

CASTRO COUNTY, TEXAS
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2007

Castro County, Texas
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UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS

Independent Auditor's Report

To the Honorable Judge and
Members of the Commissioners Court of
Castro County, Texas:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Castro County, Texas (the County) as of and for the year ended September 30, 2007, 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 management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County as of September 30, 2007, and the respective changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2008, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the County's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BROWN, GRAHAM & COMPANY PC

April 28, 2008
Dimmitt, TX

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Castro County, we offer readers of Castro County's financial statements this narrative overview and analysis of the financial activities of the Castro County for the fiscal year ended September 30, 2007.

Financial Highlights

Government-Wide Financial Statements

- The assets of Castro County exceeded its liabilities at the close of the most recent fiscal year by \$4,955,790 (*net assets*). Of this amount, \$2,043,387 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors, \$1,429,403 (*restricted net assets*) legally must be used for expenditures for specified purposes, such as road and bridge, library, juvenile probation, etc., and \$1,482,999 of the County's equity is invested in capital assets, net of related debt.
- The County's total debt outstanding at September 30, 2007 is \$240,519 which is all capital leases.
- The net assets (*equity*) of the County increased by \$486,746 during the 2007 fiscal year.

Fund Financial Statements

- As of the close of the current fiscal year, Castro County's governmental funds reported combined ending fund balances of \$3,356,407. This fund balance reflects an increase of \$429,047 for the current year. Approximately 55% of fund balance, \$1,857,175, is *available for spending* at the government's discretion.
- At the end of the current fiscal year, reserved fund balances for special revenue funds and prepaid expenses were \$1,467,985 and \$31,247, respectively.

Overview of the Financial Statements

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

Government-Wide Financial Statements

The *statement of net assets* presents information on all of Castro County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Castro County is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The government-wide financial statements reflect functions of Castro County that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of Castro County include general government, judicial, legal, public facilities, public safety, health and welfare, and road and bridge.

The government-wide financial statements can be found on Exhibits A-1 and B-1 of this report.

**CASTRO COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Fund Financial Statements

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

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

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

Castro County maintains two governmental fund types which are the general fund and special revenue funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund and the road and bridge fund which are considered to be major funds. Data from the other non-major governmental funds are combined into the aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The governmental fund financial statements can be found on Exhibits C-1 through C-5 of this report.

Castro County adopts an annual appropriated budget for its general fund, road and bridge fund, and various other special revenue funds. A budgetary comparison statement has been provided for the general fund and the road and bridge fund to demonstrate compliance with these budgets on Exhibit D-1.

Fiduciary funds. Fiduciary funds are used to account for assets held by the County in a trustee capacity or as an agent for other governmental units. The County's fiduciary funds are all reported as Agency Funds. Agency funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's basic programs. The basic agency fund financial statement can be found on Exhibit C-5 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the basic financial statements in this report.

Other Information. The combining statements referred to earlier in connection with non-major governmental funds and agency funds are presented immediately following the required supplementary information. Combining statements can be found on Exhibits E-1, E-2 and E-3 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Castro County, assets exceeded liabilities by \$4,955,790 at the close of the most recent fiscal year.

\$1,482,999 of the Castro County's net assets (30 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is outstanding. Castro County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although Castro County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CASTRO COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Castro County's Net Assets

	Governmental Activities 2007	Governmental Activities 2006
Current and other assets	\$ 3,637,847	\$ 3,172,792
Capital Assets	<u>1,723,518</u>	<u>1,647,171</u>
Total Assets	5,361,365	4,819,963
Long-term liabilities	240,519	227,322
Other liabilities	<u>165,056</u>	<u>123,597</u>
Total Liabilities	405,575	350,919
Invested in capital assets, net of related debt	1,482,999	1,419,849
Restricted	1,429,403	1,179,491
Unrestricted	<u>2,043,387</u>	<u>1,869,704</u>
Total net assets	\$ <u>4,955,790</u>	\$ <u>4,469,044</u>

The government's net assets increased by \$429,047 during the current fiscal year.

Castro County's Changes in Net Assets

	Governmental Activities 2007	Governmental Activities 2006
Revenues:		
Program Revenues:		
Charges for Services	\$ 788,254	\$ 810,919
Operating Grants and Contributions	414,642	592,622
General Revenues:		
Property Taxes	2,513,327	2,507,153
Interest Income	199,802	156,441
Miscellaneous Income	<u>238,855</u>	<u>55,070</u>
Total Revenues	4,164,880	4,122,205
Expenses:		
General Government	1,032,904	1,134,921
Judicial	152,628	158,713
Legal	85,314	85,233
Public Facilities	139,117	150,886
Public Safety	1,190,841	1,110,866
Health and Welfare	12,908	12,908
Road and Bridge	<u>1,064,422</u>	<u>1,014,175</u>
Total Expenses	3,678,134	3,667,702
Increase in net assets	486,746	454,503
Net Assets – beginning	4,469,044	4,014,541
Net Assets – ending	\$ <u>4,955,790</u>	\$ <u>4,469,044</u>

**CASTRO COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, Castro County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, Castro County's governmental funds reported combined ending fund balances of \$3,356,407. Approximately 55 percent of this total amount (\$1,857,175) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* for special revenue purposes (\$1,467,985) and prepaid expenses (\$31,247) to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the County. 99% of the general fund's fund balance is unreserved. The unreserved fund balance represents 87% of the total general fund expenditures of approximately 12 months of operating equity.

Fund Budgetary Highlights

The original budget for the General fund reflected a deficit of \$94,603, which drew upon fund balance. Amendments to the original budget reflected a decrease in expenditures, causing the final budget to show an excess of expenditures over revenues of \$32,923. The actual expenditures were \$201,340 less than the final budgeted amounts, and actual revenues were \$74,646 more than was budgeted.

In the Road and Bridge fund, the original budget reflected a deficit of \$78,556 which drew upon the fund balance. The final amended budget did not change from the original budget. The actual expenditures were \$84,364 less than the final budgeted amounts, and actual revenues were \$95,027 more than was budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. Castro County's investment in capital assets for its governmental activities as of September 30, 2007, amounts to \$1,482,999 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture and equipment. The County's infrastructure assets have not been capitalized at September 30, 2007.

Castro County's Capital Assets			
(net of depreciation)			
		Governmental Activities 2007	Governmental Activities 2006
Land	\$	14,388	\$ 14,388
Buildings		293,435	308,602
Furniture and equipment		1,415,695	1,324,181
Total	\$	1,723,518	\$ 1,647,170

Additional information on Castro County's capital assets can be found in Note 3 on of this report.

**CASTRO COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

CAPITAL LEASES PAYABLE

- **Capital Leases Payable.** At the end of the current fiscal year, the County had total leases payable of \$240,519.

The County's overall lease payable increased by \$13,197 during the current fiscal year. Two new capital leases during the current year totaled \$75,411. Additional information on Castro County's leases payable can be found in Note 4 following the basic financial statements in this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The agriculture economy in the region is stable and the ramifications of the Cargill plant closure have been withstood by the County.
- The County continues to upgrade equipment so that the services to our citizens can be provided without interruption.
- The County promotes and encourages economic development to improve the economy.
- Castro County's goal is to improve the quality of life of all its citizens.

All of these factors were considered in preparing Castro County's budget for the 2008 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of Castro County's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Auditor, Castro County Courthouse, 100 E. Bedford, Dimmitt, Texas 79027.

Basic Financial Statements

Castro County, Texas
Statement of Net Assets

Exhibit A-1

September 30, 2007

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Assets:	
Cash and cash equivalents	\$ 3,452,737
Receivables:	
Accounts (net)	7,956
Property Tax	178,879
Allowance for uncollectible taxes	(58,087)
Sales tax	23,780
Due from agency funds	1,335
Prepays	31,247
Capital assets, net	1,723,518
Total Assets	<u>5,361,365</u>
Liabilities	
Accounts payable and accrued expenses	147,034
Due to others	958
Due to state	17,064
Non-current liabilities:	
Lease payable due in one year	68,064
Lease payable due in more than one year	172,455
Total Liabilities	<u>405,575</u>
Net Assets:	
Investment in capital assets, net of related debt	1,482,999
Restricted for special revenue	1,429,403
Unrestricted	2,043,387
Total Net Assets	<u>\$ 4,955,790</u>

The accompanying notes are an integral part of this financial statement.

**Castro County, Texas
Statement of Activities**

Exhibit B-1

For the Year Ended September 30, 2007

Function/Program	Expenses	Program Revenues		Primary Government
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary Government				
Governmental activities				
General government	\$ 1,032,904	\$ 115,024	\$ 26,466	\$ (891,414)
Judicial	152,628	60,858	-	(91,770)
Legal	85,314	-	-	(85,314)
Public facilities	139,117	1,954	99,152	(38,011)
Public safety	1,190,841	127,576	289,024	(774,241)
Health and welfare	12,908	-	-	(12,908)
Road and bridge	1,064,422	492,842	-	(571,580)
Total governmental activities	<u>3,678,134</u>	<u>798,254</u>	<u>414,642</u>	<u>(2,465,238)</u>
Total primary government	<u><u>\$ 3,678,134</u></u>	<u><u>\$ 798,254</u></u>	<u><u>\$ 414,642</u></u>	
General revenues:				
Property taxes, other taxes, penalties				2,513,327
Interest income				199,802
Miscellaneous income				238,855
Total general revenues				<u>2,951,984</u>
Change in net assets				486,746
Net assets- beginning				<u>4,469,044</u>
Net assets- ending				<u><u>\$ 4,955,790</u></u>

The accompanying notes are an integral part of this statement.

Castro County, Texas**Exhibit C-1**Balance Sheet
Governmental Funds

September 30, 2007

	General Fund	Road and Bridge Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 1,927,552	\$ 1,067,185	\$ 458,000	\$ 3,452,737
Receivables:				
Accounts (net)	7,956	-	-	7,956
Property Tax	136,576	42,304	-	178,880
Allowance for uncollectible taxes	(44,942)	(13,145)	-	(58,087)
Sales tax	23,780	-	-	23,780
Due from agency funds	1,335	-	-	1,335
Prepays	18,381	9,803	3,063	31,247
Total Assets	<u>\$ 2,070,638</u>	<u>\$ 1,106,147</u>	<u>\$ 461,063</u>	<u>\$ 3,637,848</u>
Liabilities				
Accounts payable and accrued expenditures	\$ 86,385	\$ 41,121	\$ 15,121	\$ 142,627
Due to others	-	-	958	958
Due to state	17,064	-	-	17,064
Deferred revenue- taxes	91,633	29,159	-	120,792
Total Liabilities	<u>195,082</u>	<u>70,280</u>	<u>16,079</u>	<u>281,441</u>
Fund Equity				
Unreserved, reported in general fund	1,857,175	-	-	1,857,175
Reserved for prepaids	18,381	9,803	3,063	31,247
Reserved for special revenue	-	1,026,064	441,921	1,467,985
Total Fund Equity	<u>1,875,556</u>	<u>1,035,867</u>	<u>444,984</u>	<u>3,356,407</u>
Total Liabilities and Fund Equity	<u>\$ 2,070,638</u>	<u>\$ 1,106,147</u>	<u>\$ 461,063</u>	<u>\$ 3,637,848</u>

The accompanying notes are an integral part of this financial statement.

Castro County, Texas
Reconciliation of the Balance Sheet
of Governmental Funds to the Statement of Net Assets

Exhibit C-2

September 30, 2007

Total Fund Balances- Governmental Funds	\$	3,356,407
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds balance sheet. The net effect is to increase net assets.		1,723,518
Other long-term assets are not available to pay for current-period expenditures, therefore, are deferred in the governmental funds. Deferred revenue is recognized in the government-wide financial statements. This results in an increase in net assets.		120,792
Long-term liabilities, including leases payable, and accrued expenses associated with these long-term liabilities, including accrued interest, are not due and payable in the current period and therefore are not reported in the governmental funds. The net effect is a decrease in net assets.		(244,927)
Net assets in Governmental Activities	<u>\$</u>	<u>4,955,790</u>

This accompanying notes are an integral part of this financial statement.

Castro County, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds

Exhibit C-3

For the Year Ended September 30, 2007

	General Fund	Road and Bridge Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Intergovernmental	\$ 15,123	\$ -	\$ 200,153	\$ 215,276
State and Federal	26,466	-	174,586	201,052
Property taxes, other taxes and penalties	1,901,127	613,424	-	2,514,551
Interest earnings	125,790	65,710	8,185	199,685
Fees and charges for services	85,864	492,842	8,271	586,977
Fines and forfeitures	169,108	-	3,980	173,088
Rent and utilities	17,200	-	-	17,200
Other miscellaneous	37,885	2,267	39,914	80,066
Total Revenues	2,378,563	1,174,243	435,089	3,987,895
Expenditures:				
Current:				
General administration	999,483	-	27,669	1,027,152
Judicial	152,298	-	330	152,628
Legal	75,970	-	9,344	85,314
Public facilities	34,156	-	91,280	125,436
Public safety	860,685	-	299,051	1,159,736
Health and welfare	12,908	-	-	12,908
Road and bridge	-	1,073,408	-	1,073,408
Total Expenditures	2,135,500	1,073,408	427,674	3,636,582
Excess of Revenues over Expenditures	243,063	100,835	7,415	351,313
Other Financing Sources (Uses):				
Proceeds from capital lease	-	75,411	-	75,411
Sale of Assets	-	2,323	-	2,323
Interfund Transfers In (Out)	-	-	-	-
Total Other Financing Sources (Uses)	-	77,734	-	77,734
Net Change in Fund Balance	243,063	178,569	7,415	429,047
Fund Balance- Beginning of Year	1,632,493	857,298	437,569	2,927,360
Fund Balance- End of Year	\$ 1,875,556	\$ 1,035,867	\$ 444,984	\$ 3,356,407

The accompanying notes are an integral part of this financial statement.

Castro County, Texas
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balance of Governmental Funds
 to the Statement of Activities

Exhibit C-4

For the Year Ended September 30, 2007

Net Change in Fund Balances- Governmental Funds	\$	429,047
Amounts reported for governmental activities in the statement of net assets are different because:		
Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The net effect of including capital outlays is to increase net assets.		143,635
Depreciation expense is not reflected in the governmental funds, but is recorded in the government-wide financial statements as an expense and an increase to accumulated depreciation. The net effect of current year depreciation expense is to decrease net assets.		(243,171)
Revenue from property taxes and court fines are recognized in the fund financial statements on the modified accrual basis but are recognized on the accrual basis in the government-wide financial statements. The net effect is to decrease net assets.		(1,222)
Current year capital lease principal payments are expenditures in the fund financial statements, but are shown as reductions on lease payables in the government-wide financial statements. The effect is to increase net assets.		62,213
Current year proceeds from issuance of lease payables are not shown as revenue in the government-wide financial statements. The net effect is to decrease net assets.		(75,411)
Current year proceeds from the trade of fixed assets are not shown as revenue in the fund financial statements. The net effect is to increase net assets.		175,884
Accrued interest on capital leases is not due and payable in the current period and therefore are not reported in the governmental funds. The net effect is to decrease in net assets.		(4,230)
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>486,746</u>

The accompanying notes are an integral part of this financial statement.

Castro County, Texas
Statement of Fiduciary Net Assets
Fiduciary Funds

Exhibit C-5

September 30, 2007

	<u>Agency Funds</u>
Assets	
Cash and cash investments	\$ 167,930
Total Assets	<u>\$ 167,930</u>
Liabilities	
Due to others	\$ 114,749
Due to other funds	1,335
Due to State	<u>51,846</u>
Total Liabilities	<u>\$ 167,930</u>

The accompanying notes are an integral part of this financial statement.

CASTRO COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The authority of county governments and their specific functions and responsibilities are created by and dependent upon laws and legal regulations of the Texas State Constitution and V.A.C.S. The County operates under a county judge / commissioners' court type government as provided by state statute. The Commissioners' Court has governance responsibilities over all activities related to Castro County, Texas. The County is not included in any other governmental "reporting entity" as defined by Governmental Accounting Standards Board ("GASB"), Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

The County provides the following services to its citizens: public safety (law enforcement and detention, and fire prevention), public transportation (roads and bridges), health and welfare, culture and recreation facilities, judicial and legal, and general and financial administrative services.

The financial and reporting policies of the County conform to U.S. generally accepted accounting principles ("GAAP") applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), which includes all statements and interpretations of the National Council on Governmental Accounting unless modified by the GASB and those principles prescribed by the American Institute of Certified Public Accountants. The following is a summary of the more significant practices used by the County.

Government-Wide and Fund Financial Statements

Government-wide financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of Interfund activity has been removed from these statements.

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

Fund financial statements. The County uses funds to report on its financial position and the results of its operations. Separate fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

CASTRO COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Property taxes, fines, interest revenue, and revenue received from various governmental entities associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year-end on behalf of the County also are recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Governmental Fund Types

The government reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the County. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

Road and Bridge Fund – The Road and Bridge Fund is a special revenue fund of the County. It is used to account for the expenditures of the four different precincts and for the highway and street expenditures.

Non-major Governmental Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Fiduciary Fund Type - Agency Fund

Fiduciary funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Formal budgetary accounting is not required for fiduciary funds. Since by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated in the government-wide financial statements.

CASTRO COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Budgets

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

Public hearings are conducted at the Castro County Courthouse to obtain taxpayer comments. Prior to October 1, the budget is legally enacted through adoption of an order by Commissioners' Court. Budgets are adopted for the general fund and most special revenue funds. All budget amendments are approved by the Commissioners' Court.

The budgeted amounts presented in these statements are as originally adopted, or as amended, by the Commissioners' Court during the year ended September 30, 2007.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Rounding

The amounts on these statements have been rounded individually, therefore some columns may not total due to rounding.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

In compliance with the *Public Funds Investment Act*, the County has adopted a deposit and investment policy that does address the following risk:

Concentration of Credit Risk: As of September 30, 2007, the County had the following cash and cash equivalents, which represents all of the County's cash and cash equivalents:

First United Bank	Demand and Time Deposits	\$ 3,412,091
Peoples Bank	Time Deposit	\$ 93,840

Custodial Credit Risk: Deposits are collateralized with securities held by the pledging financial institution's trust department or agent but not in the government's name.

Interest Rate Risk: The County's policy provides that the maximum allowable stated maturity of any individual investment owned by the County shall not exceed one year from the time of purchase.

CASTRO COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Deposits and Investments (cont.):

Credit Risk: State 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 deposits, (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 County's policies further limit its investment choices to obligations of or guaranteed by governmental entities, certificates of deposit, fully collateralized repurchase agreements, a securities lending program, banker's acceptances, commercial paper, no-load money market mutual funds and no-load mutual funds, a guaranteed investment contract as an investment vehicle for bond proceeds, and public funds investment pools, all as permitted by Texas Government Codes.

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

The County's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the County's agent bank, approved pledged securities in an amount sufficient to protect county funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. The County's cash deposits at September 30, 2007 were entirely covered by the FDIC insurance or by pledged collateral held by the County's agent bank.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion on Interfund loans) or "advances to/from other funds (i.e., the non-current portion of Interfund loans).

Taxes are levied on October 1 in conformity with Subtitle E, Texas Property Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1. Property taxes attach as an enforceable lien as of January 1 to secure the payment of all taxes, penalties, and interest ultimately imposed. The Castro County Appraisal District assesses and collects property taxes for the County. The County is permitted by the Municipal Finance Law of the State to levy taxes up to \$1.20 per \$100 of appraised valuation for general services, permanent improvements, lateral road, jury, and other operational purposes. Additional taxes may be levied for the payment of principle as established by the Attorney General of the State of Texas. The tax rate for the year ended September 30, 2007 was \$.680 per \$100 valuation.

All receivables are shown net of an allowance for uncollectible amounts.

CASTRO COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. The County's policy is to capitalize assets costing \$5,000 or greater. All capital assets are valued at their historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments which materially extend the useful lives of the capital assets are capitalized.

Depreciable capital assets are depreciated using the straight-line method over the asset's estimated useful life as follows:

Buildings	25-40 years
Improvements other than buildings	10-20 years
Equipment	3-12 years

Long-Term Debt

In the government-wide financial statements, long-term debt is reported as a liability in the governmental activities column. The only long-term debt the County has is capital leases on County motor graders.

Fund Equity

In the fund financial statements, governmental special revenue funds report reservations for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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

Note 2: RETIREMENT PLAN

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 statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 553 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, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any

CASTRO COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 2: RETIREMENT PLAN - CONTINUED

employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer 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 annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The County has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 8.21% for the months of the accounting year in 2007, and 8.11% for the months of the accounting year 2006. The contribution rate payable by the employee members for calendars 2007 and 2006 was the rate of 7% as adopted by the governing body of the County. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Annual Pension Cost

For the County's accounting years ending September 30, 2007 and 2006, the annual pension cost for the TCDRS plan for the County was \$119,105 and \$ 112,972, and the actual employee contributions were \$102,780 and \$94,256, respectively.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2005 and December 31, 2006, the basis for determining the contribution rates for calendar years 2006 and 2007. The December 31, 2006 actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial valuation date	<u>12/31/04</u>	<u>12/31/05</u>	<u>12/31/06</u>
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, open	level percentage of payroll, open	level percentage of payroll, closed
Amortization period in years	20	20	15
Asset valuation method	long-term appreciation with adjustment	long-term appreciation with adjustment	SAF: 10 yr smoothed value; ESF: fund value
Actuarial Assumptions:			
Investment return*	8.00%	8.00%	8.00%
Projected salary increases*	5.5%	5.5%	5.3%
Inflation	3.5%	3.5%	3.5%
Cost of living adjustments	0.0%	0.0%	0.0%

*Includes inflation at the stated rate

CASTRO COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 2: RETIREMENT PLAN - CONTINUED

Trend Information
for the Retirement Plan for the Employees of Castro County

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2007	\$119,105	100%	-0-
September 30, 2006	\$112,972	100%	-0-
September 30, 2005	\$115,224	100%	-0-

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

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
12/31/04	4,038,455	4,275,771	237,316	94.45%	1,383,932	17.15%
12/31/05	4,480,433	4,644,842	164,409	96.46%	1,384,670	11.87%
12/31/06	5,094,997	5,111,433	16,436	99.68%	1,395,485	1.18%

Note 3: CHANGES IN CAPITAL ASSETS

The changes in capital assets for the year ended September 30, 2007 are as follows:

	Balance October 1, 2006	Additions	Deletions	Balance September 30, 2007
Capital Assets				
Land (not depreciated)	\$ 14,388			\$ 14,388
Buildings	859,913			859,913
Furniture and equipment	2,532,520	465,194	(345,217)	2,652,497
Total capital assets	3,406,821	465,244	(345,217)	3,526,798
Less accumulated depreciation for:				
Buildings	551,311	15,167		566,478
Furniture and equipment	1,208,340	228,004	(199,542)	1,236,802
Total accumulated depreciation	1,759,651	243,171	(199,542)	1,803,280
Governmental activities capital assets, net	\$ 1,647,170	222,073	(145,675)	\$ 1,723,518

CASTRO COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 3: CHANGES IN CAPITAL ASSETS (cont.)

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

Governmental Activities

General government	\$ 5,752
Public facilities	13,681
Public safety	31,105
Road and bridge	<u>192,632</u>
	<u>\$ 243,170</u>

Note 4: OBLIGATIONS UNDER CAPITAL LEASES

The following is a summary of long-term debt transactions of the County for the fiscal year ended September 30, 2007.

	Balance October 1, 2006	Additions	Retirements	Balance September 30, 2007	Due within one year
Governmental activities:					
Capital lease payable	\$ 227,322	\$ 75,411	\$ 62,213	\$ 240,519	\$ 68,064
Total governmental activities	<u>\$ 227,322</u>	<u>\$ 75,411</u>	<u>\$ 62,213</u>	<u>\$ 240,519</u>	<u>\$ 68,064</u>

The County is currently making payments on capital leases for several motor graders. The agreements require annual payments ranging from \$10,796 to \$26,484 over the next four years. Interest paid on the capital leases ranges from 4.00% to 5.5%. Total interest expense amounted to \$9,562 for the year ended September 30, 2007. Future minimum lease commitments under the lease agreements are as follows:

Year	Payments
2008	\$ 108,538
2009	93,635
2010	42,743
2011	<u>18,209</u>
	263,125
Less: Amount representing interest	<u>(22,606)</u>
Present Value of minimum lease payments	<u>\$ 240,519</u>

Total equipment under capital lease is \$892,035. Related amortization is included in depreciation expense.

CASTRO COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 5: RISK MANAGEMENT

The County is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omission; and natural disasters. During fiscal year 2007, the County purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Required Supplementary Information

Castro County, Texas
 Statement of Revenues, Expenditures, and Changes in Fund Balance-
 Budget and Actual- General Fund and Road and Bridge Fund

For the Year Ended September 30, 2007

	General Fund				Road and Bridge				Variance Favorable (Unfavorable)	
	Budget		(Budget Basis) Actual		Budget		(Budget Basis) Actual			
	Original	Final	Original	Final	Original	Final	Original	Final		
Revenues:										
Intergovernmental	\$ 15,100	\$ 15,100	\$ 15,123	\$ 23	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State and Federal	32,167	32,167	26,466	(5,701)	-	-	-	-	-	-
Property taxes, other taxes and penalties	1,861,325	1,861,325	1,901,127	39,802	606,716	606,716	613,424	613,424	6,708	6,708
Interest earnings	75,000	75,000	125,790	50,790	30,300	30,300	65,710	65,710	35,410	35,410
Fees and charges for services	70,000	70,000	85,864	15,864	442,200	442,200	492,842	492,842	50,642	50,642
Fines and forfeitures	200,000	200,000	169,108	(30,892)	-	-	-	-	-	-
Rent and utilities	15,700	15,700	17,200	1,500	-	-	-	-	-	-
Other miscellaneous	31,725	34,625	37,885	3,260	-	-	2,267	2,267	2,267	2,267
Total Revenues	2,301,017	2,303,917	2,378,563	74,646	1,079,216	1,079,216	1,174,243	1,174,243	95,027	95,027
Expenditures:										
Current:										
General administration	1,198,003	1,126,283	999,483	126,800	-	-	-	-	-	-
Judicial	170,362	170,362	152,298	18,064	-	-	-	-	-	-
Legal	82,584	82,584	75,970	6,614	-	-	-	-	-	-
Public facilities	36,206	36,206	34,156	2,050	-	-	-	-	-	-
Public safety	888,557	901,497	860,685	40,812	-	-	-	-	-	-
Health and welfare	12,908	12,908	12,908	-	-	-	-	-	-	-
Road and bridge	-	-	-	-	1,157,772	1,157,772	1,073,408	1,073,408	84,364	84,364
Total Expenditures	2,388,620	2,329,840	2,135,500	194,340	1,157,772	1,157,772	1,073,408	1,073,408	84,364	84,364
Excess of Revenues over Expenditures	(87,603)	(25,923)	243,063	268,986	(78,556)	(78,556)	100,835	100,835	179,391	179,391
Other Financing Sources (Uses):										
Proceeds from capital lease	-	-	-	-	-	-	75,411	75,411	75,411	75,411
Sale of Assets	-	-	-	-	-	-	2,323	2,323	2,323	2,323
Interfund Transfers In (Out)	-	-	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	-	77,734	77,734	77,734	77,734
Net Change in Fund Balance	(87,603)	(25,923)	243,063	268,986	(78,556)	(78,556)	178,569	178,569	257,125	257,125
Fund Balance- Beginning of Year	1,632,493	1,632,493	1,632,493	857,298	857,298	857,298	857,298	857,298	857,298	857,298
Fund Balance- End of Year	1,544,890	1,606,570	1,875,556	268,986	778,742	778,742	1,035,867	1,035,867	257,125	257,125

**Combining Fund Statements
and Schedules**

Castro County, Texas
Combining Balance Sheet
NonMajor Governmental Funds

For the Year Ended September 30, 2007

Assets:	Check and Sight Fund	Courthouse Security	Clerks Records Management	Law Library	Library	Juvenile Probation	Constable Law Enforcement Education	Sheriff Law Enforcement Education	Sheriff Forfeited Funds
Cash and cash investments	\$ 26,434	\$ 57,267	\$ 66,141	\$ 9,370	\$ 106,639	\$ 115,764	\$ 5,366	\$ 4,339	\$ 1,020
Prepays	-	-	-	-	1,225	1,838	-	-	-
Total Assets	26,434	57,267	66,141	9,370	107,864	117,602	5,366	4,339	1,020
Liabilities									
Accounts payable	100	-	750	365	935	7,001	-	-	305
Other Current Liabilities	-	-	-	-	2,063	2,883	-	-	-
Total Liabilities	100	-	750	365	2,998	9,884	-	-	305
Fund Equity									
Reserved for prepaids	-	-	-	-	1,225	1,838	-	-	-
Reserved fund balances	26,334	57,267	65,391	9,005	103,641	105,880	5,366	4,339	715
Total Fund Balance	26,334	57,267	65,391	9,005	104,866	107,718	5,366	4,339	715
Total Liabilities and Fund Balance	\$ 26,434	\$ 57,267	\$ 66,141	\$ 9,370	\$ 107,864	\$ 117,602	\$ 5,366	\$ 4,339	\$ 1,020

Castro County, Texas
 Combining Balance Sheet
 NonMajor Governmental Funds

For the Year Ended September 30, 2007

	Attorney Forfeited Funds	JP Court Technology Fund	Courthouse Records Management	Unclaimed Property Holder Account	Centennial Plaza	Expo Building	Crime Line	Payroll Fund	Totals	
									Nonmajor Governmental Funds	Governmental Funds
Assets:										
Cash and cash investments	\$ 9,184	\$ 19,541	\$ 11,457	\$ 6,208	\$ 14,404	250	\$ 3,329	\$ 1,287	\$	\$ 458,000
Prepays	-	-	-	-	-	-	-	-	-	3,063
Total Assets	9,184	19,541	11,457	6,208	14,404	250	3,329	1,287		461,063
Liabilities										
Accounts payable	105	-	-	-	-	-	32	-	-	9,593
Other Current Liabilities	-	-	-	-	-	250	-	1,287	-	6,483
Total Liabilities	105	-	-	-	-	250	32	1,287		16,076
Fund Equity										
Reserved for prepaids	-	-	-	-	-	-	-	-	-	3,063
Reserved fund balances	9,079	19,541	11,457	6,208	14,404	-	3,297	-	-	441,924
Total Fund Balance	9,079	19,541	11,457	6,208	14,404	-	3,297	-	-	444,987
Total Liabilities and Fund Balance	\$ 9,184	\$ 19,541	\$ 11,457	\$ 6,208	\$ 14,404	\$ 250	\$ 3,329	\$ 1,287	\$	\$ 461,063

Castro County, Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds

For the Year Ended September 30, 2007

	Check and Sight Fund	Courthouse Security	Clerks Records Management	Law Library	Library	Juvenile Probation	Constable Law Enforcement Education	Sheriff Law Enforcement Education	Sheriff Forfeited Funds
Revenues									
Fees and charges for services	\$ 7,982	\$ 5,515	\$ 15,220	\$ 3,310	\$ -	\$ 1,685	\$ 663	\$ 1,760	\$ -
Taxes	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	97,290	101,178	-	-	-
State and Federal	-	-	-	-	1,862	172,724	-	-	-
Interest earnings	-	-	-	-	2,827	4,680	-	-	-
Sale of labor and materials	-	-	-	-	-	-	-	-	-
Other miscellaneous	-	-	-	-	4,386	-	-	-	-
Forfeitures and settlements	-	-	-	-	-	-	-	-	181
Total Revenues	7,982	5,515	15,220	3,310	106,365	280,267	663	1,760	181
Expenditures									
Current:									
Salaries and benefits	2,820	-	-	-	61,849	136,682	-	-	-
Supplies	214	-	-	-	2,621	5,308	-	-	290
Other operating	355	174	9,000	-	16,691	151,724	100	2,112	1,863
Capital Outlay	-	-	-	895	10,120	-	-	-	-
Total Expenditures	3,389	174	9,000	895	91,281	293,714	100	2,112	2,153
Excess (Deficit) of Revenues Over Expenditures	4,593	5,341	6,220	2,415	15,084	(13,447)	563	(352)	(1,972)
Other Financing Sources (Uses):									
Proceeds from capital lease	-	-	-	-	-	-	-	-	-
Interfund Transfers In (Out)	-	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	-	-	-	-
Net Change in Fund Balance	4,593	5,341	6,220	2,415	15,084	(13,447)	563	(352)	(1,972)
Fund Balance - Beginning of Year	21,741	51,926	59,171	6,590	89,782	121,165	4,803	4,691	2,687
Fund Balance - End of Year	\$ 26,334	\$ 57,267	\$ 65,391	\$ 9,005	\$ 104,866	\$ 107,718	\$ 5,366	\$ 4,339	\$ 715

Castro County, Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
-Nonmajor Governmental Funds

For the Year Ended September 30, 2007

	Attorney Forfeited Funds	JP Court Technology Fund	Courthouse Records Management	Unclaimed Property Holder/Account	Centennial Plaza	Crime Line	Conference and Training	Total Nonmajor Governmental Funds
Revenues								
Fees and charges for services	\$ -	\$ 2,953	\$ 3,878	\$ -	\$ -	\$ 972	\$ -	\$ 43,938
Taxes	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	198,468
State and Federal	-	-	-	-	-	-	980	175,566
Interest earnings	-	-	-	-	679	-	-	8,186
Sale of labor and materials	-	-	-	-	-	-	-	-
Other miscellaneous	-	-	-	-	-	-	-	4,386
Forfeitures and settlements	2,272	-	-	2,095	-	-	-	4,548
Total Revenues	2,272	2,953	3,878	2,095	679	972	980	435,092
Expenditures								
Current:								
Salaries and benefits	2,500	-	-	-	-	-	-	203,851
Supplies	-	-	-	-	-	-	-	8,433
Other operating	5,912	330	-	-	-	972	980	190,213
Capital Outlay	36	-	14,125	-	-	-	-	25,176
Total Expenditures	8,448	330	14,125	-	-	972	980	427,673
Excess (Deficit) of Revenues Over Expenditures	(6,176)	2,623	(10,247)	2,095	679	-	-	7,419
Other Financing Sources (Uses):								
Proceeds from capital lease	-	-	-	-	-	-	-	-
Interfund Transfers In (Out)	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	-	-	-
Net Change in Fund Balance	(6,176)	2,623	(10,247)	2,095	679	-	-	7,419
Fund Balance - Beginning of Year	15,255	16,918	21,704	4,113	13,725	3,297	-	437,568
Fund Balance - End of Year	\$ 9,079	\$ 19,541	\$ 11,457	\$ 6,208	\$ 14,404	\$ 3,297	\$ -	\$ 444,987

Castro County, Texas
 Combining Statement of Changes in Assets and Liabilities
 All Agency Funds

Exhibit E-3

September 30, 2007

	Balance October 1, 2006	Additions	Deductions	Balance September 30, 2007
Tax Assessor Collector				
Assets:				
Cash and cash investments	\$ 48,479	\$ 1,070,747	\$ 1,066,620	\$ 52,607
Total Assets	<u>\$ 48,479</u>	<u>\$ 1,070,747</u>	<u>\$ 1,066,620</u>	<u>\$ 52,607</u>
Liabilities:				
Due to State	\$ 47,144	\$ 4,128	\$ -	\$ 51,272
Due to County	1,335	-	-	1,335
Total Liabilities	<u>\$ 48,479</u>	<u>\$ 4,128</u>	<u>\$ -</u>	<u>\$ 52,607</u>
Court Deposits				
Assets:				
Cash and cash investments	\$ 82,133	\$ 5,497	\$ 4,426	\$ 83,205
Total Assets	<u>\$ 82,133</u>	<u>\$ 5,497</u>	<u>\$ 4,426</u>	<u>\$ 83,205</u>
Liabilities:				
Due to others	\$ 82,133	\$ 5,497	\$ 4,426	\$ 83,205
Total Liabilities	<u>\$ 82,133</u>	<u>\$ 5,497</u>	<u>\$ 4,426</u>	<u>\$ 83,205</u>
Bail Bond Security				
Assets:				
Cash and cash investments	\$ 36,453	\$ 10,990	\$ 17,863	\$ 29,580
Total Assets	<u>\$ 36,453</u>	<u>\$ 10,990</u>	<u>\$ 17,863</u>	<u>\$ 29,580</u>
Liabilities:				
Due to others	\$ 36,453	\$ 10,990	\$ 17,863	\$ 29,580
Total Liabilities	<u>\$ 36,453</u>	<u>\$ 10,990</u>	<u>\$ 17,863</u>	<u>\$ 29,580</u>
Juvenile Probation Restitution				
Assets:				
Cash and cash investments	\$ 1,097	\$ 15,463	\$ 14,943	\$ 1,616
Total Assets	<u>\$ 1,097</u>	<u>\$ 15,463</u>	<u>\$ 14,943</u>	<u>\$ 1,616</u>
Liabilities:				
Due to others	\$ 1,097	\$ 15,463	\$ 14,943	\$ 1,616
Total Liabilities	<u>\$ 1,097</u>	<u>\$ 15,463</u>	<u>\$ 14,943</u>	<u>\$ 1,616</u>
Other Departments				
Assets:				
Cash and cash investments	\$ 1,662	\$ 155,884	\$ 156,947	\$ 599
Total Assets	<u>\$ 1,662</u>	<u>\$ 155,884</u>	<u>\$ 156,947</u>	<u>\$ 599</u>
Liabilities:				
Due to Others	1,662	155,884	156,947	599
Total Liabilities	<u>\$ 1,662</u>	<u>\$ 155,884</u>	<u>\$ 156,947</u>	<u>\$ 599</u>
Total All Agency Funds				
Assets:				
Cash and cash investments	\$ 169,825	\$ 1,258,580	\$ 1,260,799	\$ 167,607
Total Assets	<u>\$ 169,825</u>	<u>\$ 1,258,580</u>	<u>\$ 1,260,799</u>	<u>\$ 167,607</u>
Liabilities:				
Due to state	\$ 47,280	\$ 4,128	\$ -	\$ 51,408
Due to others	121,211	187,833	194,179	114,864
Due to other funds	1,335	-	-	1,335
Total Liabilities	<u>\$ 169,825</u>	<u>\$ 191,961</u>	<u>\$ 194,179</u>	<u>\$ 167,607</u>

**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***

To the Honorable Judge and
Members of the Commissioners Court of
Castro County, Texas:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Castro County, Texas (the County), as of and for the year ended September 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated April 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A 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 County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Members of the Commissioners Court of the County, the County's management, 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.

BROWN, GRAHAM & COMPANY PC
April 28, 2008
Dimmitt, Texas