balances - Ending</b>	<b>\$ 12,771.91</b>	<b>\$ 22,256.31</b>	<b>\$ 1,101.34</b>	<b>\$ 333,305.95</b>	<b>\$ 49,755.20</b>

The Accompanying Notes are an Integral  
Part of the Financial Statements

**PALO PINTO COUNTY, TEXAS**

**PROPOSAL TO PROVIDE AUDITING SERVICES**

**SEPTEMBER 30, 2009**

Recommendation – We recommend that the Investment Officer submit quarterly investment reports to the County Commissioner's Court as soon after the end of the quarter as possible and that a column be added which states the maturity date of all certificates of deposit.

Views of Responsible Official – Investment reports cannot be submitted to the Commissioner's in a timely manner if deposits for all of a quarter have not been made. Each quarter needs to be completed and reported before starting on the next. Due to health problems beyond my control, I could not catch up quickly. I give monthly reports instead of quarterly so as soon as the quarter was completed I could give a report of each month.

The oversight of the Commissioner's Court is important but most of our investments are in six month CD's or Funds Management. The investment in Funds Management is to help to keep our County funds diversified.

The answer to keeping our office caught up is for the Commissioner's Court to hire another individual in my office to take deposits so I can do my job of investing funds, balancing bank statements, paying jurors, balancing credit card payments, completing state reports and helping answer questions from the public.

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Palo Pinto County  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2008

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Schedule 4  
Concluded

Capital Project Funds

	2004 Series Tax Notes \$320,000	Dempsey Facility	Capital Improvement Fund	Total Nonmajor Governmental Funds
<b><u>Assets</u></b>				
Cash		\$ 127,661.98	\$ 681,351.99	\$ 1,654,615.79
Taxes Receivable, Net				7,679.51
Receivables - Other				122.19
Due from Other Funds				14,223.98
Inventory				820.00
<b><u>Total Assets</u></b>	<b>\$ 0.00</b>	<b>\$ 127,661.98</b>	<b>\$ 681,351.99</b>	<b>\$ 1,677,461.47</b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities:</b>				
Accounts Payable				\$ 6,236.41
Deferred Revenue				7,679.51
<b><u>Total Liabilities</u></b>				<b>13,915.92</b>
<b>Fund Balances:</b>				
Reserved for Inventory				820.00
Reserved for Debt Service				72,159.43
Reserved for Capital Projects		\$ 127,661.98	\$ 681,351.99	809,013.97
Unreserved - Undesignated				781,552.15
<b><u>Total Fund Balances</u></b>		<b>127,661.98</b>	<b>681,351.99</b>	<b>1,663,545.55</b>
<b><u>Total Liabilities and Fund Balances</u></b>	<b>\$ 0.00</b>	<b>\$ 127,661.98</b>	<b>\$ 681,351.99</b>	<b>\$ 1,677,461.47</b>

The Accompanying Notes are an Integral  
Part of the Financial Statements

Palo Pinto County  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 September 30, 2008

VOL 001 008

Schedule 4  
 Continued

	<u>Special Revenue Funds</u>			<u>Debt Service Funds</u>	
	Tax Assessor- Collector	Law Library Fund	Justice Court Security Fee	2001 Series Tax Notes \$515,000	2003 Series Tax Notes \$1.45 Million
<b><u>Assets</u></b>					
Cash	\$ 3,445.26	\$ 27,650.88	\$ 12,674.47	\$ 29,315.42	\$ 42,303.17
Taxes Receivable, Net				1,919.88	5,759.63
Receivables - Other		36.19	10.00		
Due from Other Funds	18.48	245.00	315.00	131.97	408.87
Inventory					
<b><u>Total Assets</u></b>	<b><u>\$ 3,463.74</u></b>	<b><u>\$ 27,932.07</u></b>	<b><u>\$ 12,999.47</u></b>	<b><u>\$ 31,367.27</u></b>	<b><u>\$ 48,471.67</u></b>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities:</b>					
Accounts Payable		\$ 834.94			
Deferred Revenue				\$ 1,919.88	\$ 5,759.63
<b><u>Total Liabilities</u></b>		<b><u>834.94</u></b>		<b><u>1,919.88</u></b>	<b><u>5,759.63</u></b>
<b>Fund Balances:</b>					
Reserved for Inventory					
Reserved for Debt Service				29,447.39	42,712.04
Reserved for Capital Projects					
Unreserved - Undesignated	\$ 3,463.74	27,097.13	\$ 12,999.47		
<b><u>Total Fund Balances</u></b>	<b><u>3,463.74</u></b>	<b><u>27,097.13</u></b>	<b><u>12,999.47</u></b>	<b><u>29,447.39</u></b>	<b><u>42,712.04</u></b>
<b><u>Total Liabilities and Fund Balances</u></b>	<b><u>\$ 3,463.74</u></b>	<b><u>\$ 27,932.07</u></b>	<b><u>\$ 12,999.47</u></b>	<b><u>\$ 31,367.27</u></b>	<b><u>\$ 48,471.67</u></b>

Palo Pinto County  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2008

VOL 001 007

Schedule 4  
Continued

Special Revenue Funds

	<u>HAVA Grant</u>	<u>Employee Fund</u>	<u>Hotel/ Motel Fund</u>	<u>Justice Tecnology Fund</u>	<u>Sheriff Forfeited</u>
<b><u>Assets</u></b>					
Cash		\$ 2,885.74	\$ 8,239.59	\$ 50,566.56	\$ 36,377.20
Taxes Receivable, Net				40.00	
Receivables - Other				1,320.00	3,000.00
Due from Other Funds					
Inventory					
<b><u>Total Assets</u></b>	<b>\$ 0.00</b>	<b>\$ 2,885.74</b>	<b>\$ 8,239.59</b>	<b>\$ 51,926.56</b>	<b>\$ 39,377.20</b>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities:</b>					
Accounts Payable		\$ 217.99		\$ 408.98	
Deferred Revenue					
<b><u>Total Liabilities</u></b>		<b>217.99</b>		<b>408.98</b>	
<b>Fund Balances:</b>					
Reserved for Inventory					
Reserved for Debt Service					
Reserved for Capital Projects					
Unreserved - Undesignated		2,667.75	\$ 8,239.59	51,517.58	\$ 39,377.20
<b><u>Total Fund Balances</u></b>		<b>2,667.75</b>	<b>8,239.59</b>	<b>51,517.58</b>	<b>39,377.20</b>
<b><u>Total Liabilities and Fund Balances</u></b>	<b>\$ 0.00</b>	<b>\$ 2,885.74</b>	<b>\$ 8,239.59</b>	<b>\$ 51,926.56</b>	<b>\$ 39,377.20</b>

The Accompanying Notes are an Integral  
Part of the Financial Statements

Palo Pinto County  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 September 30, 2008

V01 007 0000

Schedule 4  
Continued

Special Revenue Funds

	<u>Courthouse Security Fund</u>	<u>District Attorney Fees</u>	<u>District Attorney Forfeited</u>	<u>District Attorney State</u>
<b><u>Assets</u></b>				
Cash	\$ 199,099.76	\$ 1,459.72	\$ 1,301.99	\$ 11,530.51
Taxes Receivable, Net				
Receivables - Other	36.00			
Due from Other Funds	1,391.00		3,000.00	
Inventory				
<b><u>Total Assets</u></b>	<b><u>\$ 200,526.76</u></b>	<b><u>\$ 1,459.72</u></b>	<b><u>\$ 4,301.99</u></b>	<b><u>\$ 11,530.51</u></b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities:</b>				
Accounts Payable				
Deferred Revenue				
<b><u>Total Liabilities</u></b>				
<b>Fund Balances:</b>				
Reserved for Inventory				
Reserved for Debt Service				
Reserved for Capital Projects				
Unreserved - Undesignated	\$ 200,526.76	\$ 1,459.72	\$ 4,301.99	\$ 11,530.51
<b><u>Total Fund Balances</u></b>	<b><u>200,526.76</u></b>	<b><u>1,459.72</u></b>	<b><u>4,301.99</u></b>	<b><u>11,530.51</u></b>
<b><u>Total Liabilities and Fund Balances</u></b>	<b><u>\$ 200,526.76</u></b>	<b><u>\$ 1,459.72</u></b>	<b><u>\$ 4,301.99</u></b>	<b><u>\$ 11,530.51</u></b>

Palo Pinto County  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 September 30, 2008

037 0000

Schedule 4

Special Revenue Funds

	District Clerk PRF	Commissary	County Attorney	County Clerk PRF	Preservation of Records
<b><u>Assets</u></b>					
Cash	\$ 12,756.91	\$ 21,436.31	\$ 137.18	\$ 334,785.45	\$ 49,635.70
Taxes Receivable, Net					
Receivables - Other	15.00		964.16	3,295.00	119.50
Due from Other Funds		820.00			
Inventory					
<b><u>Total Assets</u></b>	<b><u>\$ 12,771.91</u></b>	<b><u>\$ 22,256.31</u></b>	<b><u>\$ 1,101.34</u></b>	<b><u>\$ 338,080.45</u></b>	<b><u>\$ 49,755.20</u></b>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities:</b>					
Accounts Payable				\$ 4,774.50	
Deferred Revenue					
<b><u>Total Liabilities</u></b>				<b><u>4,774.50</u></b>	
<b>Fund Balances:</b>					
Reserved for Inventory		\$ 820.00			
Reserved for Debt Service					
Reserved for Capital Projects					
Unreserved - Undesignated	\$ 12,771.91	21,436.31	\$ 1,101.34	333,305.95	\$ 49,755.20
<b><u>Total Fund Balances</u></b>	<b><u>12,771.91</u></b>	<b><u>22,256.31</u></b>	<b><u>1,101.34</u></b>	<b><u>333,305.95</u></b>	<b><u>49,755.20</u></b>
<b><u>Total Liabilities and Fund Balances</u></b>	<b><u>\$ 12,771.91</u></b>	<b><u>\$ 22,256.31</u></b>	<b><u>\$ 1,101.34</u></b>	<b><u>\$ 338,080.45</u></b>	<b><u>\$ 49,755.20</u></b>

The Accompanying Notes are an Integral  
 Part of the Financial Statements

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Palo Pinto County  
General Fund  
Combining Statement of Revenues, Expenditures and  
Changes in Fund Balance - Budget and Actual  
For the Year Ended September 30, 2008

VUI 037 003

Schedule 3  
Concluded

	<u>Total</u>		Variance Favorable (Unfavorable)
	Actual	Budget	
<b>Revenues</b>			
Ad Valorem Taxes	\$ 6,046,706.48	\$ 6,035,000.00	\$ 11,706.48
Licenses, Fees and Fines	2,944,247.16	2,745,400.00	198,847.16
Sales Tax	1,953,441.80	1,700,000.00	253,441.80
Inmate Revenue	124,729.79	250,000.00	(125,270.21)
Interest Earned	237,899.29	264,100.00	(26,200.71)
Federal and State Grants	40,955.27	45,100.00	(4,144.73)
Mixed Beverage Tax	30,754.48	25,000.00	5,754.48
Other Revenue	572,040.19	457,208.00	114,832.19
<b>Total Revenues</b>	<b>11,950,774.46</b>	<b>11,521,808.00</b>	<b>428,966.46</b>
<b>Expenditures</b>			
29th District Court	259,470.70	289,529.20	30,058.50
Commissioner's Court	32,092.88	32,105.40	12.52
Constable	250,650.00	260,795.00	10,145.00
County Attorney	170,827.97	177,562.60	6,734.63
County Auditor	162,945.60	167,673.00	4,727.40
County Clerk	236,983.63	252,480.20	15,496.57
County Court	205,522.38	211,857.60	6,335.22
County Extension Service	68,552.50	72,386.60	3,834.10
County Treasurer	85,899.71	87,729.40	1,829.69
Department of Public Safety	29,161.60	29,261.60	100.00
District Attorney	154,507.13	154,591.00	83.87
District Clerk	163,989.62	177,164.20	13,174.58
Emergency Management	71,225.07	72,441.00	1,215.93
Emergency Medical & Health Services	104,687.84	108,000.00	3,312.16
General Operations	3,629,399.38	3,998,945.00	369,545.62
Inmate Contract	174,894.90	182,966.40	8,071.50
Jail and Detention	1,218,928.97	1,304,706.40	85,777.43
Justice of the Peace	320,190.84	327,184.80	6,993.96
Narcotics Unit	90,914.24	104,454.84	13,540.60
Public Works	277,751.86	300,168.20	22,416.34
Road and Bridge:			
Precinct No. 1	271,532.73	381,914.40	110,381.67
Precinct No. 2	598,352.75	766,460.00	168,107.25
Precinct No. 3	338,526.66	499,164.20	160,637.54
Precinct No. 4	615,665.74	688,479.60	72,813.86
Sheriff	1,263,296.08	1,295,765.32	32,469.24
Tax Assessor-Collector	381,506.65	399,133.00	17,626.35
Veteran's Administration	35,073.38	37,601.12	2,527.74
<b>Total Expenditures</b>	<b>11,212,550.81</b>	<b>12,380,520.08</b>	<b>1,167,969.27</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>738,223.65</b>	<b>(858,712.08)</b>	<b>1,596,935.73</b>
<b>Other Financing Sources and (Uses)</b>			
Transfers In (Out)	(500,000.00)	(485,000.00)	(15,000.00)
<b>Total Other Financing Sources and (Uses)</b>	<b>(500,000.00)</b>	<b>(485,000.00)</b>	<b>(15,000.00)</b>
<b>Net Change in Fund Balance</b>	<b>238,223.65</b>	<b>(1,343,712.08)</b>	<b>1,581,935.73</b>
<b>Fund Balances - Beginning</b>	<b>6,955,893.25</b>	<b>6,955,893.25</b>	
<b>Fund Balances - Ending</b>	<b>\$ 7,194,116.90</b>	<b>\$ 5,612,181.17</b>	<b>\$ 1,581,935.73</b>

The Accompanying Notes are an Integral  
Part of the Financial Statements

Palo Pinto County  
General Fund  
Combining Statement of Revenues, Expenditures and  
Changes in Fund Balance - Budget and Actual  
For the Year Ended September 30, 2008

601 0002

Schedule 3  
Continued

	<u>Road and Bridge</u>		
	Actual	Budget	Variance Favorable (Unfavorable)
<u>Revenues</u>			
Ad Valorem Taxes	\$ 963,276.57	\$ 960,000.00	\$ 3,276.57
Licenses, Fees and Fines	739,723.08	713,200.00	26,523.08
Sales Tax			
Inmate Revenue			
Interest Earned	51,681.28	74,000.00	(22,318.72)
Federal and State Grants			
Mixed Beverage Tax			
Other Revenue	123,695.34	54,125.00	69,570.34
<b>Total Revenues</b>	<b>1,878,376.27</b>	<b>1,801,325.00</b>	<b>77,051.27</b>
<u>Expenditures</u>			
29th District Court			
Commissioner's Court			
Constable			
County Attorney			
County Auditor			
County Clerk			
County Court			
County Extension Service			
County Treasurer			
Department of Public Safety			
District Attorney			
District Clerk			
Emergency Management			
Emergency Medical & Health Services			
General Operations			
Inmate Contract			
Jail and Detention			
Justice of the Peace			
Narcotics Unit			
Public Works			
Road and Bridge:			
Precinct No. 1	271,532.73	381,914.40	110,381.67
Precinct No. 2	598,352.75	766,460.00	168,107.25
Precinct No. 3	338,526.66	499,164.20	160,637.54
Precinct No. 4	615,665.74	688,479.60	72,813.86
Sheriff			
Tax Assessor-Collector			
Veteran's Administration			
<b>Total Expenditures</b>	<b>1,824,077.88</b>	<b>2,336,018.20</b>	<b>511,940.32</b>
Excess (Deficiency) of Revenues over Expenditures	54,298.39	(534,693.20)	588,991.59
<u>Other Financing Sources and (Uses)</u>			
Transfers In (Out)		30,000.00	30,000.00
<b>Total Other Financing Sources and (Uses)</b>		<b>30,000.00</b>	<b>30,000.00</b>
Net Change in Fund Balance	54,298.39	(504,693.20)	558,991.59
Fund Balances - Beginning	1,592,074.41	1,592,074.41	
Fund Balances - Ending	<b>\$ 1,646,372.80</b>	<b>\$ 1,087,381.21</b>	<b>\$ 558,991.59</b>



**Palo Pinto County**  
**General Fund**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Budget and Actual**  
**For the Year Ended September 30, 2008**

037 000

Schedule 3

	<u>General Fund</u>		Variance Favorable (Unfavorable)
	Actual	Budget	
<b>Revenues</b>			
Ad Valorem Taxes	\$ 5,083,429.91	\$ 5,075,000.00	\$ 8,429.91
Licenses, Fees and Fines	2,204,524.08	2,032,200.00	172,324.08
Sales Tax	1,953,441.80	1,700,000.00	253,441.80
Inmate Revenue	124,729.79	250,000.00	(125,270.21)
Interest Earned	186,218.01	190,100.00	(3,881.99)
Federal and State Grants	40,955.27	45,100.00	(4,144.73)
Mixed Beverage Tax	30,754.48	25,000.00	5,754.48
Other Revenue	448,344.85	403,083.00	45,261.85
<b>Total Revenues</b>	<b>10,072,398.19</b>	<b>9,720,483.00</b>	<b>351,915.19</b>
<b>Expenditures</b>			
29th District Court	259,470.70	289,529.20	30,058.50
Commissioner's Court	32,092.88	32,105.40	12.52
Constable	250,650.00	260,795.00	10,145.00
County Attorney	170,827.97	177,562.60	6,734.63
County Auditor	162,945.60	167,673.00	4,727.40
County Clerk	236,983.63	252,480.20	15,496.57
County Court	205,522.38	211,857.60	6,335.22
County Extension Service	68,552.50	72,386.60	3,834.10
County Treasurer	85,899.71	87,729.40	1,829.69
Department of Public Safety	29,161.60	29,261.60	100.00
District Attorney	154,507.13	154,591.00	83.87
District Clerk	163,989.62	177,164.20	13,174.58
Emergency Management	71,225.07	72,441.00	1,215.93
Emergency Medical & Health Services	104,687.84	108,000.00	3,312.16
General Operations	3,629,399.38	3,998,945.00	369,545.62
Inmate Contract	174,894.90	182,966.40	8,071.50
Jail and Detention	1,218,928.97	1,304,706.40	85,777.43
Justice of the Peace	320,190.84	327,184.80	6,993.96
Narcotics Unit	90,914.24	104,454.84	13,540.60
Public Works	277,751.86	300,168.20	22,416.34
Road and Bridge:			
Precinct No. 1			
Precinct No. 2			
Precinct No. 3			
Precinct No. 4			
Sheriff	1,263,296.08	1,295,765.32	32,469.24
Tax Assessor-Collector	381,506.65	399,133.00	17,626.35
Veteran's Administration	35,073.38	37,601.12	2,527.74
<b>Total Expenditures</b>	<b>9,388,472.93</b>	<b>10,044,501.88</b>	<b>656,028.95</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>683,925.26</b>	<b>(324,018.88)</b>	<b>1,007,944.14</b>
<b>Other Financing Sources and (Uses)</b>			
Transfers In (Out)	(500,000.00)	(515,000.00)	15,000.00
<b>Total Other Financing Sources and (Uses)</b>	<b>(500,000.00)</b>	<b>(515,000.00)</b>	<b>15,000.00</b>
<b>Net Change in Fund Balance</b>	<b>183,925.26</b>	<b>(839,018.88)</b>	<b>1,022,944.14</b>
Fund Balances - Beginning	5,363,818.84	5,363,818.84	
Fund Balances - Ending	<b>\$ 5,547,744.10</b>	<b>\$ 4,524,799.96</b>	<b>\$ 1,022,944.14</b>

The Accompanying Notes are an Integral  
Part of the Financial Statements

Palo Pinto County  
General Fund  
**Combining Statement of Revenues, Expenditures and  
 Changes in Fund Balance**  
**For the Year Ended September 30, 2008**

001 001 000

Schedule 2

	General	Road and Bridge	Total
<b>Revenues</b>			
Ad Valorem Taxes	\$ 5,083,429.91	\$ 963,276.57	\$ 6,046,706.48
Licenses, Fees and Fines	2,204,524.08	739,723.08	2,944,247.16
Sales Tax	1,953,441.80		1,953,441.80
Inmate Revenue	124,729.79		124,729.79
Interest Earned	186,218.01	51,681.28	237,899.29
Federal and State Grants	40,955.27		40,955.27
Mixed Beverage Tax	30,754.48		30,754.48
Other Revenue	448,344.85	123,695.34	572,040.19
<b>Total Revenues</b>	<b>10,072,398.19</b>	<b>1,878,376.27</b>	<b>11,950,774.46</b>
<b>Expenditures</b>			
29th District Court	259,470.70		259,470.70
Commissioner's Court	32,092.88		32,092.88
Constable	250,650.00		250,650.00
County Attorney	170,827.97		170,827.97
County Auditor	162,945.60		162,945.60
County Clerk	236,983.63		236,983.63
County Court	205,522.38		205,522.38
County Extension Service	68,552.50		68,552.50
County Treasurer	85,899.71		85,899.71
Department of Public Safety	29,161.60		29,161.60
District Attorney	154,507.13		154,507.13
District Clerk	163,989.62		163,989.62
Emergency Management	71,225.07		71,225.07
Emergency Medical & Health Services	104,687.84		104,687.84
General Operations	3,629,399.38		3,629,399.38
Inmate Contract	174,894.90		174,894.90
Jail and Detention	1,218,928.97		1,218,928.97
Justice of the Peace	320,190.84		320,190.84
Narcotics Unit	90,914.24		90,914.24
Public Works	277,751.86		277,751.86
Road and Bridge:			
Precinct No. 1		271,532.73	271,532.73
Precinct No. 2		598,352.75	598,352.75
Precinct No. 3		338,526.66	338,526.66
Precinct No. 4		615,665.74	615,665.74
Sheriff	1,263,296.08		1,263,296.08
Tax Assessor-Collector	381,506.65		381,506.65
Veteran's Administration	35,073.38		35,073.38
<b>Total Expenditures</b>	<b>9,388,472.93</b>	<b>1,824,077.88</b>	<b>11,212,550.81</b>
<b>Excess (Deficiency) Revenues over Expenditures</b>	<b>683,925.26</b>	<b>54,298.39</b>	<b>738,223.65</b>
<b>Other Financing Sources and (Uses)</b>			
Transfers In (Out)	(500,000.00)		(500,000.00)
<b>Total Other Financing Sources and (Uses)</b>	<b>(500,000.00)</b>		<b>(500,000.00)</b>
<b>Net Change in Fund Balance</b>	<b>183,925.26</b>	<b>54,298.39</b>	<b>238,223.65</b>
Fund Balances - Beginning	5,363,818.84	1,592,074.41	6,955,893.25
Fund Balances - Ending	<b>\$ 5,547,744.10</b>	<b>\$ 1,646,372.80</b>	<b>\$ 7,194,116.90</b>

Palo Pinto County  
General Fund  
Combining Balance Sheet  
September 30, 2008

Vol 037 of 649

	<u>General</u>	<u>Road and Bridge</u>	<u>Eliminations</u>	<u>Schedule 1 Total</u>
<b><u>Assets</u></b>				
Cash	\$ 593,940.51	\$ 137,581.98		\$ 731,522.49
Investments	4,919,762.05	1,547,048.60		6,466,810.65
Receivables (Net of Allow- ance for Uncollectibles):				
Taxes Receivable	284,424.90	13,135.76		297,560.66
Accounts	165,159.66	4,220.02		169,379.68
Due from Other Funds	40,292.14	24,231.25		64,523.39
Prepaid Expenses	45,099.94			45,099.94
Inventory	8,329.48	17,324.63		25,654.11
<b><u>Total Assets</u></b>	<b><u>\$ 6,057,008.68</u></b>	<b><u>\$ 1,743,542.24</u></b>	<b><u>\$ 0.00</u></b>	<b><u>\$ 7,800,550.92</u></b>
<b><u>Liabilities and Fund Balances</u></b>				
<b><u>Liabilities:</u></b>				
Accounts Payable	\$ 246,755.24	\$ 84,033.68		\$ 330,788.92
Accrued Liabilities	525.32			525.32
Due to:				
Other Funds	151,639.24			151,639.24
Others	24,891.09			24,891.09
Deferred Revenue	85,453.69	13,135.76		98,589.45
<b><u>Total Liabilities</u></b>	<b><u>509,264.58</u></b>	<b><u>97,169.44</u></b>		<b><u>606,434.02</u></b>
<b><u>Fund Balances:</u></b>				
Reserved for Prepaid Expenses	45,099.94			45,099.94
Reserved for Inventory	8,329.48	17,324.63		25,654.11
Reserved for Education	1,601.48			1,601.48
Reserved for Capital Projects	86,207.00			86,207.00
Unreserved - Undesignated	5,406,506.20	1,629,048.17		7,035,554.37
<b><u>Total Fund Balances</u></b>	<b><u>5,547,744.10</u></b>	<b><u>1,646,372.80</u></b>		<b><u>7,194,116.90</u></b>
<b><u>Total Liabilities and Fund Balances</u></b>	<b><u>\$ 6,057,008.68</u></b>	<b><u>\$ 1,743,542.24</u></b>	<b><u>\$ 0.00</u></b>	<b><u>\$ 7,800,550.92</u></b>

The Accompanying Notes are an Integral  
Part of the Financial Statements

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OTHER SUPPLEMENTARY INFORMATION

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Road and Bridge:				
Precinct No. 1	380,064.40	381,914.40	271,532.73	110,381.67
Precinct No. 2	732,250.00	766,460.00	598,352.75	168,107.25
Precinct No. 3	499,164.20	499,164.20	338,526.66	160,637.54
Precinct No. 4	655,414.60	688,479.60	615,665.74	72,813.86
Sheriff	1,100,132.32	1,295,765.32	1,263,296.08	32,469.24
Tax Assessor-Collector	399,133.00	399,133.00	381,506.65	17,626.35
Veteran's Administration	37,601.12	37,601.12	35,073.38	2,527.74
<b>Total Expenditures</b>	<b>12,185,412.08</b>	<b>12,380,520.08</b>	<b>11,212,550.81</b>	<b>1,167,969.27</b>
Excess (Deficiency) of Revenues over Expenditures	(843,712.08)	(858,712.08)	738,223.65	1,596,935.73
<b>Other Financing Sources (Uses)</b>				
Transfers In (Out)	(500,000.00)	(485,000.00)	(500,000.00)	(15,000.00)
<b>Total Other Financing Sources and (Uses)</b>	<b>(500,000.00)</b>	<b>(485,000.00)</b>	<b>500,000.00</b>	<b>(15,000.00)</b>
Net Change in Fund Balances	(1,343,712.08)	(1,343,712.08)	238,223.65	1,581,935.73
Change in Fund Balances - Beginning	6,955,893.25	6,955,893.25	6,955,893.25	
Change in Fund Balances - Ending	\$ 5,612,181.17	\$ 5,612,181.17	\$ 7,194,116.90	\$ 1,581,935.73

**Palo Pinto County**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended September 30, 2008**

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	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget- Positive (Negative)
<b>Revenues</b>				
Ad Valorem Taxes	\$ 6,035,000.00	\$ 6,035,000.00	\$ 6,046,706.48	\$ 11,706.48
Licenses, Fees and Fines	2,745,400.00	2,745,400.00	2,944,247.16	198,847.16
Sales Tax	1,700,000.00	1,700,000.00	1,953,441.80	253,441.80
Inmate Revenue	250,000.00	250,000.00	124,729.79	(125,270.21)
Interest Earned	264,100.00	264,100.00	237,899.29	(26,200.71)
Federal and State Grants	38,700.00	45,100.00	40,955.27	(4,144.73)
Mixed Beverage Tax	25,000.00	25,000.00	30,754.48	5,754.48
Other Revenue	283,500.00	457,208.00	572,040.19	114,832.19
<b>Total Revenues</b>	<b>11,341,700.00</b>	<b>11,521,808.00</b>	<b>11,950,774.46</b>	<b>428,966.46</b>
<b>Expenditures</b>				
29th District Court	289,529.20	289,529.20	259,470.70	30,058.50
Commissioner's Court	32,105.40	32,105.40	32,092.88	12.52
Constable	250,895.00	260,795.00	250,650.00	10,145.00
County Attorney	175,482.60	177,562.60	170,827.97	6,734.63
County Auditor	167,673.00	167,673.00	162,945.60	4,727.40
County Clerk	252,480.20	252,480.20	236,983.63	15,496.57
County Court	211,857.60	211,857.60	205,522.38	6,335.22
County Extension Service	71,386.60	72,386.60	68,552.50	3,834.10
County Treasurer	87,729.40	87,729.40	85,899.71	1,829.69
Department of Public Safety	29,261.60	29,261.60	29,161.60	100.00
District Attorney	142,316.00	154,591.00	154,507.13	83.87
District Clerk	177,164.20	177,164.20	163,989.62	13,174.58
Emergency Management	70,441.00	72,441.00	71,225.07	1,215.93
Emergency Medical & Health Services	108,000.00	108,000.00	104,687.84	3,312.16
General Operations	4,074,350.00	3,998,945.00	3,629,399.38	369,545.62
Inmate Contract	192,966.40	182,966.40	174,894.90	8,071.50
Jail and Detention	1,330,706.40	1,304,706.40	1,218,928.97	85,777.43
Justice of the Peace	327,184.80	327,184.80	320,190.84	6,993.96
Narcotics Unit	107,454.84	104,454.84	90,914.24	13,540.60
Public Works	282,668.20	300,168.20	277,751.86	22,416.34

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REQUIRED SUPPLEMENTARY INFORMATION

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Note 4: Other Information (continued)

A. Risk Management (continued)

Members are assessed an annual insurance premium based on coverage amounts with the risk of loss shared among participants of that pool. Members are not subject to additional assessments in the event of losses exceeding premiums. Premiums are expensed by the appropriate fund when incurred. The County's premium expense for the year was \$249,317.

B. Related Party

Palo Pinto County appoints directors of Palo Pinto County Emergency Services District No. 1 and Palo Pinto County Historical Commission, which are not component units of the County.

Note 5: Subsequent Events

On December 21, 2006, the County entered into a contract with the Texas Department of Transportation (TxDOT) for the replacement of four bridges in Palo Pinto County. The total cost of the project is estimated at \$3,640,000 with the County contributing a 10% match of \$364,000. The County's match may be made in cash or in-kind. The County's match is required to be made no more than three years from the date the State lets contracts for the construction project. As of September 30, 2008, the contracts were not let; however, the County had incurred \$47,100 of in-kind expenditures applicable to the required match.

Note 3: Detailed Notes All Funds (continued)

I. Long-term Debt (continued)

5. Post-employment Benefits (continued)

b) Life Insurance Benefit

*Plan Description:* The County participates in a cost-sharing multiple-employer defined-benefit group-term life insurance plan operated by the Texas County & District Retirement System (TCDRS). This plan is referred to as the Supplemental Death Benefit Fund (SDBF). This optional plan provides group-term life insurance coverage to current eligible employees and, if elected by employers, to retired employees. The coverage provided to retired employees is a post-employment benefit other than pension benefits (OPEB). Retired employees are insured for \$5,000.

The SDBF is a separate trust administered by the TCDRS Board of Trustees. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the SDBF. This report may be obtained by writing to the Texas County & District Retirement System, P. O. Box 2034, Austin, TX 78768-2034, or by calling 800-823-7782. TCDRS's CAFR is also available at [www.tcdrs.org](http://www.tcdrs.org).

*Funding Policy:* Each participating employer contributes to the SDBF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is determined using the unit credit method for providing one-year term life insurance. The County's contributions to the SDBF, attributable to retired employees, for the years ended 9/30/08, 9/30/07 and 9/30/06 were \$6,740, \$6,832 and \$6,350, respectively, which equaled the contractually required contributions each year.

Note 4: Other Information

A. 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 inmates; and natural disasters. The County has joined with other counties who are all members of the Texas Association of Counties to create the Risk Management Program. The Risk Management Program, which began in the mid 1970's, offers a variety of risk management pools such as Workers' Compensation, County Law Enforcement Liability, Comprehensive General Liability, Public Officials Liability, Automobile Liability and Property and Casualty.

Palo Pinto County  
Notes to Financial Statements  
September 30, 2008

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Note 3: Detailed Notes All Funds (continued)

I. Long-term Debt (continued)

2. Changes in Long-term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<u>Governmental Activities</u>					
Tax Note	\$ 840,000		\$ 295,000	\$ 545,000	\$ 310,000
Capital Leases	618,858		308,972	309,886	90,908
Uncompensated Absences	160,156	\$ 33,760		193,916	
<u>Governmental Activity</u>					
<u>Long-term Liabilities</u>	<u>\$ 1,619,014</u>	<u>\$ 33,760</u>	<u>\$ 603,972</u>	<u>\$ 1,048,802</u>	<u>\$ 400,908</u>

3. Interest Expense

Interest expense at September 30, 2008 for governmental activities was \$39,825.

4. Tax Note Compliance

The County has complied with the covenants of all ordinances and resolutions pertaining to outstanding tax note indebtedness of the County as of September 30, 2008.

5. Post-employment Benefits

a) Health and Supplemental Insurance

Effective October 1, 2002, the County began offering post-employment benefits, subject to appropriations, for monthly healthcare premiums for qualified retirees under 65 years of age. In addition, the County pays a portion of the cost of a Medicare supplement for retirees over 65 years of age. Effective January 1, 2006, the County's contribution amount is 35% of the supplement premium. At year end there were thirteen participants receiving healthcare benefits and eight participants receiving Medicare supplement benefits. The cost to the County for retiree healthcare benefits was \$69,454 and the cost for retiree Medicare supplemental benefits was \$2,778 and is funded on a pay-as-you-go basis.

Note 3: Detailed Notes All Funds (continued)

I. Long-term Debt

1. Tax Note

The County issues tax notes where the government pledges ad valorem taxes to be collected to pay debt service. Tax notes outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	1.70% - 3.95%	\$ 465,000

Annual debt service requirements to maturity for the 2003 Tax Notes are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 230,000	\$ 13,365
2010	235,000	4,641
<u>Total</u>	<u>\$ 465,000</u>	<u>\$ 18,006</u>

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Capital Projects	3.47%	\$ 80,000

Annual debt service requirements to maturity for the 2004 Tax Notes are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 80,000	\$ 1,388
<u>Total</u>	<u>\$ 80,000</u>	<u>\$ 1,388</u>

Palo Pinto County  
Notes to Financial Statements  
September 30, 2008

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Note 3: Detailed Notes All Funds (continued)

H. Taxes Collected Due to Entities and Investment in Uncollected Taxes

Taxes collected due to entities is the amount of taxes due to the various taxing entities for taxes collected by the Tax Assessor-Collector's office prior to September 30, 2008. Investment in uncollected taxes is payable to the districts only after it is collected by the Tax Assessor-Collector. These amounts have not been adjusted for the collection fee. Included in the Adjustments column is the difference between ending 8/31/08 balances and beginning 9/01/08 balances due to refund checks, real property over 20 years old and personal property over 10 years old written off at 8/31/08.

	Investment in Uncollected Taxes 9-30-07	Tax Levy	Taxes Collected 10-1-07 to 9-30-08	Adjustments	Investment in Uncollected Taxes 9-30-08
State	\$ 73				\$ 73
Palo Pinto County	421,503	\$ 6,378,948	(\$ 6,365,761)	(\$ 9,614)	425,076
Gordon ISD	126,881	1,184,172	( 1,178,664)	( 3,259)	129,130
Graford ISD	284,707	5,203,723	( 5,212,875)	( 21,115)	254,440
Mineral Wells ISD	738,830	7,713,537	( 7,697,707)	( 31,754)	722,906
Palo Pinto ISD	103,599	3,705,729	( 3,659,064)	( 28,817)	121,447
Santo ISD	198,489	2,539,629	( 2,501,361)	( 20,738)	216,019
Strawn ISD	74,030	732,147	( 769,752)	2,740	39,165
City of Gordon	3,981	44,932	( 43,793)	( 636)	4,484
City of Graford	6,120	12,921	( 13,243)	( 299)	5,499
City of Mineral Wells	245,259	2,679,299	( 2,693,507)	( 5,433)	225,618
City of Mingus	3,198	11,675	( 11,329)	( 180)	3,364
City of Strawn	4,671	35,563	( 35,511)	( 442)	4,281
Countywide Fire District	31,715	550,850	( 548,406)	( 1,165)	32,994
Countywide Hospital District	210,646	3,689,535	( 3,673,399)	( 7,174)	219,608
Keechi Water District	518	3,328	( 3,257)	( 92)	497
Sportsman's World	5,045	598,576	( 595,480)	( 3,459)	4,682
Palo Pinto Water District	12,095		( 922)	( 574)	10,599
Palo Pinto County ED	<u>30,455</u>		<u>( 206)</u>	<u>( 37)</u>	<u>30,212</u>
<b>Total</b>	<b><u>\$ 2,501,815</u></b>	<b><u>\$ 35,084,564</u></b>	<b><u>(\$ 35,004,237)</u></b>	<b><u>(\$ 132,048)</u></b>	<b><u>\$ 2,450,094</u></b>

The investment in uncollected taxes at September 30, 2008 does not include the late rendition fee penalty of which 95% (\$15,255.18) is due to agencies and the remaining 5% goes back to the Palo Pinto Appraisal District.

Note 3: Detailed Notes All Funds (continued)

G. Leases (continued)

2. Capital Leases

The County is the lessee of a postage machine, a soil compactor and three asphalt zippers with carrying amounts of \$29,257, \$118,815 and \$296,731, respectively. The interest rate is 9.370% on the postage machine, 4.85% on the compactor and 5.195% on the asphalt zippers. Assets and liabilities are reported in the government-wide financial statements. Future minimum lease payments at September 30, 2008 are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Governmental</u> <u>Activities</u>
2009	\$ 107,069
2010	107,069
2011	103,664
2012	26,843
<u>Total</u>	<u>344,645</u>
Amount Representing Interest	( 34,759)
Present Value of Net Minimum Lease Payments	<u>\$ 309,886</u>

The assets acquired through capital leases are as follows:

	<u>Governmental</u> <u>Activities</u>
Pitney Bowes Postage Machine	\$ 29,257
3 Asphalt Zippers	296,731
Caterpillar Soil Drum Compactor	118,815
Less: Accumulated Depreciation	( 38,721)
<u>Total</u>	<u>\$ 406,082</u>

Palo Pinto County  
Notes to Financial Statements  
September 30, 2008

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Note 3: Detailed Notes All Funds (continued)

E. Retirement Plan (continued)

4. Transition Disclosure

Schedule of Funding Progress for the Retirement Plan  
for the Employees of Palo Pinto County

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/05	\$ 8,497,648	\$ 10,100,574	\$ 1,602,926	84.13%	\$ 4,334,736	36.98%
12/31/06	\$ 9,339,729	\$ 10,492,310	\$ 1,152,581	89.01%	\$ 4,609,910	25.00%
12/31/07	\$ 9,779,885	\$ 11,087,389	\$ 1,307,504	88.21%	\$ 5,110,930	25.58%

F. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2008 is as follows:

Due to/from Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Agency Funds	\$ 64,523
Nonmajor Governmental Fund	General Fund	2,658
Nonmajor Governmental Fund	Agency Funds	11,566
Agency Funds	General Fund	148,981
Agency Funds	Special Revenue	6,000
<u>Total</u>		<u>\$ 233,728</u>

Interfund transactions consist of fees and other revenue collected by Agency Funds, which are owed to other departments of the County. The General Fund receives certain amounts that are due to Agency Funds. During the year the General Fund transferred \$500,000 to the Capital Projects Fund for future growth and expansion.

G. Leases

1. Operating Leases

The County has various month to month operating leases for offices, postage meter service, and computer expenses for various offices for various amounts. None of the leases are non-cancelable nor contain contingent rentals. Lease expense for the year amounted to \$13,597.



Palo Pinto County  
Notes to Financial Statements  
September 30, 2008

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Note 3: Detailed Notes All Funds (continued)

E. Retirement Plan (continued)

3. Annual Pension Cost (continued)

The December 31, 2007 actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial Valuation Date	12/31/05	12/31/06	12/31/07
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Percentage of Payroll, Open	Level Percentage of Payroll, Closed	Level Percentage of Payroll, Closed
Amortization Period	20	15	15
Asset Valuation Method	Long-term Appreciation with Adjustment	SAF: 10-year Smoothed Value ESF: Fund Value	SAF: 10-year Smoothed Value ESF: Fund Value
<b>Actuarial Assumptions:</b>			
Investment Return <sup>1</sup>	8.00%	8.00%	8.00%
Projected Salary Increases <sup>1</sup>	5.30%	5.30%	5.30%
Inflation	3.50%	3.50%	3.50%
Cost-of-Living Adjustments	0.00%	0.00%	0.00%

<sup>1</sup>Includes Inflation at the Stated Rate

Trend Information of the Retirement Plan for the Employees of Palo Pinto County

<u>Accounting Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/06	\$ 384,792	100%	\$ 0
9/30/07	\$ 428,572	100%	\$ 0
9/30/08	\$ 498,858	100%	\$ 0

Palo Pinto County  
Notes to Financial Statements  
September 30, 2008

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Note 3: Detailed Notes All Funds (continued)

E. Retirement Plan (continued)

1. Plan Description (continued)

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.

2. Funding Policy

The employer has elected the Annually Determined Contribution Rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually.

The employer contributed using the actuarially determined rate of 8.91% for the months of the accounting year in 2007 and 8.70% for the months of the accounting year in 2008.

The contribution rate payable by the employee members for calendar year 2008 is the rate of 7.00% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

3. Annual Pension Cost

For the employer's accounting year ending September 30, 2008, the annual pension cost for the TCDRS plan for its employees was \$498,858 and the actual contributions were \$498,858.

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, 2005 and December 31, 2006, the basis for determining the contribution rates for calendar years 2007 and 2008.

Palo Pinto County  
Notes to Financial Statements  
September 30, 2008

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Note 3: Detailed Notes All Funds (continued)

D. Capital Assets (continued)

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

<u>Governmental Activities</u>	
General Government	\$ 178,207
Administration of Justice	7,228
Public Safety	154,473
Corrections and Rehabilitation	109,474
Health and Human Services	27,803
Community and Economic Development	11,980
Infrastructure and Environmental Services	<u>310,047</u>
<u>Total Depreciation Expense -</u> <u>Governmental Activities</u>	 <u>\$ 799,212</u>

E. Retirement Plan

1. Plan Description

Palo Pinto County provides retirement, disability and death benefits for all of its full time employees through a nontraditional defined benefit pension plan in the statewide Texas County & District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 574 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a Comprehensive Annual Financial Report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

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

Palo Pinto County  
Notes to Financial Statements  
September 30, 2008

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Note 3: Detailed Notes All Funds (continued)

D. Capital Assets

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

**Primary Government**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital Assets, Not Being				
Depreciated:				
Land	\$ 96,820			\$ 96,820
Construction-in-Progress	28,000	\$ 47,100	(\$ 1,200)	73,900
<u>Total Capital Assets, Not Being Depreciated</u>	<u>124,820</u>	<u>47,100</u>	<u>( 1,200)</u>	<u>170,720</u>
Capital Assets, Being				
Depreciated:				
Buildings	7,202,947	228,965		7,431,912
Improvements Other than Buildings	508,099			508,099
Equipment	3,049,421	76,353	( 30,000)	3,095,774
Vehicles	2,119,468	287,490	( 180,714)	2,226,244
Infrastructure	2,343,071	81,600		2,424,671
<u>Total Capital Assets, Being Depreciated</u>	<u>15,223,006</u>	<u>674,408</u>	<u>( 210,714)</u>	<u>15,686,700</u>
Less Accumulated				
Depreciation for:				
Buildings	( 3,085,131)	( 279,777)		( 3,364,908)
Improvements Other than Buildings	( 201,001)	( 25,725)		( 226,726)
Equipment	( 1,374,456)	( 146,778)	30,000	( 1,491,234)
Vehicles	( 1,204,134)	( 233,019)	115,546	( 1,321,607)
Infrastructure	( 109,939)	( 113,913)		( 223,852)
<u>Total Accumulated Depreciation</u>	<u>( 5,974,661)</u>	<u>( 799,212)</u>	<u>145,546</u>	<u>( 6,628,327)</u>
<u>Total Capital Assets, Being Depreciated, Net</u>	<u>9,248,345</u>	<u>( 124,804)</u>	<u>( 65,168)</u>	<u>9,058,373</u>
<b>Governmental Activities</b>				
<u>Capital Assets, Net</u>	<u>\$ 9,373,165</u>	<u>(\$ 77,704)</u>	<u>(\$ 66,368)</u>	<u>\$ 9,229,093</u>

Palo Pinto County  
Notes to Financial Statements  
September 30, 2008

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Note 3: Detailed Notes All Funds (continued)

B. Taxes Receivable

Taxes receivable in the General Fund and Debt Service Fund are stated net of allowance for doubtful accounts. The allowance was \$295,768 for the General Fund and \$23,039 for the Debt Service Fund.

C. Deferred Compensation Plan

Palo Pinto County offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all County employees on a voluntary basis, permits them to defer a portion of their salaries until future years. The County does not make any contributions to the plans.

Deferred compensation is available to employees' beneficiaries in case of death. One plan is through National Association of Counties and its assets are administered by Nationwide Retirement Solutions, an independent third party administrator. The second plan's assets are managed by ITT Hartford, an independent administrator. All amounts of compensation deferred under the plans, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are solely the property and rights of the participants.

Palo Pinto County  
Notes to Financial Statements  
September 30, 2008

VOI 631-033

Note 3: Detailed Notes All Funds (continued)

A. Deposits and Investments (continued)

2. Investments (continued)

The County invests its general funds in the Lone Star Investment Pool, a public funds investment pool held in trust by the State Treasurer, certificates of deposit and the ICT-Treasury Portfolio, a money market mutual fund.

Interest earned is recorded in the respective fund. The County complied with its investment policy during the fiscal year.

The County's investments carried at fair value at September 30, 2008 are:

<u>Investments</u>	<u>Fair Value</u>	<u>Maturity (in months)</u>
Government Pools (Lone Star)	\$ 192,565	-
Certificates of Deposit	3,300,000	6
ICT - Treasury Portfolio	<u>2,974,246</u>	-
<u>Total</u>	<u>\$ 6,466,811</u>	

**Interest Rate Risk** – In accordance with its investment policy, the County manages its exposure to declines in fair value by limiting the maturity of its investments portfolio to twelve months or less.

**Credit Risk** – As of September 30, 2008, the County's investment in Lone Star Investment Pool was rated "AAAf/S1+" by Standard & Poor's. The County's investment in ICT's – Treasury Portfolio was rated "AAA" by Standard & Poor's.

**Concentration Risk** – As of September 30, 2008, the County had the following investments that represent positions of five percent or more in the securities of a single issuer:

Certificate of Deposit – First Financial Bank	\$1,000,000
Certificate of Deposit – Comanche National Bank	\$2,300,000

Note 3: Detailed Notes All Funds (continued)

A. Deposits and Investments (continued)

1. Deposits (continued)

The County and District Clerks hold deposit accounts and investments as trustees under court orders in various banks. The accounts are styled for the benefit of the individual beneficiaries and do not actually belong to the County. The investments consist of interest bearing demand deposits and certificates of deposit whose carrying value and market value are the same. The carrying amounts of agency funds held by the County at September 30, 2008 were \$304,720 and the balance per the bank was \$301,784. All deposits and investments were secured by FDIC coverage.

**Custodial Credit Risk – Deposits –** In the case of deposits, this is the risk that in the event of a bank failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk. As of September 30, 2008, \$6,013,482 of the County's bank balance and \$6,523,098 of Palo Pinto County Juvenile Probation Department, Community Supervision and Corrections Department, Palo Pinto County Emergency Services District No. 1 and the County's combined bank balances were exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institutions trust department or agent, but not in the government's name; however, under state law they are considered collateralized.

2. Investments

As authorized under Section 1, Chapter 2256, Government Code, Public Funds Investment, Palo Pinto County may invest its funds in:

- (a) Money market mutual funds that are registered or regulated by the Securities and Exchange Commission and subject to certain other limitations;
- (b) Fully insured or collateralized certificates of deposit;
- (c) Direct obligations of the State of Texas, the United States or of any state agencies, counties, cities and other political subdivisions of any state, having received a rating of not less than "A" by a nationally recognized investment rating firm;
- (d) Fully collateralized and secured direct repurchase agreements having a defined termination date;
- (e) Local government's investment pools which adhere to this policy;
- (f) Banker's acceptances and commercial paper having a stated maturity of 270 days or less.

Palo Pinto County  
Notes to Financial Statements  
September 30, 2008

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Note 2: Stewardship, Compliance and Accountability (continued)

Budgetary Information (continued)

- (c) Unused appropriations for all annually budgeted funds lapse at year end.
- (d) The budgets, as presented in the financial statements, are the authorized final revised budgets.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund (both the General and Road and Bridge segments), Special Revenue Fund and Debt Service Fund. Appropriations lapse at September 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

There were no outstanding encumbrances at year end that were provided for in the subsequent year's budget.

Note 3: Detailed Notes All Funds

A. Deposits and Investments

1. Deposits

Deposits, except for those held in trust by the County and District Clerks, were with the contracted depository banks in interest bearing accounts which were secured at the balance sheet date by FDIC coverage and by pledged government securities held by Comanche National Bank, Santo, Texas, and subdepositories, First Financial Bank, Mineral Wells, Texas, and First State Bank, Mineral Wells, Texas, in the name of the depository banks. At September 30, 2008, the carrying amount of the County's deposits was \$6,917,319 and the balance per the bank was \$6,683,004. Included in the carrying amount and bank balance are certificates of deposit (recorded as investments) totaling \$3,300,000. Also included under the County's depository contract are the bank accounts and certificates of deposit for Palo Pinto County Juvenile Probation Department, Community Supervision and Corrections Department of Palo Pinto County and Palo Pinto County Emergency Services District No. 1. These entities are not considered component units of Palo Pinto County under GASB 14. The combined bank balance for these entities and Palo Pinto County was \$7,193,455. Included in the carrying amount and bank balance are certificates of deposit (recorded as investments) totaling \$3,400,000. These deposits were entirely secured by FDIC coverage and pledged government agencies securities. Although the pledged securities are not in the name of Palo Pinto County, the deposits are deemed collateralized under Texas law.



Note 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

7. Long-term Obligations (continued)

Statement of Net Assets. Issuance costs associated with long-term debt are reported as deferred charges and amortized over the term of the related debt.

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

8. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Restrictions of net assets are limited to outside third-party restrictions. An internal reservation was made for future improvements and maintenance of control systems relating primarily to HVAC systems for the law enforcement center. At September 30, 2008, \$86,207 was reserved. Annually, future amounts will be reserved to cover anticipated costs. The reservation is being funded from savings resulting from the termination of a maintenance contract.

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

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

- (a) Formal budgetary integration is employed as a management control device during the year for the General Fund (both the General and Road and Bridge segments), Special Revenue Fund and Debt Service Fund. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- (b) The Commissioners' Court approves budget appropriations and any line item transfers within funds. Any revisions that alter the total appropriations for funds must be approved by the Commissioners' Court to authorize an emergency expenditure due to an unusual and unforeseen event.

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Palo Pinto County  
Notes to Financial Statements  
September 30, 2008

Note 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

5. Capital Assets (continued)

prospectively as required. The County is considered a Phase 3 government, as defined by GASB Statement No. 34. Phase 3 governments are not required to retroactively report infrastructure. At September 30, 2008, the County has not retroactively reported infrastructure.

Property, plant and equipment recorded in the governmental funds of Palo Pinto County are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Furniture & Fixtures	7
Vehicles	3 - 15
Equipment	5 - 7
Heavy Equipment	8 - 30
Buildings and Improvements	5 - 40
Other Improvements	10 - 20
Public Domain Infrastructure	15 - 30

6. Accumulated Compensated Absences

It is the County's policy to permit employees to accumulate a limited amount of earned but unused vacation and compensated absences, which will be paid to employees upon separation from the County's service. In governmental funds, the cost of vacation and compensated absences is recognized when payments are made to employees. A long-term liability of \$193,916 of accrued vacation and compensated absences at September 30, 2008 has been recorded in the government-wide statements, representing the County's commitment to fund such costs from future operations. The department for which the employee works is charged when payments for vacation or compensated absences are paid. The County's sick leave policy provides for an unlimited accumulation of earned sick leave. The County has no obligation for the accumulated sick leave until it is actually taken; therefore, no accrual for sick leave has been made.

7. Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities

Note 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

3. Uncollected Taxes Receivable (continued)

collect the taxes for the various taxing districts and then to remit the tax, including any penalty and interest, less a 1% fee of current taxes and 7% of delinquent taxes, to the tax district, except for the Palo Pinto County Education District, in which the Tax Assessor-Collector receives all penalties collected. The amount recorded as investment in uncollected taxes represents the total taxes receivable for the eighteen districts and the Palo Pinto County Education District.

4. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital Assets

Capital assets, which include property, plant, equipment, transportation and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000. 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 asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs on fixed assets are not capitalized. Interest is charged to the Debt Service Fund for assets acquired with tax notes. For assets purchased under capital lease agreements, interest is expensed in the fund responsible for making the lease payments.

According to the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments*, prospective reporting of general infrastructure is required at the effective date of GASB Statement No. 34. Effective October 1, 2003, the County began recording infrastructure

Note 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation  
(continued)

The preparation of the financial statements, in conformity with generally accepted accounting principles, requires the use of estimates by management that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The County's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the County to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and investment pools.

Investments for the County are reported at fair value. The authorized investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Due to/from Other Funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "Due to/from Other Funds".

All trade and property tax receivables, including those for the County, are shown net of an allowance of uncollectibles.

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

3. Uncollected Taxes Receivable

The office of the Tax Assessor-Collector is under contract to eighteen (18) different taxing entities. It is the responsibility of the Tax Assessor-Collector to

Note 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation  
(continued)

The government reports the following major governmental fund:

**General Fund** – This fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the County reports the following fund types:

**Special Revenue Funds** – These funds are established to account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

**Debt Service Fund** – This governmental fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.

**Capital Projects Fund** – This governmental fund is established to account for the acquisition or construction of major capital assets.

**Agency Funds** – These funds are used to report cash and investments and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments.

Fiduciary funds are reported in the Fiduciary Fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support County programs, these funds are not included in the government-wide statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

Note 1: Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements (continued)

Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**Note 1: Summary of Significant Accounting Policies**

The County of Palo Pinto, Texas, (County) was created by the Act of Legislature of August 27, 1856, and operates as specified under the Constitution of the State of Texas and statutes which provide for a Commissioners Court consisting of the County Judge and four Commissioners, one from each of four geographical precincts. The County Judge is elected for a term of four years and the Commissioners for four year staggered terms. Other major County elective officers include the County Clerk, District Clerk, County Tax Assessor-Collector and County Treasurer. The County Auditor is appointed for a term of two years and serves at the will of the District Judge, whose court is located in Palo Pinto County. The 2000 Census population for the County was 27,026 and the area covered is approximately 949 square miles. The unincorporated community of Palo Pinto is the County Seat. The County provides the following public services: Public Safety – Sheriff's Department and Jail Detention, Tax Assessing and Collecting, Sanitation, Fire, Emergency Medical Services, Public Records, Criminal and Civil Prosecution, Road and Bridge Maintenance and General Operations.

The financial statements of the County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The government's significant accounting policies are described below:

**A. Reporting Entity**

In evaluating Palo Pinto County for financial reporting purposes, management has considered all potential component units. The evaluation was made by applying the criteria set forth in generally accepted accounting principles for inclusion of component units with a reporting entity. The major criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility over the unit. The most significant manifestation of this ability to exercise oversight responsibility includes, but is not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the County is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no potential component units included in the reporting entity as defined by GASB 14, "The Reporting Entity".

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

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Palo Pinto County  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
September 30, 2008

		<u>Agency Funds</u>
<u>Assets</u>		
Cash	\$	1,238,255.09
Investments		208,358.25
Accounts Receivable		486.49
Due from Other Funds		154,981.24
		1,602,081.07
<u>Total Assets</u>	\$	1,602,081.07
 <u>Liabilities</u>		
Due to Other Funds	\$	82,089.38
Due to Other Jurisdictions		592,667.61
Due to Others		927,324.08
		1,602,081.07
<u>Total Liabilities</u>	\$	1,602,081.07

The Accompanying Notes are an Integral  
Part of the Financial Statements



Tax Notes:			
Principal		295,000.00	295,000.00
Interest and Fiscal Charges		25,044.02	25,044.02
Hotel/Motel Tax		147,350.62	147,350.62
Inmate Contract	174,894.90		174,894.90
Jail and Detention	1,218,928.97		1,218,928.97
Justice of the Peace	320,190.84		320,190.84
Narcotics Unit	90,914.24		90,914.24
Public Works	277,751.86		277,751.86
Road and Bridge:			
Precinct No. 1	271,532.73		271,532.73
Precinct No. 2	598,352.75		598,352.75
Precinct No. 3	338,526.66		338,526.66
Precinct No. 4	615,665.74		615,665.74
Sheriff	1,263,296.08		1,263,296.08
Tax Assessor-Collector	381,506.65		381,506.65
Vending Expenditures		3,849.18	3,849.18
Veteran's Administration	35,073.38		35,073.38
<b>Total Expenditures</b>	<b>11,212,550.81</b>	<b>884,352.64</b>	<b>12,096,903.45</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>738,223.65</b>	<b>20,692.69</b>	<b>758,916.34</b>
<b>Other Financing Sources and (Uses)</b>			
Transfers In (Out)	(500,000.00)	500,000.00	
<b>Total Other Financing Sources and (Uses)</b>	<b>(500,000.00)</b>	<b>500,000.00</b>	
<b>Net Change in Fund Balances</b>	<b>238,223.65</b>	<b>520,692.69</b>	<b>758,916.34</b>
Fund Balances - Beginning	6,955,893.25	1,142,852.86	8,098,746.11
Fund Balances - Ending	\$ 7,194,116.90	\$ 1,663,545.55	\$ 8,857,662.45

Palo Pinto County  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Funds  
For the Year Ended September 30, 2008

13

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Ad Valorem Taxes	\$ 6,046,706.48	\$ 346,333.53	\$ 6,393,040.01
Licenses, Fees and Fines	2,944,247.16	228,936.03	3,173,183.19
Sales Tax	1,953,441.80		1,953,441.80
Inmate Revenue	124,729.79		124,729.79
Interest Earned	237,899.29	9,513.49	247,412.78
Occupancy Tax		139,316.44	139,316.44
Federal and State Grants	40,955.27	5,209.31	46,164.58
Commissary Revenue		30,345.95	30,345.95
Mixed Beverage Tax	30,754.48		30,754.48
Vending Revenue		5,008.63	5,008.63
Forfeiture Revenue		35,999.80	35,999.80
Other Revenue	572,040.19	104,382.15	676,422.34
<b>Total Revenues</b>	<b>11,950,774.46</b>	<b>905,045.33</b>	<b>12,855,819.79</b>
<b>Expenditures</b>			
29th District Court	259,470.70		259,470.70
Capital Projects		196,535.00	196,535.00
Commissary		30,615.84	30,615.84
Commissioner's Court	32,092.88		32,092.88
Constable	250,650.00		250,650.00
County Attorney	170,827.97	12,562.92	183,390.89
County Auditor	162,945.60		162,945.60
County Clerk	236,983.63	46,180.00	283,163.63
County Court	205,522.38		205,522.38
County Extension Service	68,552.50		68,552.50
County Treasurer	85,899.71		85,899.71
Department of Public Safety	29,161.60		29,161.60
District Attorney	154,507.13	61,247.02	215,754.15
District Clerk	163,989.62		163,989.62
General Supplies		12,888.68	12,888.68
Emergency Management	71,225.07		71,225.07
Emergency Medical & Health Services	104,687.84		104,687.84
Forfeiture Expenditures		31,292.74	31,292.74
General Operations	3,629,399.38	21,786.62	3,651,186.00

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Palo Pinto County  
Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Assets  
September 30, 2008

Total Fund Balances - Governmental Funds Balance Sheet	\$ 8,857,662.45
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Net capital assets used in governmental activities are not reported in the funds.	9,229,093.50
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	106,268.95
Payables for bond principal and capital leases are not reported in the funds.	(1,048,802.33)
Payables for tax note interest and capital lease interest are not reported in the funds.	(15,012.26)
Bond issuance costs are not reported in the funds.	<u>8,205.88</u>
Net Assets of Governmental Activities - Statement of Net Assets	<u>\$ 17,137,416.19</u>

The Accompanying Notes are an Integral  
Part of the Financial Statements

Palo Pinto County  
Balance Sheet  
Governmental Funds  
September 30, 2008

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	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash	\$ 731,522.49	\$ 1,654,615.79	\$ 2,386,138.28
Investments	6,466,810.65		6,466,810.65
Receivables (Net of Allow- ance for Uncollectibles):			
Taxes Receivable	297,560.66	7,679.51	305,240.17
Accounts	169,379.68	122.19	169,501.87
Due from Other Funds	64,523.39	14,223.98	78,747.37
Prepaid Expenses	45,099.94		45,099.94
Inventory	25,654.11	820.00	26,474.11
<b>Total Assets</b>	<b>\$ 7,800,550.92</b>	<b>\$ 1,677,461.47</b>	<b>\$ 9,478,012.39</b>
<b>Liabilities and Fund Equity</b>			
<b>Liabilities:</b>			
Accounts Payable	\$ 330,788.92	\$ 6,236.41	\$ 337,025.33
Accrued Liabilities	525.32		525.32
Due to:			
Other Funds	151,639.24		151,639.24
Others	24,891.09		24,891.09
Deferred Revenue	98,589.45	7,679.51	106,268.96
<b>Total Liabilities</b>	<b>606,434.02</b>	<b>13,915.92</b>	<b>620,349.94</b>
<b>Fund Equity:</b>			
<b>Fund Balances:</b>			
Reserved for Prepaid Expenses	45,099.94		34,759.57
Reserved for Inventory	25,654.11	820.00	26,474.11
Reserved for Debt Service		72,159.43	72,159.43
Reserved for Education	1,601.48		1,601.48
Reserved for Capital Projects	86,207.00	809,013.97	895,220.97
Unreserved - Undesignated	7,035,554.37	781,552.15	7,817,106.52
<b>Total Fund Equity</b>	<b>7,194,116.90</b>	<b>1,663,545.55</b>	<b>8,857,662.45</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 7,800,550.92</b>	<b>\$ 1,677,461.47</b>	<b>\$ 9,478,012.39</b>

Palo Pinto County  
Statement of Activities  
For the Year Ended September 30, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenues and Changes in Net Assets Governmental Activities</u>
<b>Governmental Activities:</b>					
General Government	\$ 3,206,567.29	\$ 1,312,499.96	\$ 39,591.46		\$ (1,854,475.87)
Administration of Justice	1,804,408.96	995,899.05	109,798.81		(698,711.10)
Public Safety	2,106,645.48	61,787.63	99,226.49	\$ 35,637.77	(1,909,993.59)
Corrections and Rehabilitation	1,937,592.30	205,464.28			(1,732,128.02)
Health and Human Services	216,473.23				(216,473.23)
Community and Economic Development	288,431.98	139,316.44		23,770.00	(125,345.54)
Infrastructure and Environmental Services	2,045,378.78	796,939.70			(1,248,439.08)
Capital Projects		70,000.00			70,000.00
Debt Service: Interest and Fiscal Charges	35,698.38				(35,698.38)
<b>Total Governmental Activities</b>	<b>\$ 11,641,196.40</b>	<b>\$ 3,581,907.06</b>	<b>\$ 248,616.76</b>	<b>\$ 59,407.77</b>	<b>(\$7,751,264.81)</b>
<b>General Revenues:</b>					
Property Taxes					6,393,933.32
Sales Tax					1,953,441.80
Mixed Beverage Taxes					30,754.48
Intergovernmental					43,563.91
Investment Earnings					247,412.78
Miscellaneous					259,874.28
Loss on Disposition of Assets					(3,596.74)
<b>Total General Revenues</b>					<b>8,925,383.83</b>
Change in Net Assets					1,174,119.02
Net Assets - Beginning					15,963,297.17
Net Assets - Ending					<b>\$ 17,137,416.19</b>

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Palo Pinto County  
Statement of Net Assets  
September 30, 2008

VOL 037 010

	<u>Governmental Activities</u>
<b><u>Assets</u></b>	
Cash and Cash Equivalents	\$ 2,386,138.28
Investments	6,466,810.65
Accounts Receivable (Net)	169,501.87
Taxes Receivable (Net)	305,240.17
Other Receivables	
Inventory	26,474.11
Prepaid Expense	45,099.94
Bond Issuance Costs (Net)	8,205.88
Capital Assets:	
Land	96,820.00
Buildings	7,431,912.18
Improvements	508,099.52
Equipment and Vehicles	5,322,017.46
Infrastructure	2,424,671.03
Construction-in-Progress	73,899.78
Accumulated Depreciation	(6,628,326.47)
<u>Total Capital Assets, Net of Depreciation</u>	<u>9,229,093.50</u>
<u>Total Assets</u>	<u>18,636,564.40</u>
<b><u>Liabilities</u></b>	
Accounts Payable	337,025.34
Interest Payable	15,012.26
Accrued Liabilities	525.32
Due to Others	97,782.96
Current Portion:	
Tax Notes Payable	310,000.00
Capital Leases Payable	90,908.29
Long-term Portion:	
Tax Notes Payable	235,000.00
Capital Leases Payable	218,977.76
Uncompensated Absences	193,916.28
<u>Total Liabilities</u>	<u>1,499,148.21</u>
<b><u>Net Assets</u></b>	
Invested in Capital Assets, Net of Related Debt	8,289,918.34
Restricted for:	
Debt Service	81,118.98
Education	1,601.48
Capital Projects	809,013.97
Unrestricted	7,955,763.42
<u>Total Net Assets</u>	<u>\$ 17,137,416.19</u>



BASIC FINANCIAL STATEMENTS

**Capital Asset and Debt Administration**

*Capital assets.* Palo Pinto County's investment in capital assets for its governmental activities as of September 30, 2008 amounts to \$9,229,094(net of depreciation). This investment in capital assets includes land, buildings and building improvements, other improvements, transportation, machinery, equipment and other assets, infrastructure and construction-in-progress.

Major capital asset events during the current fiscal year included the following:

- ◆ Major roofing improvements to several County buildings totaling \$205,195.
- ◆ The purchase of a number of law enforcement vehicles for \$191,303.
- ◆ The purchase of several vehicles and heavy equipment for road and bridge operations totaling \$118,337.
- ◆ The addition of infrastructure in the form of major road improvements.

Additional information on the County's capital assets can be found in Note 3.D on page 28 of this report.

*Long-term debt.* At the end of the fiscal year, the County had total long-term debt of \$1,048,802 outstanding. This debt is 100% backed by the full faith and credit of the County.

Additional information on the County's long-term debt can be found in Note 3.I on pages 35-36 of this report.

**Economic Factors and Next Year's Budgets**

At the end of the fiscal year the unreserved fund balance in the general fund was \$7,035,554. The County appropriated \$1,136,790 of this amount for spending in the 2008-09 fiscal year budget primarily for road and bridge operations, and to fund a \$200,000 lump sum payment to Texas County and District Retirement System for the purpose of lowering future contribution rates. It is intended that the use of available fund balance will avoid the need to raise taxes during the 2009 fiscal year.

**Requests for Information**

This financial report is designed to provide a general overview of Palo Pinto County's finances. Questions concerning information in this report should be addressed to the County Auditor, Palo Pinto County, P.O. Box 159, Palo Pinto, Texas 76484.

Reference: Gauthier, Stephen J. Governmental Accounting, Auditing, and Financial Reporting, Chicago: Government Finance Officers Association, 2001.

The general fund is the chief operating fund of Palo Pinto County. At the end of the current fiscal year, unreserved fund balance of the general fund is \$7,035,554 while the total fund balance reached \$7,194,117. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total general fund expenditures. Unreserved fund balance represents 62.7 percent of total general fund expenditures, while total fund balance represents 64.2 percent of total general fund expenditures.

#### Other items

The fund balance of Palo Pinto County's general fund increased by \$238,224 during the current fiscal year. Key factors in this growth are as follows:

- ◆ Sales Tax revenue increased by \$58,024.
- ◆ Licenses Fees and Fines increased by \$162,977.

The Capital Projects Funds have a total fund balance of \$809,014 all of which is reserved for future capital projects. This represents an increase from 2007 of \$377,214. This increase is primarily the result of a transfer from General Fund reserves intended to fund future growth and expansion needs of the County. It is the intent of the County to continue annual transfers from the General Fund reserves.

The Debt Service Funds have a total fund balance of \$72,159 all of which is reserved for the payment of debt service.

Palo Pinto County's Special Revenue Funds have a combined unreserved fund balance of \$781,552 which represents an increase of \$116,554 primarily due to decreased expenditures in the County Clerk PRF fund and the courthouse security fund. Palo Pinto County is currently contracting for records preservation services and is reviewing future courthouse security needs.

#### General Fund Budgetary Highlights

The final amended budget showed an increase of \$195,108 (1.6 percent) over the original budget which can be briefly summarized as below:

- ◆ \$84,463 increase in Sheriff's Dept. from insurance proceeds due to three totaled deputy vehicles, and hail damage to a number of deputy vehicles.
- ◆ \$33,245 increase in Sheriff's Dept. for various grants and donations for Law Enforcement equipment.
- ◆ \$44,065 increase in Road and Bridge operations from insurance proceeds from 3<sup>rd</sup> parties due to damage sustained to equipment and a bridge, in addition to insurance proceeds due to hail damage.
- ◆ \$10,060 increase in Road and Bridge operations due to various donations.

It is the practice of the County to budget very conservatively. Actual revenues were 3.7 percent higher than budgeted. Licenses, Fees and Fines were 7.2 percent higher than budgeted, due to both the unpredictable nature of court fee collection and to the successful continuation of a delinquent collection program. However, Inmate Revenue was 50.1 percent lower than anticipated due to the completion of jails in 2 of the counties whose inmates were housed by Palo Pinto County. Actual operating expenditures were 9.4 percent lower than budgeted. This can be attributed primarily to lower than anticipated costs in both general operations and road and bridge operations.

**Changes in Net Assets**

	<i>Government Activities</i>	
	<u>2008</u>	<u>2007</u>
<b>Revenues:</b>		
<b>Program Revenues:</b>		
<i>Charges for Services</i>	\$ 3,581,907	\$ 3,840,603
<i>Operating Grants and Contributions</i>	248,617	245,729
<i>Capital Grants and Contributions</i>	59,408	1,266,331
<b>General Revenues:</b>		
<i>Property Taxes</i>	6,393,933	6,063,510
<i>Other Taxes</i>	1,984,196	1,818,550
<i>Other</i>	<u>547,254</u>	<u>388,855</u>
<b>Total Revenues</b>	<u><u>\$ 12,815,315</u></u>	<u><u>\$ 13,620,578</u></u>
<b>Expenses:</b>		
<i>General Government</i>	\$ 3,206,567	\$ 3,058,100
<i>Administration of Justice</i>	1,804,409	1,503,946
<i>Public Safety</i>	2,106,646	1,842,602
<i>Corrections and Rehabilitation</i>	1,937,592	1,766,815
<i>Health and Human Services</i>	216,473	181,605
<i>Community and Economic Development</i>	288,432	276,253
<i>Infrastructure and Environmental Services</i>	2,045,379	1,525,467
<i>Capital Projects</i>		
<i>Debt Service: Interest and Fiscal Charges</i>	<u>35,698</u>	<u>56,560</u>
<b>Total Expenses</b>	<u><u>\$ 11,641,196</u></u>	<u><u>\$ 10,211,348</u></u>
<i>Change in Net Assets</i>	\$ 1,174,119	\$ 3,409,230
<i>Net Assets - 10/1/07</i>	<u>15,963,297</u>	<u>12,554,067</u>
<i>Net Assets - 9/30/08</i>	<u><u>\$ 17,137,416</u></u>	<u><u>\$ 15,963,297</u></u>

**Financial Analysis of the Government's Funds**

*Governmental funds.* The focus of Palo Pinto County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

The largest portion of the County's net assets (49.5 percent) reflects its investment in capital assets (eg., land, buildings, machinery and equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Palo Pinto County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Net Assets**

	<i>Government Activities</i>	
	<u>2008</u>	<u>2007</u>
<i>Current and Other Assets</i>	\$ 9,407,470	\$ 8,607,990
<i>Capital Assets</i>	<u>9,229,094</u>	<u>9,373,165</u>
<b>Total Assets</b>	<u>\$ 18,636,564</u>	<u>\$ 17,981,155</u>
<i>Current Liabilities</i>	\$ 851,254	\$ 880,441
<i>Long-Term Liabilities</i>	<u>647,894</u>	<u>1,137,417</u>
<b>Total Liabilities</b>	<u>\$ 1,499,148</u>	<u>\$ 2,017,858</u>
<b>Net Assets:</b>		
<i>Capital Assets Net of Related Debt</i>	\$ 8,289,918	\$ 7,915,121
<i>Restricted</i>	891,735	483,712
<i>Unrestricted</i>	<u>7,955,763</u>	<u>7,564,464</u>
<b>Total Net Assets</b>	<u>\$ 17,137,416</u>	<u>\$ 15,963,297</u>

Restricted net assets represents resources that are subject to external restrictions. Unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. An internal designation was made to reserve \$86,207 for future improvements, replacement and maintenance of the control systems (HVAC) for the Law Enforcement Center from unrestricted net assets.

At the end of the fiscal year, Palo Pinto County is able to report positive balances in net assets, for the government as a whole, as well as for its separate governmental activities.

The government-wide financial statements are presented on pages 9-10 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Palo Pinto County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Palo Pinto County can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial focus is on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the county's near-term financing decisions. Both the governmental balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Palo Pinto County maintains twenty-three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other twenty-two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining funds* elsewhere in this report.

Palo Pinto County adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund.

The basic governmental financial statements can be found on pages 11-15 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The combined fiduciary fund *Statement of Fiduciary Net Assets* can be found on page 16 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the audited financial statements.

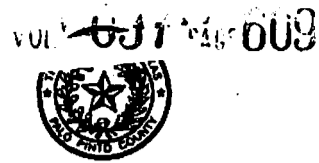
The notes can be found on pages 17-38 of this report.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Palo Pinto County, assets exceeded liabilities by \$17,137,416 at September 30, 2008.



**MIKE A. SMIDDY**  
**COUNTY JUDGE**  
**PALO PINTO COUNTY**



P.O. BOX 190  
PALO PINTO, TEXAS 76484-0190

(940) 659-1253  
FAX (940) 659-2411

### **Management's Discussion and Analysis**

As management of Palo Pinto County, we offer readers of the Palo Pinto County's financial statements this narrative overview of the financial activities of Palo Pinto County for the fiscal year ended September 30, 2008.

#### **Financial Highlights**

The assets of Palo Pinto County exceeded its liabilities at the close of the fiscal year by \$17,137,416 (*net assets*). Of this amount, \$7,955,763 (*unrestricted net assets*) may be used to meet the County's ongoing obligations.

As of the close of the fiscal year, the Palo Pinto County's governmental funds reported combined ending fund balances of \$8,857,662. Of this total amount, \$7,817,107 (88.3 percent) is *available for spending* at the County's discretion (*unreserved fund balance*).

At the end of the fiscal year, unreserved fund balance for the general fund is \$7,035,554 or 62.7 percent of total general fund expenditures.

The County's total long-term debt decreased \$570,212 (35.2 percent) during the fiscal year. The decrease is due to Tax Note and Capital Lease maturities with no additional obligations being issued.

#### **Overview of Financial Statements**

This discussion and analysis is intended to serve as an introduction to Palo Pinto County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide a broad overview of Palo Pinto County's finances, in a manner similar to private sector business.

The *Statement of Net Assets* presents information on all of Palo Pinto County's assets and liabilities, with the difference reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of whether the County's financial position is improving or deteriorating.

The *Statement of Activities* presents information showing how the County's net assets changed during the year. All changes in net assets are reported as soon as the event causing the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods (e.g., uncollected taxes).

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 the budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by 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 nonmajor fund financial statements and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements 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.

*Crawford, Carter + Thompson, L.L.P.*



CERTIFIED PUBLIC ACCOUNTANTS  
200 LYNCH PLAZA  
P.O. BOX 87  
MINERAL WELLS, TEXAS 76068-0087  
TELEPHONE (940) 328-1167  
FAX (940) 328-1541

ALLEN D. CRAWFORD, II, CPA  
CHARLES R. CARTER, CPA  
KAREN G. THOMPSON, CPA

MEMBER  
AMERICAN INSTITUTE OF CPA'S  
TEXAS SOCIETY OF CPA'S  
AICPA DIVISION FOR CPA FIRMS

JULIE M. DALLAS, CPA  
LAUREN MITCHELL, CPA

June 15, 2009

INDEPENDENT AUDITORS' REPORT

Honorable Judge and County Commissioners  
Palo Pinto County  
Palo Pinto, Texas 76484

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Pinto County (the "County"), as of and for the year ended September 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these basic 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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of Palo Pinto County as of September 30, 2008, and the respective changes in financial position 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 June 15, 2009 on our consideration of Palo Pinto County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts

Palo Pinto County  
Annual Financial Report  
Year Ended September 30, 2008

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Palo Pinto County

Annual Financial Report

Year Ended September 30, 2008

This information is intended solely for the use of Board of Directors and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Crawford, Carter & Thompson, L.L.P.*  
Crawford, Carter & Thompson, L.L.P.  
Certified Public Accountants

may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the allowance for uncollectible property taxes is based on management's assumptions of taxes that will not be collected within 60 days of their year end. We evaluated the key factors and assumptions used to develop the allowance for uncollectible property taxes in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the fund financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 3, 2009.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Vol 637 No 601

**CRAWFORD, CARTER & THOMPSON, L.L.P.**

CERTIFIED PUBLIC ACCOUNTANTS  
200 LYNCH PLAZA  
P.O. BOX 87  
MINERAL WELLS, TEXAS 76068-0087  
TELEPHONE (940) 328-1167  
FAX (940) 328-1541

ALLEN D. CRAWFORD, II, CPA  
CHARLES R. CARTER, CPA  
KAREN G. THOMPSON, CPA

**MEMBER**  
AMERICAN INSTITUTE OF CPA'S  
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AICPA DIVISION FOR CPA FIRMS

JULIE M. DALLAS, CPA  
LAUREN MITCHELL, CPA

June 3, 2009

To the Board of Directors  
Palo Pinto County Emergency Services District No. 1

We have audited the financial statements of the governmental activities and each major fund of Palo Pinto County Emergency Service District No. 1 (the District) for the year ended December 31, 2008, and have issued our report thereon dated June 3, 2009. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated February 5, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters in February 2009.

**Significant Audit Findings**

***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them



auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Other Matters**

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding these matters. This comment does not affect our report dated June 15, 2009.

During our review of cash receipts and collections in the Justice of Peace office, we noted that daily collections are prepared by the JP office but that the County Treasurer picks up the money for depositing. There is no record of who or when the deposit is picked up. We recommend that a log be maintained by the Justice of Peace office noting the date, amount of deposit and signature of official collecting the money.

We noted that in the District Clerk's office trust funds held for the benefit of a third party had been disbursed to the party and all documentation was present, however, it had not been deleted in the system and cash and trust liabilities were overstated at year end. We recommend that trust fund be confirmed with the bank periodically and reconciled to accounting records to insure that all funds are properly accounted for.

We noted that the County Clerk's office holds cash bonds for individuals, however, the list of cash bonds does not reconcile with the bank account balance. We recommend that each month the transactions in the bank accounts be posted and compared to the list of cash bonds and that any discrepancies be investigated and corrected as they occur. We have noted this problem in the past and recommend procedures be adopted to insure that cash bonds held agree to the bank balance on a monthly basis.

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

Very truly yours,

*Crawford, Carter + Thompson, L.L.P.*  
CRAWFORD, CARTER & THOMPSON, L.L.P.  
Certified Public Accountants

because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the allowance for uncollectible taxes is based on prior collection history. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 15, 2009.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Palo Pinto County's

CRAWFORD, CARTER & THOMPSON, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS  
200 LYNCH PLAZA  
P.O. BOX 87  
MINERAL WELLS, TEXAS 76068-0087  
TELEPHONE (940) 328-1167  
FAX (940) 328-1541

ALLEN D. CRAWFORD, II, CPA  
CHARLES R. CARTER, CPA  
KAREN G. THOMPSON, CPA

MEMBER  
AMERICAN INSTITUTE OF CPAs  
TEXAS SOCIETY OF CPAs  
AICPA DIVISION FOR CPA FIRMS

JULIE M. DALLAS, CPA  
LAUREN MITCHELL, CPA

June 22, 2009

To the Honorable County Judge and County Commissioners  
Palo Pinto County  
Palo Pinto, TX 76484

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Pinto County for the year ended September 30, 2008, and have issued our report thereon dated June 15, 2009. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated September 5, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with our oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 15, 2008.

**Significant Audit Findings**

*Qualitative Aspects of Accounting Practices*

Management is responsible for selection and use of appropriate accounting policies. The significant accounting policies used by Palo Pinto County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by Palo Pinto County during the year for which there is a lack of authoritative guidance or consensus. There were no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive

**Palo Pinto County**

**Annual Financial Report**

**Year Ended September 30, 2008**

**CRAWFORD, CARTER & THOMPSON, L.L.P.**  
Certified Public Accountants  
Mineral Wells, Texas

INDEPENDENT AUDIT SERVICES EVALUATION  
 COMMISSIONERS COURT -- JUNE 22, 2009

	<u>GEORGE, MORGAN &amp; SNEED</u>	<u>CHEATHAM &amp; LANSFORD</u>	***** <u>EDGIN, PARKMAN FLEMING &amp; FLEMING &amp;</u>	<u>LARSON ALLEN</u>
LOCATION	Weatherford	Stephenville	Wichita Falls	Dallas(National)
HOURS BUDGETED	295	240	289	275
STAFF BUDGETED	1 Principal, 3 staff	1 Supv., 3 staff	2 Principals, 1 staff	
FEEES	\$ 35,000.00	\$ 30,000.00	\$ 31,800.00	\$ 26,925.00
SUBSEQUENT YEAR FEES	4% increase/year	3% increase/year	COL only (2 1/2 - 3%)	5 % increase/year
REFERENCES/EXPERIENCE	Somervell County	No Counties	3 Small Counties *	No Texas Clients
ASSISTANCE DURING YEAR	Yes, no fee	Billed @ \$130/hour	Yes, no fee unless substantial time	

\*\*\*\*\* COMMITTEE RECOMMENDATION: EDGIN, PARKMAN, FLEMING & FLEMING

\* Wilbarger County  
 Archer County  
 Hardeman County

NOTE: We have spoken to the Treasurer in Archer County & to the Auditor in Wilbarger County, both of whom highly recommended Edgin, Parkman, Fleming & Fleming.