

COUNTY OF STEPHENS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2008

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Cameron L. Gulley

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Independent Auditor's Report

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

Members of the Commissioners' Court:

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of County of Stephens, Texas (the "County") as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's administrators. My responsibility is to express an opinion on them based on my audit.

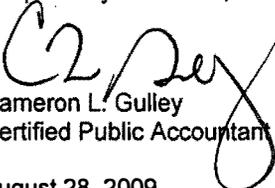
I conducted my audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of County of Stephens, Texas as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with account principles generally accepted in the United States of America.

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

In accordance with GOVERNMENT AUDITING STANDARDS, I have also issued my report dated August 28, 2009, on my consideration of the County's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with GOVERNMENT AUDITING STANDARDS and should be read in conjunction with this report in considering the results of my audit.

Respectfully submitted,


Cameron L. Gulley
Certified Public Accountant

August 28, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of County of Stephens, Texas, discuss and analyze the County's financial performance for the fiscal year ended December 31, 2008. Please read it in conjunction with the independent auditor's report on page 1 and the County's Basic Financial Statements which begin on page 9.

USING THIS ANNUAL REPORT

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

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

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

Reporting the County as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

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

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

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

Reporting the County's Most Significant Funds

Fund Financial Statements

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total net assets of the County's governmental activities increased from \$19,519,092 to \$20,204,632. The primary reason for the increase is due mainly to an increase in property tax revenues by approximately \$917,000 due to an increase in rates to support the newly issued debt in the current fiscal year. Current assets increased by over \$8,941,000 (consisting primarily of increases in cash) due to the debt proceeds received of \$9,000,000 in the current year that will be used in succeeding years to construct a new jail facility. Capital assets increased by approximately \$1,019,000 due to current year asset additions in excess of current year depreciation expense. Long-term liabilities increased by \$8,691,000 due to the \$9,000,000 debt issuance netted against current year principal liquidations. Other liabilities increased by \$584,000 due to accrued interest payable on the new debt issue plus increases in ending accounts payable due to the jail construction costs.

Table I
County of Stephens, Texas
Net Assets

	Governmental Activities 2008	Governmental Activities 2007	Variance Increase/ (Decrease)
Current and other assets	\$ 14,645,496	\$ 5,703,593	\$ 8,941,903
Capital assets	16,521,546	15,502,957	1,018,589
Total assets	31,167,042	21,206,550	9,960,492
Long-term liabilities	10,260,363	1,569,355	8,691,008
Other liabilities	702,047	118,103	583,944
Total liabilities	10,962,410	1,687,458	9,274,952
Net assets:			
Invested in capital assets net of related debt	13,957,881	13,933,602	24,279
Restricted for debt service	352,140	130,949	221,191
Unrestricted	5,894,611	5,454,541	440,070
Total net assets	\$ 20,204,632	\$ 19,519,092	\$ 685,540

Table II
County of Stephens, Texas
Changes in Net Assets

	Governmental Activities 2008	Governmental Activities 2007	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 1,077,602	\$ 985,649	\$ 91,953
Operating grants and contributions	105,254	421,196	(315,942)
General Revenues:			
Property taxes	4,604,034	3,686,805	917,229
Other taxes	16,567	13,454	3,113
Miscellaneous income	361,013	318,787	42,226
Investment earnings	382,371	252,445	129,926
Total Revenues	6,546,841	5,678,336	868,505
Expenses:			
Judicial	360,489	399,859	39,370
Public transportation	1,709,308	1,633,209	(76,099)
General government	1,662,777	1,694,768	31,991
Public facilities	193,255	204,741	11,486
Health and welfare	372,838	409,251	36,413
Public safety	1,219,960	1,096,022	(123,938)
Recreation and culture	28,763	32,489	3,726
Debt service	313,911	62,259	(251,652)
Total Expenses	5,861,301	5,532,598	(328,703)
Increase in Net Assets	685,540	145,738	539,802
Net Assets - beginning of year	19,519,092	18,068,256	1,450,836
Beginning net asset adjustment	0	1,305,098	(1,305,098)
Net Assets - end of year	\$ 20,204,632	\$ 19,519,092	\$ 685,540

Total revenues of the County were up \$868,505 from the previous year. Property taxes were up most significantly due to increases in valuations from the previous year. Operating grants and contributions were down due to federal disaster assistance grants received in the previous year. Investment income was up due to the cash received and invested from the debt issuance for the new jail construction.

Total expenses of the County were up \$328,703 from the previous year. Debt service expenses were up due to accrual of interest on the \$9 million loan received in the current year. Public safety expenses were up due to higher payroll costs and automotive fuel and maintenance expenses from the previous year. Public transportation costs were higher primarily due to increased depreciation expenses for the year.

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the balance sheet on page 11) reported a combined fund balance of \$11,140,221, an increase of \$7,812,341 in the County's governmental funds over last year's fund balance of \$3,327,880. This differs substantially from the increase in net assets reported above. Those differences are disclosed on the exhibits on pages 12 and 14.

Over the course of the year, the County Commission did not revise its budget

The County's General Fund balance of \$2,577,608 reported on pages 11 and 13 differs from the projected budgetary fund balance of \$2,477,569 on page 15. The major variances were due to revenues being approximately \$845,000 more than budgeted while expenditures were \$745,000 more than budgeted (including the nonbudgeted transfers).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2008, the County had \$36,841,524 invested in a broad range of capital assets including infrastructure, county government facilities and road and maintenance equipment. This amount represents an increase of \$1,950,099 (net of dispositions) from last fiscal year. This year's major additions included:

Technology equipment	\$ 28,986
Motorola radios	58,277
2007 Mack truck	92,000
John Deere 672 motor graders (2)	362,000
Caterpillar wheel loader	115,400
Completion of county hospital emergency room	16,462
Construction in progress - law enforcement ctr	1,130,011
Real estate for law enforcement center	21,908
2008 Ford pickup	31,456
2009 Ford pickup	31,474
Used 1999 Ford ambulance	18,000
2009 Chevrolet ambulance	117,825
Total	\$ 2,023,799

Debt

At December 31, 2008, the County had three outstanding debt obligations in the form of notes payable. Payments on the one of the loans will fully mature in 2009, one in 2014 and the third in 2023. During the year, the County entered into a long-term loan agreement totaling \$9,000,000 to be used for the construction of a new county jail facility. The County retired \$308,992 in principal on the loans for an ending combined balance of \$10,260,363. Annual payments will approximate \$777,000 in 2009 and then \$1,113,000 thereafter until 2015 when they drop to approximately \$847,000 until fully retired in 2023.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County should maintain its financial health during the 2009 fiscal year. Budgeted expenditures for next fiscal year are approximately the same as they were for the 2008 fiscal year. Taxable values for the County have remained consistent with previous years and should generate approximately the same revenues as in previous years. Total expenditures of the County were budgeted to be nearly the same as was budgeted in 2008. Total fund balances of the County are projected to approximate \$2,500,000 at the end of the next fiscal year.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

COUNTY OF STEPHENS, TEXAS
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	Primary Govt Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,617,724
Current investments	8,721,115
Property taxes receivable	3,158,994
Allowance for uncollectible taxes	(208,521)
Accounts receivable	1,266,724
Capitalized bond issue costs	89,460
Capital assets:	
Land	301,285
Infrastructure, net	10,907,951
Buildings and improvements, net	4,067,559
Furniture and equipment, net	1,244,751
	31,167,042
Total assets	31,167,042
LIABILITIES	
Accounts payable	445,809
Accrued liabilities	19,533
Accrued interest payable	236,705
Noncurrent liabilities:	
Due within one year	243,591
Due in more than one year	10,016,772
	10,962,410
Total liabilities	10,962,410
NET ASSETS	
Invested in capital, net of related debt	13,957,881
Restricted for debt service	352,140
Unrestricted net assets	5,894,611
	\$ 20,204,632
Total net assets	\$ 20,204,632

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

COUNTY OF STEPHENS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities	
PRIMARY GOVERNMENT:				
Governmental activities:				
Judicial	\$ 360,489	\$ 9,119	\$ (351,370)	
Public transportation	1,709,308	499,897	(1,162,359)	
General government	1,662,777	349,655	(1,267,111)	
Public facilities	193,255		(193,255)	
Health and welfare	372,838		(362,634)	
Public safety	1,219,960	218,931	(999,042)	
Recreation and culture	28,763		(28,763)	
Debt service	313,911		(313,911)	
TOTAL PRIMARY GOVERNMENT	\$ 5,861,301	\$ 1,077,602	\$ (4,678,445)	

General revenues:

Taxes:

Property taxes, levied for general purposes	4,604,034
Other taxes	16,567
Investment and royalty earnings	382,371
Miscellaneous	361,013
Total general revenues	5,363,985
Change in net assets	685,540
Net assets - beginning of year	19,519,092
Prior period adjustment	0
Net assets - ending	\$ 20,204,632

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

COUNTY OF STEPHENS, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General Fund	Road & Bridge Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,120,170	\$ 347,816	\$ 1,623	148,115	\$ 1,617,724
Investments - current	503,557	80,367	8,137,191		8,721,115
Property taxes	3,158,994				3,158,994
Allowance for uncollectible taxes (credit)	(208,521)				(208,521)
Accounts receivable	1,058,005	195,140		13,579	1,266,724
TOTAL ASSETS	<u>\$ 5,632,205</u>	<u>\$ 623,323</u>	<u>\$ 8,138,814</u>	<u>161,694</u>	<u>\$ 14,556,036</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 90,761	\$ 30,516	\$ 294,871	29,661	\$ 445,809
Accrued payroll	13,363	6,170			19,533
Deferred revenues	2,950,473				2,950,473
Total Liabilities	<u>3,054,597</u>	<u>36,686</u>	<u>294,871</u>	<u>29,661</u>	<u>3,415,815</u>
Fund Balances:					
Reserved for:					
Retirement of long-term debt	352,140				352,140
Unreserved designated for:					
Construction			7,843,943		7,843,943
Other purposes				132,033	132,033
Unreserved and undesignated	2,225,468	586,637			2,812,105
Total Fund Balances	<u>2,577,608</u>	<u>586,637</u>	<u>7,843,943</u>	<u>132,033</u>	<u>11,140,221</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,632,205</u>	<u>\$ 623,323</u>	<u>\$ 8,138,814</u>	<u>161,694</u>	<u>\$ 14,556,036</u>

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

COUNTY OF STEPHENS, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

Total fund balances - governmental funds	\$ 11,140,221
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$34,891,425 and the accumulated depreciation was \$19,388,468. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.	13,933,602
2 Prior year property tax levies which are considered collectible are recognized as revenue in the accounting period in which levied. However, they are reported as deferred revenue in the fund level financial statements until received. Additionally, billed but uncollected receivables related to fines and fees are not recognizable as revenue until received in the fund level financial statements. The net effect of including the beginning balances for deferred revenues related to delinquent taxes receivable and fines and fees receivable in the governmental activities is to increase net assets.	2,257,610
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2008 capital outlays and debt principal payments is to increase (decrease) net assets.	2,332,791
4 Current year long-term debt issued is shown as other source revenue in the fund financial statements, but it should be shown as an increase in long-term debt in the government-wide financial statements. The net effect of including the 2008 long-term debt issued is to decrease net assets.	(9,000,000)
5 The 2008 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(997,840)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	538,248
Net assets of governmental activities	\$ 20,204,632

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

COUNTY OF STEPHENS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Road & Bridge Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
REVENUES:					
Property taxes	\$ 3,341,024	\$ 570,147	\$		\$ 3,911,171
Licenses and fees	382,190	486,953		208,459	1,077,602
Other taxes	16,567				16,567
State and federal grants and contracts	56,215	47,052		1,987	105,254
Investment earnings	93,708	13,110	88,753		195,571
Royalties	186,800				186,800
Miscellaneous revenues	318,087	50,296			368,383
Total revenues	<u>4,394,591</u>	<u>1,167,558</u>	<u>88,753</u>	<u>210,446</u>	<u>5,861,348</u>
EXPENDITURES:					
Judicial	341,061			19,428	360,489
Public transportation	39,103	1,462,121			1,501,224
General government	1,707,380			20,814	1,728,194
Public facilities	193,255		1,151,919		1,345,174
Health and welfare	255,270				255,270
Public safety	1,230,027			124,208	1,354,235
Recreation and culture	28,763				28,763
Debt service	341,404	41,363	92,891		475,658
Total expenditures	<u>4,136,263</u>	<u>1,503,484</u>	<u>1,244,810</u>	<u>164,450</u>	<u>7,049,007</u>
Excess (deficiency) of revenues over (under) expenditures	<u>258,328</u>	<u>(335,926)</u>	<u>(1,156,057)</u>	<u>45,996</u>	<u>(1,187,659)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in (out)	(157,301)	149,301		8,000	0
Proceeds from long-term notes payable			9,000,000		9,000,000
Total other financing sources (uses)	<u>(157,301)</u>	<u>149,301</u>	<u>9,000,000</u>	<u>8,000</u>	<u>9,000,000</u>
Net change in fund balances	101,027	(186,625)	7,843,943	53,996	7,812,341
Fund balance - beginning	2,476,581	773,262		78,037	3,327,880
Adjustments to beginning fund balances					0
Fund balance - ending	<u>\$ 2,577,608</u>	<u>\$ 586,637</u>	<u>\$ 7,843,943</u>	<u>132,033</u>	<u>\$ 11,140,221</u>

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

COUNTY OF STEPHENS, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2008

Total net change in fund balances - governmental funds	\$ 7,812,341
1 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2008 capital outlays and debt principal payments is to increase (decrease) net assets.	2,332,791
2 Current year long-term debt issued is shown as other source revenue in the fund financial statements, but it should be shown as an increase in long-term debt in the government-wide financial statements. The net effect of including the 2008 long-term debt issued is to decrease net assets.	(9,000,000)
3 Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	(997,840)
4 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	538,248
Change in net assets of governmental activities	\$ <u>685,540</u>

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

COUNTY OF STEPHENS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 2,879,732	\$ 2,879,732	\$ 3,341,024	\$ 461,292
Licenses and fees	225,080	225,080	382,190	157,110
Other taxes	13,350	13,350	16,567	3,217
State and federal grants and contracts	49,925	49,925	56,215	6,290
Investment earnings	69,800	69,800	93,708	23,908
Royalties	98,000	98,000	186,800	88,800
Miscellaneous revenues	212,800	212,800	318,087	105,287
Total revenues	<u>3,548,687</u>	<u>3,548,687</u>	<u>4,394,591</u>	<u>845,904</u>
EXPENDITURES:				
Judicial	318,436	318,436	341,061	(22,625)
Public transportation	15,500	15,500	39,103	(23,603)
General government	1,546,084	1,546,084	1,707,380	(161,296)
Public facilities	186,714	186,714	193,255	(6,541)
Health and welfare	276,535	276,535	255,270	21,265
Public safety	918,825	918,825	1,230,027	(311,202)
Recreation and culture	33,200	33,200	28,763	4,437
Debt service	260,405	260,405	341,404	(80,999)
Total expenditures	<u>3,555,699</u>	<u>3,555,699</u>	<u>4,136,263</u>	<u>(580,564)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,012)</u>	<u>(7,012)</u>	<u>258,328</u>	<u>265,340</u>
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	8,000	8,000	(157,301)	(165,301)
Proceeds from long-term notes payable	0	0		0
Total other financing sources (uses)	<u>8,000</u>	<u>8,000</u>	<u>(157,301)</u>	<u>(165,301)</u>
Net change in fund balances	988	988	101,027	100,039
Fund balance - beginning	2,476,581	2,476,581	2,476,581	0
Adjustments to beginning fund balances				0
Fund balance - ending	<u>\$ 2,477,569</u>	<u>\$ 2,477,569</u>	<u>\$ 2,577,608</u>	<u>\$ 100,039</u>

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

COUNTY OF STEPHENS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - ROAD & BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 540,110	\$ 540,110	\$ 570,147	\$ 30,037
Licenses and fees	555,880	555,880	486,953	(68,927)
Other taxes	0	0		0
State and federal grants and contracts	14,000	14,000	47,052	33,052
Investment earnings	12,000	12,000	13,110	1,110
Royalties	0	0		0
Miscellaneous revenues	7,000	7,000	50,296	43,296
Total revenues	<u>1,128,990</u>	<u>1,128,990</u>	<u>1,167,558</u>	<u>38,568</u>
EXPENDITURES:				
Judicial	0	0		0
Public transportation	1,067,978	1,067,978	1,462,121	(394,143)
General government	0	0		0
Public facilities	0	0		0
Health and welfare	0	0		0
Public safety	0	0		0
Recreation and culture	0	0		0
Debt service	41,000	41,000	41,363	(363)
Total expenditures	<u>1,108,978</u>	<u>1,108,978</u>	<u>1,503,484</u>	<u>(394,506)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>20,012</u>	<u>20,012</u>	<u>(335,926)</u>	<u>(355,938)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	0	0	149,301	149,301
Proceeds from long-term notes payable	0	0		0
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>149,301</u>	<u>149,301</u>
Net change in fund balances	20,012	20,012	(186,625)	(206,637)
Fund balance - beginning	773,262	773,262	773,262	0
Adjustments to beginning fund balances				0
Fund balance - ending	<u>\$ 793,274</u>	<u>\$ 793,274</u>	<u>\$ 586,637</u>	<u>\$ (206,637)</u>

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

COUNTY OF STEPHENS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEAR ENDED DECEMBER 31, 2008

I. Summary of significant accounting policies

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

A. Reporting entity

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

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

B. Government-wide and fund financial statements

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

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

Interfund activities between governmental appear as due to/due from on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

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

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

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

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

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

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

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

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

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

D. Fund accounting

The County reports the following major governmental funds:

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

The County reports the following nonmajor fiduciary funds:

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

E. Other accounting policies

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

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

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

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

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

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

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

II. Stewardship, compliance, and accountability

A. Budgetary data

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

B. Excess of expenditures over appropriations

Judicial -	\$ 22,625
Public transportation -	\$ 23,603
Public transportation (R&B) -	\$ 394,143
General government -	\$ 161,296
Public facilities -	\$ 6,541
Public safety -	\$ 311,202
Debt service -	\$ 80,999

C. Deficit fund equity

None.

III. Detailed notes on all funds

A. Deposits and investments

County Policies and Legal and Contractual Provisions Governing Deposits

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

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

County Policies and Legal and Contractual Provisions Governing Investments

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

As of December 31, 2008, the County had the following investments.

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1 Year	1-5	6-10	More Than 10
Certificates of Deposit	\$ 583,924	\$ 583,924			
TexSTAR investment pool	8,137,191	8,137,191			
Total	<u>\$8,721,115</u>	<u>\$8,721,115</u>			

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

Credit Risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the County limits investments in certificates of deposit or publicly funded investment pools to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of December 31, 2008, the County's investments in certificates of deposit and investment pools were rated A1 by Standard and Poor's.

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

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

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

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

B. Property taxes

The County's property tax is levied each October 1, on the assessed value listed as of the prior January 1, for all real and certain personal property located in the County. The appraisal of property within the County is the responsibility of the Stephens County Appraisal District as required by legislation passed by the Texas Legislature. The Appraisal District is required under such legislation to assess all property within the Appraisal District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The assessed value upon which the fiscal 2008 levy was based was approximately \$837,126,403. The value of property within the Appraisal District must be reviewed every five years; however, the County may, at its own expense, require annual review of appraised values. The County may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action.

General property taxes are limited by the Texas Constitution to \$2.50 per \$100 of assessed valuation. The combined tax rate to finance general governmental service for the year ended December 31, 2008, was \$0.5466 per \$100 of assessed valuation.

Property taxes attach as an enforceable lien on property as of January 1, following the levy date. Taxes are due by January 31, following the levy date. Total tax collections for the year were 84.32% of the tax levy.

C. Delinquent taxes receivable

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

D. Interfund balances and transfers

	Transfer To	Transfer From	Purpose
General fund		\$ 157,301	Operating activities
Road & Bridge fund	\$ 149,301		Operating activities
Special revenue fund	8,000		Operating activities
	<u>\$ 157,301</u>	<u>\$ 157,301</u>	

E. Disaggregation of receivables and payables

Receivables at December 31, 2008 were as follows:

	Accounts	Taxes	Total Receivables
Governmental Activities:			
General Fund	\$1,058,005	\$3,158,994	\$4,216,999
Road & Bridge Fund	195,140		195,140
Special Revenue Funds	13,579		13,579
Total Governmental Activities	<u>\$1,266,724</u>	<u>\$3,158,994</u>	<u>\$4,425,718</u>

Payables at December 31, 2008 were as follows:

	Accounts	Accrued Payroll	Total Payables
Governmental Activities:			
General Fund	\$90,761	\$13,363	\$104,124
Road & Bridge Fund	30,516	6,170	36,686
Capital Projects Fund	294,871		294,871
Special Revenue Funds	29,661		29,661
Total Governmental Activities	<u>\$445,809</u>	<u>\$ 19,533</u>	<u>\$465,342</u>

F. Capital asset activity

Capital asset activity for the County for the year ended December 31, 2008, was as follows:

	Balance 12/31/07	Additions	Deletions	Balance 12/31/08
Governmental activities:				
Land	\$ 279,377	\$ 21,908		\$ 301,285
Infrastructure - roads	25,622,952			25,622,952
Buildings and improvements	6,620,313	1,146,473		7,766,786
Furniture and equipment	2,368,783	855,418	\$ 73,700	3,150,501
Totals	34,891,425	2,023,799	73,700	36,841,524
Less accum depreciation for:				
Infrastructure - roads	14,074,210	640,791		14,715,001
Buildings and improvements	3,577,354	121,873		3,699,227
Furniture and equipment	1,736,904	235,176	66,330	1,905,750
Total accum depreciation	19,388,468	997,840	66,330	20,319,978
Governmental activities capital assets, net	\$15,502,957	\$ 1,025,959	\$ 7,370	\$16,521,546

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

Governmental activities:	
General government	\$ 21,846
Public health and welfare	134,030
Public safety	64,480
Public transportation	777,484
Total depreciation expense - governmental activities	\$ 997,840

G. Accumulated unpaid vacation and sick leave benefits

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

H. Texas County and District Retirement System

Plan Description

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

The plan provisions are adopted by the governing body of the County, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service or with 30 years regardless of age, or when the sum of their age and years of service equals 75 or more. A member is vested after 8 years but must leave his accumulated contributions in the plan to receive any employer-financed benefit. Member who withdraw their personal contributions in a lump-sum are not entitled to any amounts contributed by their employer.

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

Funding Policy. The employer has elected the annually determined contribution rate (ADCR) plan provisions if the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The County contributed using the actuarially determined rate of 12% for calendar year 2008.

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

Annual Pension Cost. For the County's accounting year ending December 31, 2008, the annual pension cost for the TCDRS plan for its employees was \$105,564 and the actual contributions were \$180,966.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuation as of December 31, 2007, the basis for determining the contribution rates for calendar year 2008. 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 (in years)	8.8	4.8	3.3
Asset Valuation Method	long-term appreciation with adjustment	SAF: 10-yr smoothed value ESF: fund value	SAF: 10-yr smoothed value ESF: fund value
Actuarial Assumptions:			
Investment Return	8.00%	8.0%	8.0%
Projected Salary Increases	5.3%	5.3%	5.3%
Inflation	3.5%	3.5%	3.5%
Cost-of-Living Adjustments	0.0%	0.0%	0.0%

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a/c)
12/31/05	4,654,683	5,225,972	571,289	89.07%	1,329,941	42.96%
12/31/06	5,271,360	5,647,904	376,544	93.33%	1,370,182	27.48%
12/31/07	5,300,498	5,608,331	307,833	94.51%	1,445,561	21.30%

I. Deferred revenues

	Deferred Taxes	Total Deferred Revenue
General Fund	\$2,950,473	\$2,950,473

J. Long-term debt

During the year ended December 31, 2008, the County had four outstanding loans payable as follows:

Issue	Beginning Balance	Advanced	Retired	Ending Balance	Current Portion
First National Bank - Albany/Breckenridge note payable dated 08/06/06 bearing interest at 7.50% due 08/06/09	\$ 50,748		\$ 16,000	\$ 34,748	\$ 34,748
First National Bank - Albany/Breckenridge note payable dated 05/05/06 bearing interest at 7.75% due 05/05/08	20,000		20,000	0	0
\$1,600,000 Combination Tax and Revenue Certificates of Obligation, Series 2006 bearing interest at 4.90% due monthly until 12/15/14	1,498,607		272,992	1,225,615	208,843
\$9,000,000 Certificates of Obligation, Series 2008 bearing interest at 4.0262% due incrementally on 02/15 and 08/15 of each year until 02/15/23	0	\$9,000,000	0	9,000,000	0
	<u>\$ 1,569,355</u>	<u>\$9,000,000</u>	<u>\$ 308,992</u>	<u>\$10,260,363</u>	<u>\$ 243,591</u>

Future debt service requirements are as follows:

Year ended December 31,	Principal	Interest	Total Requirements
2009	\$ 243,591	\$ 534,141	\$ 777,732
2010	709,475	404,419	1,113,894
2011	740,474	373,420	1,113,894
2012	772,024	341,070	1,113,094
2013	804,114	307,380	1,111,494
2014-2018	3,175,685	1,130,171	4,305,856
2019-2023	3,815,000	421,640	4,236,640
Total	<u>\$10,260,363</u>	<u>\$3,512,241</u>	<u>\$13,772,604</u>

OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION

Independent Auditor's Report

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

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

Members of the Commissioners' Court:

I have audited the financial statements of the governmental activities, each major fund, and the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of County of Stephens, Texas as of and for the year ended December 31, 2008. These collectively comprise the County's basic financial statements. I have issued my report on them dated August 28, 2009.

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

Internal Control Over Financial Reporting

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

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

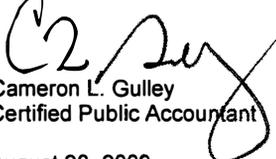
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I identified no items as deficiencies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

Compliance

As part of obtaining reasonable assurance about whether the County of Stephens, Texas' financial statements are free of material misstatement, I performed tests of the County's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 08-1. However, it is neither considered a material weakness or significant deficiency as defined above.

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

Respectfully submitted,


Cameron L. Gulley
Certified Public Accountant

August 28, 2009

COUNTY OF STEPHENS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

A. Summary of Auditor's Results

Type of auditor's report issued: Unqualified.

Internal control over financial reporting:

 Material weakness(es) identified? None.

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

Noncompliance material to financial statements noted? No.

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

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

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

08-1 Budget Categories Exceeded

Criteria Governmental entities required to adopt a budget must not exceed the approved budget with expenditures until authorized by County Commission through budget amendments at any time during the year.

Statement of Condition The General Fund and Major Special Revenue Fund exceeded its approved expenditure budget in nearly every functional category by more than \$2,500 each for the year under audit.

Questioned Costs None. While the County failed to amend its departmental budgets, all purchases were approved by the County Commission.

Cause and Effect The cause and effect of exceeding the budget can be various...unexpected or unplanned expenditures for certain areas within the County's operational activities, failure to recognize the expenditure overages by the County Commission and administration timely, or other causes.

Recommendations As the County reviews its monthly budget categories, it should make budget amendments as necessary where expenditures are projected to exceed originally adopted budgets. In the case of this past fiscal year, the County should properly make budget amendments whenever unexpected expenses are incurred which are not budgeted originally. Those amendments should be made prior to the actual expenditure of funds.

C. Findings and Questioned Costs for Federal Awards

N/A.

COUNTY OF STEPHENS, TEXAS
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2008

<u>Program</u>	<u>Findings</u>	<u>Questioned Costs</u>
General Operating	<p>The General and Road & Bridge Fund budgets were exceeded during the 2007 fiscal year.</p> <p><u>Status:</u></p> <p>The 2008 annual budget was again exceeded during the current year under audit. See 08-1.</p>	0