

**COUNTY OF STEPHENS, TEXAS**  
*ANNUAL FINANCIAL REPORT*  
*FOR THE YEAR ENDED DECEMBER 31, 2011*

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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, 2011, 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.

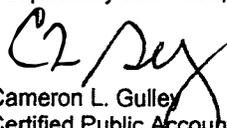
I conducted my audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable 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, 2011, 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 listed in the table of contents is not a required part of the basic financial statements but is 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 September 14, 2012, 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

September 14, 2012

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

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of County of Stephens, Texas, discuss and analyze the County's financial performance for the fiscal year ended December 31, 2011. 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 17) 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.

Phone: 254-559-2190

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 decreased from \$20,509,961 to \$19,774,584. The primary reason for the decrease is due mainly to a significant drop in property tax revenues. Current assets decreased by over \$946,000 (consisting primarily of decreases in cash) due in part to early payoff of long-term debt instruments during the year. Capital assets decreased by approximately \$714,000 due to depreciation expense in excess of asset additions for the year. Long-term liabilities decreased by \$921,130 due to the liquidation of outstanding long-term notes payable. Other liabilities decreased by \$3,734 due to decreases in ending accounts payable.

Table I County of Stephens, Texas Net Assets			
	Governmental Activities 2011	Governmental Activities 2010	Variance Increase/ (Decrease)
Current and other assets	\$ 6,508,110	\$ 7,454,346	\$ (946,236)
Capital assets	21,643,103	22,357,108	(714,005)
Total assets	28,151,213	29,811,454	(1,660,241)
Long-term liabilities	8,012,535	8,933,665	(921,130)
Other liabilities	364,094	367,828	(3,734)
Total liabilities	8,376,629	9,301,493	(924,864)
Net assets:			
Invested in capital assets net of related debt	13,577,542	13,369,101	208,441
Restricted for debt service	664,683	24,380	640,303
Unrestricted	5,532,359	7,116,480	(1,584,121)
Total net assets	\$ 19,774,584	\$ 20,509,961	\$ (735,377)

Table II County of Stephens, Texas Changes in Net Assets			
	Governmental Activities 2011	Governmental Activities 2010	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 1,057,429	\$ 1,095,747	\$ (38,318)
Operating grants and contributions	490,427	452,570	37,857
General Revenues:			
Property taxes	5,532,351	5,854,046	(321,695)
Other taxes	12,558	14,941	(2,383)
Miscellaneous income	303,527	334,162	(30,635)
Investment earnings	153,268	165,663	(12,395)
Total Revenues	7,549,560	7,917,129	(367,569)
Expenses:			
Judicial	397,188	414,894	17,706
Public transportation	1,854,042	1,847,728	(6,314)
General government	2,482,087	2,468,172	(13,915)
Public facilities	184,788	249,353	64,565
Health and welfare	799,258	867,497	68,239
Public safety	2,195,160	2,106,766	(88,394)
Recreation and culture	27,168	27,574	406
Debt service	345,246	395,303	50,057
Total Expenses	8,284,937	8,377,287	92,350
Increase in Net Assets	(735,377)	(460,158)	(275,219)
Net Assets - beginning of year	20,509,961	20,970,119	(460,158)
Beginning net asset adjustment	0	0	0
Net Assets - end of year	\$ 19,774,584	\$ 20,509,961	\$ (735,377)

Total revenues of the County were down \$367,569 from the previous year. Property taxes made up the most significant revenue decrease due to a tax valuations drop by nearly 10% from the previous year. Operating grants and contributions were higher due to federal and state grants received during the year.

Total expenses of the County were lower by \$92,350 from the previous year. Increases in public safety were for higher payroll costs associated with staffing of the county jail plus higher inmate medical expenses. Lower county hospital subsidy payments caused the drop in expenses for health and welfare costs. Significant plumbing repairs last year but not incurred this fiscal year resulted in a decrease in public facilities expenses.

**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 \$2,953,097, a decrease of \$253,565 in the County's governmental funds from last year's fund balance of \$3,206,662. This differs substantially from the increase in net assets reported above. Those differences are disclosed on the exhibits on pages 12 and 14 (primarily consisting of capitalized asset costs).

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

The County's General Fund balance of \$2,295,949 reported on pages 11 and 13 differs from the projected budgetary fund balance of \$1,737,498 on page 15 due to a residual transfer in of unexpended certificates of obligation proceeds from the capital projects fund.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2011, the County had \$45,436,315 invested in a broad range of capital assets including infrastructure, county government facilities and road and maintenance equipment. This amount represents an increase of \$567,778 from last fiscal year. This year's major additions included:

Electrical work paid on law enforcement center	\$ 40,587
Courthouse lighting efficiency improvements	40,303
Airport improvements (cost-share)	115,840
Voting equipment	8,015
Ford pickups	70,919
Road equipment	163,914
Communication equipment	85,005
Other equipment	43,295
Total	\$ 567,778

**Debt**

At December 31, 2011, the County had two outstanding debt obligations in the form of notes payable. Payments on the one of the loans will fully mature in 2012 and the other in 2023. The County retired \$921,130 in principal on the loans for an ending combined balance of \$8,012,535. Future annual payments will approximate \$850,000 until fully retired in 2023.

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

The County should maintain its financial health during the 2012 fiscal year. Budgeted expenditures for next fiscal year are approximately the same as they were for the 2011 fiscal year. Taxable values for the County have remained consistent with previous years and should generate similar revenues as in previous years. Total expenditures of the County were budgeted to be nearly the same as was budgeted in 2011. Total fund balances of the County's general fund are projected to approximate \$2,300,000 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, 2011

	Primary Govt Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 755,720
Current investments	430,838
Property taxes receivable	3,536,088
Allowance for uncollectible taxes	(292,143)
Accounts receivable	2,007,149
Capitalized bond issue costs	70,458
Capital assets:	
Land	301,285
Infrastructure, net	9,125,779
Buildings and improvements, net	10,822,953
Furniture and equipment, net	1,393,086
	28,151,213
<b>Total assets</b>	
<b>LIABILITIES</b>	
Accounts payable	200,732
Accrued liabilities	39,878
Accrued interest payable	123,484
Noncurrent liabilities:	
Due within one year	542,535
Due in more than one year	7,470,000
	8,376,629
<b>Total liabilities</b>	
<b>NET ASSETS</b>	
Invested in capital, net of related debt	13,577,542
Restricted for debt service	664,683
Unrestricted net assets	5,532,359
	\$ 19,774,584
<b>Total net assets</b>	

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

COUNTY OF STEPHENS, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>PRIMARY GOVERNMENT:</b>				
Governmental activities:				
Judicial	\$ 397,188	\$ 5,987	\$	\$ (391,201)
Public transportation	1,854,042	460,712	14,805	(1,378,525)
General government	2,482,087	324,714	364,944	(1,792,429)
Public facilities	184,788			(184,788)
Health and welfare	799,258		11,837	(787,421)
Public safety	2,195,160	266,016	98,841	(1,830,303)
Recreation and culture	27,168			(27,168)
Debt service	345,246			(345,246)
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 8,284,937</b>	<b>\$ 1,057,429</b>	<b>\$ 490,427</b>	<b>(6,737,081)</b>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				5,532,351
Other taxes				12,558
Investment and royalty earnings				153,268
Miscellaneous				303,527
Total general revenues				<u>6,001,704</u>
				(735,377)
				20,509,961
				<u>0</u>
				<u>\$ 19,774,584</u>

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

COUNTY OF STEPHENS, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011

	General Fund	Road & Bridge Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 311,783	\$ 340,086	\$	103,851	\$ 755,720
Investments - current	430,838				430,838
Property taxes	3,536,088				3,536,088
Allowance for uncollectible taxes (credit)	(292,143)				(292,143)
Accounts receivable	1,753,168	241,504		12,477	2,007,149
<b>TOTAL ASSETS</b>	<b>\$ 5,739,734</b>	<b>\$ 581,590</b>	<b>\$ 0</b>	<b>116,328</b>	<b>\$ 6,437,652</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 169,598	\$ 8,117	\$	23,017	\$ 200,732
Accrued payroll	30,242	9,636			39,878
Deferred revenues	3,243,945				3,243,945
<b>Total Liabilities</b>	<b>3,443,785</b>	<b>17,753</b>	<b>0</b>	<b>23,017</b>	<b>3,484,555</b>
<b>Fund Balances:</b>					
<b>Reserved for:</b>					
Retirement of long-term debt	664,683				664,683
<b>Committed for:</b>					
Other purposes				93,311	93,311
Unassigned	1,631,266	563,837			2,195,103
<b>Total Fund Balances</b>	<b>2,295,949</b>	<b>563,837</b>	<b>0</b>	<b>93,311</b>	<b>2,953,097</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,739,734</b>	<b>\$ 581,590</b>	<b>\$ 0</b>	<b>116,328</b>	<b>\$ 6,437,652</b>

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

COUNTY OF STEPHENS, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2011

Total fund balances - governmental funds	\$ 2,953,097
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 \$44,868,537 and the accumulated depreciation was \$22,511,429. 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.	13,369,101
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.	3,934,198
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 2011 capital outlays and debt principal payments is to increase (decrease) net assets.	1,488,908
4 The 2011 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(1,281,783)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	(688,937)
Net assets of governmental activities	\$ 19,774,584

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, 2011

	General Fund	Road & Bridge Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>					
Property taxes	\$ 5,599,311	\$ 623,293	\$		\$ 6,222,604
Licenses and fees	440,896	449,327		167,206	1,057,429
Other taxes	12,558				12,558
State and federal grants and contracts	473,918	14,805		1,704	490,427
Investment earnings	16,985				16,985
Royalties	136,283				136,283
Miscellaneous revenues	232,271	71,256			303,527
Total revenues	<u>6,912,222</u>	<u>1,158,681</u>	<u>0</u>	<u>168,910</u>	<u>8,239,813</u>
<b>EXPENDITURES:</b>					
Judicial	370,027			27,161	397,188
Public transportation	131,560	1,195,799			1,327,359
General government	2,539,733			123,884	2,663,617
Public facilities	184,788				184,788
Health and welfare	679,171				679,171
Public safety	1,847,269			99,126	1,946,395
Recreation and culture	27,168				27,168
Debt service	1,254,641	13,051			1,267,692
Total expenditures	<u>7,034,357</u>	<u>1,208,850</u>	<u>0</u>	<u>250,171</u>	<u>8,493,378</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(122,135)</u>	<u>(50,169)</u>	<u>0</u>	<u>(81,261)</u>	<u>(253,565)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in (out)	309,828	106,000	(427,428)	11,600	0
Proceeds from long-term notes payable					0
Total other financing sources (uses)	<u>309,828</u>	<u>106,000</u>	<u>(427,428)</u>	<u>11,600</u>	<u>0</u>
Net change in fund balances	187,693	55,831	(427,428)	(69,661)	(253,565)
Fund balance - beginning	2,108,256	508,006	427,428	162,972	3,206,662
Adjustments to beginning fund balances					0
Fund balance - ending	<u>\$ 2,295,949</u>	<u>\$ 563,837</u>	<u>\$ 0</u>	<u>\$ 93,311</u>	<u>\$ 2,953,097</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, 2011

Total net change in fund balances - governmental funds	\$ (253,565)
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 2011 capital outlays and debt principal payments is to increase (decrease) net assets.	1,488,908
2 Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	(1,281,783)
3 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	(688,937)
Change in net assets of governmental activities	\$ <u>(735,377)</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, 2011

	<u>Budgeted Amounts</u>		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Property taxes	\$ 5,423,247	\$ 5,423,247	\$ 5,599,311	\$ 176,064
Licenses and fees	367,186	367,186	440,896	73,710
Other taxes	12,618	12,618	12,558	(60)
State and federal grants and contracts	312,854	312,854	473,918	161,064
Investment earnings	30,451	30,451	16,985	(13,466)
Royalties	110,000	110,000	136,283	26,283
Miscellaneous revenues	329,014	329,014	232,271	(96,743)
Total revenues	<u>6,585,370</u>	<u>6,585,370</u>	<u>6,912,222</u>	<u>326,852</u>
<b>EXPENDITURES:</b>				
Judicial	403,041	403,041	370,027	33,014
Public transportation	136,362	136,362	131,560	4,802
General government	2,733,314	2,733,314	2,539,733	193,581
Public facilities	221,678	221,678	184,788	36,890
Health and welfare	721,815	721,815	679,171	42,644
Public safety	1,929,062	1,929,062	1,847,269	81,793
Recreation and culture	29,769	29,769	27,168	2,601
Debt service	781,087	781,087	1,254,641	(473,554)
Total expenditures	<u>6,956,128</u>	<u>6,956,128</u>	<u>7,034,357</u>	<u>(78,229)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(370,758)</u>	<u>(370,758)</u>	<u>(122,135)</u>	<u>248,623</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (out)	0	0	309,828	309,828
Proceeds from long-term notes payable	0	0	0	0
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>309,828</u>	<u>309,828</u>
Net change in fund balances	(370,758)	(370,758)	187,693	558,451
Fund balance - beginning	2,108,256	2,108,256	2,108,256	0
Adjustments to beginning fund balances	0	0	0	0
Fund balance - ending	<u>\$ 1,737,498</u>	<u>\$ 1,737,498</u>	<u>\$ 2,295,949</u>	<u>\$ 558,451</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, 2011

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 639,523	\$ 639,523	\$ 623,293	\$ (16,230)
Licenses and fees	490,299	490,299	449,327	(40,972)
Other taxes	0	0		0
State and federal grants and contracts	14,000	14,000	14,805	805
Investment earnings	0	0		0
Royalties	0	0		0
Miscellaneous revenues	64,087	64,087	71,256	7,169
Total revenues	<u>1,207,909</u>	<u>1,207,909</u>	<u>1,158,681</u>	<u>(49,228)</u>
<b>EXPENDITURES:</b>				
Judicial	0	0		0
Public transportation	1,322,373	1,322,373	1,195,799	126,574
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	13,051	13,051	13,051	0
Total expenditures	<u>1,335,424</u>	<u>1,335,424</u>	<u>1,208,850</u>	<u>126,574</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(127,515)</u>	<u>(127,515)</u>	<u>(50,169)</u>	<u>77,346</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (out)	0	0	106,000	106,000
Proceeds from long-term notes payable	0	0		0
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>106,000</u>	<u>106,000</u>
Net change in fund balances	(127,515)	(127,515)	55,831	183,346
Fund balance - beginning	508,006	508,006	508,006	0
Adjustments to beginning fund balances				0
Fund balance - ending	<u>\$ 380,491</u>	<u>\$ 380,491</u>	<u>\$ 563,837</u>	<u>\$ 183,346</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, 2011**

I. Summary of significant accounting policies

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

A. Reporting entity

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

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

B. Government-wide and fund financial statements

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

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

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

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

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

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

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

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

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

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

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

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

### D. Fund accounting

The County reports the following major governmental funds:

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

The County reports the following nonmajor fiduciary funds:

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

E. Other accounting policies

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

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

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

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

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

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

6. Effective for years beginning after June 15, 2010, GASB 54 recharacterized governmental fund balances into the following categories:

*Non-spendable* fund balances include amounts that are not in spendable form (i.e. inventory or prepaid items) or amounts that are required to be maintained intact legally or contractually (i.e. principal in an endowment fund)

*Restricted* fund balances include amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

*Committed* fund balances include amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

*Assigned* fund balances are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

*Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

County Policies Concerning Fund Balances are as follows:

The County's Unassigned General Fund Balance will be maintained to provide the County with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees.

Fund Balance of the County may be committed for a specific source by formal action of the County Commission. Amendments or modifications of the committed fund balance must also be approved by formal action of the County Commission.

When it is appropriate for fund balance to be assigned, only the County Commission has the authority to assign fund balance by formal action by the commissioners.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

At December 31, 2011, the County's general fund balances were committed or assigned as follows:

Restricted for debt service	\$ 664,683.
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7. When the County incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.

## II. Stewardship, compliance, and accountability

### A. Budgetary data

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

### B. Excess of expenditures over appropriations

None.

### C. Deficit fund equity

None.

III. Detailed notes on all funds

A. Deposits and investments

County Policies and Legal and Contractual Provisions Governing Deposits

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

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

County Policies and Legal and Contractual Provisions Governing Investments

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

As of December 31, 2011, the County had the following investments.

Investment Type	Investment Maturities (in years)			
	Fair Value	Less than 1 Year	1-5	More Than 10
Certificates of Deposit	\$ 430,838	\$ 430,838		
Total	\$ 430,838	\$ 430,838		

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, 2011, 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 2011 levy was based was approximately \$828,483,288. 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, 2011, was \$0.6649 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. Current tax collections for the year were 44.85% and total tax collections were 111.69% 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 In	Transfer Out	Purpose
General fund	\$ 427,428	\$ 117,600	Operating activities
Capital projects fund		427,428	Residual balance transfer
Road & Bridge fund	106,000		Operating activities
Special revenue fund	11,600		Operating activities
	<u>\$ 545,028</u>	<u>\$ 545,028</u>	

E. Disaggregation of receivables and payables

Receivables at December 31, 2011 were as follows:

	Accounts	Taxes	Total Receivables
Governmental Activities:			
General Fund	\$1,753,168	\$3,536,088	\$5,289,256
Road & Bridge Fund	241,504		241,504
Special Revenue Funds	12,477		12,477
Total Governmental Activities	<u>\$2,007,149</u>	<u>\$3,536,088</u>	<u>\$5,543,237</u>

Payables at December 31, 2011 were as follows:

	Accounts	Accrued Payroll	Total Payables
Governmental Activities:			
General Fund	\$169,598	\$30,242	\$199,840
Road & Bridge Fund	8,117	9,636	17,753
Special Revenue Funds	23,017		23,017
Total Governmental Activities	<u>\$200,732</u>	<u>\$ 39,878</u>	<u>\$240,610</u>

F. Capital asset activity

Capital asset activity for the County for the year ended December 31, 2011, was as follows:

	Balance 12/31/10	Additions	Deletions	Balance 12/31/11
Governmental activities:				
Land	\$ 301,285			\$ 301,285
Infrastructure - roads	25,652,568	\$ 115,840		25,768,408
Buildings and improvements	15,213,262	80,890		15,294,152
Furniture and equipment	3,701,422	371,048		4,072,470
Totals	44,868,537	567,778		45,436,315
Less accum depreciation for:				
Infrastructure - roads	15,998,505	644,124		16,642,629
Buildings and improvements	4,145,375	325,824		4,471,199
Furniture and equipment	2,367,549	311,835		2,679,384
Total accum depreciation	22,511,429	1,281,783		23,793,212
Governmental activities capital assets, net	<u>\$22,357,108</u>	<u>\$ 714,005</u>	<u>\$ 0</u>	<u>\$21,643,103</u>

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

Governmental activities:	
General government	\$ 35,575
Public health and welfare	120,087
Public safety	306,184
Public transportation	819,937
Total depreciation expense - governmental activities	<u>\$1,281,783</u>

G. Accumulated unpaid vacation and sick leave benefits

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

## H. Texas County and District Retirement System

### Plan Description

The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the state-wide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 618 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 2011.

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, 2011, the annual pension cost for the TCDRS plan for its employees was \$330,817 and the actual contributions were \$523,794.

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, 2010, the basis for determining the contribution rates for calendar year 2011. The December 31, 2010, actuarial valuation is the most recent valuation.

**Actuarial Valuation Information**

Actuarial Valuation Date	12/31/08	12/31/09	12/31/10
Actuarial Cost Method	Entry age	Entry age	Entry age
Amortization Method	level percentage of payroll, closed	level percentage of payroll, closed	level percentage of payroll, closed
Amortization Period (in years)	9.9	6.8	6.5
Asset Valuation Method	SAF: 10-yr smoothed value ESF: fund value	SAF: 10-yr smoothed value ESF: fund value	SAF: 10-yr smoothed value ESF: fund value

**Actuarial Assumptions:**

Investment Return	8.0%	8.0%	8.0%
Projected Salary Increases	5.3%	5.4%	5.4%
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)
12/31/08	\$5,420,631	\$6,123,279	\$702,648	88.52%	\$1,508,052	46.59%
12/31/09	\$6,161,800	\$6,795,343	\$633,543	90.68%	\$1,709,034	37.07%
12/31/10	\$5,845,856	\$6,530,212	\$684,356	89.52%	\$2,005,311	34.13%

I. Deferred revenues

	Deferred Taxes	Total Deferred Revenue
General Fund	\$3,243,945	\$3,243,945

J. Long-term debt

During the year ended December 31, 2011, the County had three outstanding loans payable as follows:

Issue	Beginning Balance	Advanced	Retired	Ending Balance	Current Portion
First National Bank - Albany/Breckenridge note payable dated 02/18/10 bearing interest at 4.00% due 03/30/12	\$ 24,581		\$ 12,046	\$ 12,535	\$ 12,535
\$1,600,000 Combination Tax and Revenue Certificates of Obligation, Series 2006 bearing interest at 4.90% due monthly until 12/15/14	399,084		399,084	0	N/A
\$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	8,510,000		510,000	8,000,000	530,000
	<u>\$8,933,665</u>	<u>\$ 0</u>	<u>\$ 921,130</u>	<u>\$8,012,535</u>	<u>\$ 542,535</u>

Future debt service requirements are as follows:

Year ended December 31,	Principal	Interest	Total Requirements
2012	\$542,535	\$319,191	\$861,726
2013	550,000	297,090	847,090
2014	575,000	274,590	849,590
2015	595,000	251,190	846,190
2016	620,000	226,890	846,890
2017-2021	3,505,000	728,913	4,233,913
2022-2023	1,625,000	69,607	1,694,607
Total	<u>\$8,012,535</u>	<u>\$2,167,471</u>	<u>\$10,180,006</u>

*OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION*

**Cameron L. Gulley**  
 CERTIFIED PUBLIC ACCOUNTANT

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**Independent Auditor's Report**

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

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

Members of the Commissioners' Court:

I have audited the financial statements of the governmental activities, each major fund, and the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of County of Stephens, Texas as of and for the year ended December 31, 2011. These collectively comprise the County's basic financial statements. I have issued my report on them dated September 14, 2012.

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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

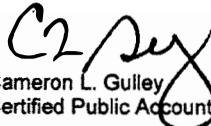
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider 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, grant agreements, and noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the County's 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

September 14, 2012

**COUNTY OF STEPHENS, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

A. Summary of Auditor's Results

Type of auditor's report issued:	Unqualified.
Internal control over financial reporting:	
Material weakness(es) identified?	None.
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported.
Noncompliance material to financial statements noted?	No.
An unqualified opinion was issued on the general purpose financial statements.	
The audit disclosed no noncompliance which is material to the general purpose financial statements.	

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

None reported.

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, 2011*

<u>Program</u>	<u>Findings</u>	<u>Questioned Costs</u>
General operating	<p>During the 2010 fiscal year, the County failed to keep a separate interest and sinking fund bank account in accordance with the debt covenant requirements.</p> <p><u>Status:</u></p> <p>The County created a separate interest and sinking fund bank account to satisfy the debt covenant requirements during the current year under audit.</p>	0