

**CASTRO COUNTY, TEXAS**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED**  
**SEPTEMBER 30, 2008**

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**BROWN, GRAHAM & COMPANY**

PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's 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 opinions.

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, 2008, 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 September 14, 2009, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining 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 funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**BROWN, GRAHAM & COMPANY PC**

September 14, 2009  
Dimmitt, TX



Castro County Courthouse  
100 E. Bedford, Room 111  
Dimmitt, Texas 79027

**WILLIAM F. SAVA**  
County Judge  
Castro County, Texas

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## 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 Castro County for the fiscal year ended September 30, 2008.

### Financial Highlights

#### Government-Wide Financial Statements

- The assets of Castro County exceeded its liabilities at the close of the most recent fiscal year by \$5,222,980 (*net assets*). Of this amount, \$1,809,193 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors, \$1,893,933 (*restricted net assets*) legally must be used for expenditures for specified purposes, such as road and bridge, library, juvenile probation, etc., and \$1,519,855 of the County's equity is invested in capital assets, net of related debt.
- The County's total debt outstanding at September 30, 2008 is \$145,996 which are all capital leases.
- The net assets (*equity*) of the County increased by \$267,190 during the 2008 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 \$3,576,413. This fund balance reflects an increase of \$220,004 for the current year. Approximately 55% of fund balance, \$2,005,408, 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 \$1,539,758 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 \$5,222,980 at the close of the most recent fiscal year.

\$1,519,855 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 2008	Governmental Activities 2007
	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 3,869,834	\$ 3,637,847
Capital Assets	1,665,851	1,723,518
Total Assets	<u>5,535,685</u>	<u>5,361,365</u>
Long-term liabilities	145,996	240,519
Other liabilities	166,709	165,056
Total Liabilities	<u>312,705</u>	<u>405,575</u>
Invested in capital assets, net of related debt	1,519,855	1,482,999
Restricted	1,893,933	1,429,403
Unrestricted	1,809,193	2,043,387
Total net assets	<u>\$ 5,222,980</u>	<u>\$ 4,955,790</u>

The government's net assets increased by \$267,190 during the current fiscal year.

**Castro County's Changes in Net Assets**

	Governmental Activities 2008	Governmental Activities 2007
	<u>2008</u>	<u>2007</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 806,378	\$ 798,254
Operating Grants and Contributions	460,475	414,642
General Revenues		
Property Taxes	2,565,327	2,513,327
Interest Income	123,927	199,802
Miscellaneous Income	110,277	238,855
Total Revenues	<u>4,066,384</u>	<u>4,164,880</u>
Expenses		
General Government	1,173,481	1,032,904
Judicial	144,067	152,628
Legal	82,216	85,314
Public Facilities	143,819	139,117
Public Safety	1,220,088	1,190,841
Health and Welfare	18,408	12,908
Road and Bridge	1,017,115	1,064,422
Total Expenses	<u>3,799,194</u>	<u>3,678,134</u>
Increase in net assets	267,190	486,746
Net Assets – beginning	4,955,790	4,469,044
Net Assets – ending	<u>\$ 5,222,980</u>	<u>\$ 4,955,790</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 \$3,576,413. Approximately 55 percent of this total amount (\$2,005,408) 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 (\$1,539,785) 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 or approximately 10 months of operating equity.

**Fund Budgetary Highlights**

The original budget for the General fund reflected a deficit of \$151,748, which drew upon fund balance. Amendments to the original budget reflected a decrease in expenditures, causing the final budget to show a deficit of \$107,244. The actual expenditures were \$160,906 less than the final budgeted amounts, and actual revenues were \$121,571 more than was budgeted, resulting in a favorable variance of \$282,477.

In the Road and Bridge fund, the original budget reflected a deficit of \$32,041 which drew upon the fund balance. The final amended budget did not change from the original budget. The actual expenditures were \$87,754 less than the final budgeted amounts, and actual revenues were \$20,262 less than was budgeted, resulting in a favorable variance of \$67,492.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets.** Castro County's investment in capital assets for its governmental activities as of September 30, 2008, amounts to \$1,519,855 (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, 2008.

<b>Castro County's Capital Assets</b>		(net of depreciation)	
	Governmental Activities 2008		Governmental Activities 2007
	2008		2007
Land	\$ 14,388	\$	14,388
Buildings	315,773		293,435
Furniture and equipment	1,335,689		1,415,695
<b>Total</b>	<b>\$ 1,665,850</b>	<b>\$</b>	<b>1,723,518</b>

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 \$145,996

The County's overall lease payable decreased by \$94,523 during the current fiscal year. There were no new capital leases originating during the current year. 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 2009 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**  
**September 30, 2008**

**Exhibit A-1**

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Assets:	
Cash and cash equivalents	\$ 3,684,394
Receivables:	
Property Tax (net)	129,462
Sales tax	23,396
Due from agency funds	1,335
Prepays	31,247
Capital assets, net	1,665,851
<b>Total Assets</b>	<b><u>5,535,685</u></b>
Liabilities	
Accounts payable and accrued expenses	141,811
Due to others	8,169
Due to state	16,729
Non-current liabilities:	
Lease payable due in one year	85,921
Lease payable due in more than one year	60,075
<b>Total Liabilities</b>	<b><u>312,705</u></b>
Net Assets:	
Investment in capital assets, net of related debt	1,519,855
Restricted for special revenue	1,893,933
Unrestricted	1,809,192
<b>Total Net Assets</b>	<b><u>\$ 5,222,980</u></b>

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

Castro County, Texas  
Statement of Activities  
For the Year ended September 30, 2008

Exhibit B-1

Function/Program	Expenses	Program Revenues		Primary Government
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary Government				
Governmental activities				
General government	\$ 1,173,481	\$ 133,375	\$ 46,034	\$ (994,072)
Judicial	144,067	62,849	-	(81,218)
Legal	82,216	-	-	(82,216)
Public facilities	143,819	1,968	101,639	(40,212)
Public safety	1,220,088	117,335	312,802	(789,951)
Health and welfare	18,408	-	-	(18,408)
Road and bridge	1,017,115	490,851	-	(526,264)
Total governmental activities	<u>3,799,194</u>	<u>806,378</u>	<u>460,475</u>	<u>(2,532,341)</u>
Total primary government	<u>\$ 3,799,194</u>	<u>\$ 806,378</u>	<u>\$ 460,475</u>	
General revenues:				
Property taxes, other taxes, penalties				2,565,327
Interest income				123,927
Miscellaneous income				110,277
Total general revenues				<u>2,799,531</u>
Change in net assets				267,190
Net assets- beginning				<u>4,955,790</u>
Net assets- ending				<u>\$ 5,222,980</u>

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

Castro County, Texas  
 Balance Sheet  
 Governmental Funds  
 September 30, 2008

Exhibit C-1

	General Fund	Road and Bridge Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Cash and cash equivalents	\$ 2,020,689	\$ 1,134,973	\$ 528,733	\$ 3,684,395
Receivables:				
Property Tax	98,163	31,299	-	129,462
Sales tax	23,396	-	-	23,396
Due from agency funds	1,335	-	-	1,335
Due from others	20	-	-	20
Due from other funds	29,846	-	579	30,425
Prepays	18,381	9,803	3,063	31,247
<b>Total Assets</b>	<b><u>\$ 2,191,830</u></b>	<b><u>\$ 1,176,075</u></b>	<b><u>\$ 532,375</u></b>	<b><u>\$ 3,900,280</u></b>
<b>Liabilities</b>				
Accounts payable and accrued expenditures	\$ 53,149	\$ 70,988	\$ 14,925	\$ 139,062
Due to others	-	-	8,189	8,189
Due to state	16,729	-	-	16,729
Due to other funds	-	-	30,425	30,425
Deferred revenue- taxes	98,163	31,299	-	129,462
<b>Total Liabilities</b>	<b><u>168,041</u></b>	<b><u>102,287</u></b>	<b><u>53,539</u></b>	<b><u>323,867</u></b>
<b>Fund Equity</b>				
Unreserved, reported in general fund	2,005,408	-	-	2,005,408
Reserved for prepaids	18,381	9,803	3,063	31,247
Reserved for special revenue	-	1,063,985	475,773	1,539,758
<b>Total Fund Equity</b>	<b><u>2,023,789</u></b>	<b><u>1,073,788</u></b>	<b><u>478,836</u></b>	<b><u>3,576,413</u></b>
<b>Total Liabilities and Fund Equity</b>	<b><u>\$ 2,191,830</u></b>	<b><u>\$ 1,176,075</u></b>	<b><u>\$ 532,375</u></b>	<b><u>\$ 3,900,280</u></b>

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

**Castro County, Texas**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
**September 30, 2008**

**Exhibit C-2**

Total Fund Balances- Governmental Funds	\$	3,576,413
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.		1,665,851
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.		129,462
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.		(148,746)
Net assets in Governmental Activities	<u>\$</u>	<u>5,222,980</u>

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

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

**Exhibit C-3**

	General Fund	Road and Bridge Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Intergovernmental	\$ 33,860	\$ -	\$ 218,626	\$ 252,486
State and Federal	46,034	-	163,921	209,955
Property taxes, other taxes and penalties	1,946,151	610,505	-	2,556,656
Interest earnings	81,941	37,261	4,565	123,767
Fees and charges for services	106,626	490,851	7,358	604,835
Fines and forfeitures	161,652	-	3,993	165,645
Rent and utilities	17,150	-	-	17,150
Other miscellaneous	76,420	160	36,169	112,749
<b>Total Revenues</b>	<b>2,469,834</b>	<b>1,138,777</b>	<b>434,632</b>	<b>4,043,243</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General administration	1,029,878	-	17,349	1,047,227
Judicial	143,617	-	450	144,067
Legal	76,495	-	5,721	82,216
Public facilities	34,068	-	94,165	128,233
Public safety	882,148	-	290,594	1,172,742
Health and welfare	18,408	-	-	18,408
Road and bridge	-	1,033,110	-	1,033,110
Capital Outlay	109,987	70,216	19,503	199,706
<b>Total Expenditures</b>	<b>2,294,601</b>	<b>1,103,326</b>	<b>427,782</b>	<b>3,825,709</b>
<b>Excess of Revenues over Expenditures</b>	<b>175,233</b>	<b>35,451</b>	<b>6,850</b>	<b>217,534</b>
<b>Other Financing Sources (Uses):</b>				
Sale of Assets	-	2,470	-	2,470
Interfund Transfers In (Out)	(27,000)	-	27,000	-
<b>Total Other Financing Sources (Uses)</b>	<b>(27,000)</b>	<b>2,470</b>	<b>27,000</b>	<b>2,470</b>
<b>Net Change in Fund Balance</b>	<b>148,233</b>	<b>37,921</b>	<b>33,850</b>	<b>220,004</b>
<b>Fund Balance- Beginning of Year</b>	<b>1,875,556</b>	<b>1,035,867</b>	<b>444,984</b>	<b>3,356,407</b>
<b>Fund Balance- End of Year</b>	<b>\$ 2,023,789</b>	<b>\$ 1,073,788</b>	<b>\$ 478,834</b>	<b>\$ 3,576,411</b>

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

**Castro County, Texas**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,**  
**and Changes in Fund Balance to the Statement of Activities**  
**For the Year ended September 30, 2008**

**Exhibit C-4**

Net Change in Fund Balances- Governmental Funds	\$	220,004
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.		211,706
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.		(269,373)
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 increase net assets.		8,670
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.		94,523
Accrued interest on capital leases is not due and payable in the current period and therefore are not reported in the governmental funds, but because the accrued expense is less this year than last, the net effect is to increase net assets.		1,659
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>267,190</u>

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

**Castro County, Texas**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Year ended September 30, 2008**

**Exhibit C-5**

	<u>Agency Funds</u>
Assets	
Cash and cash investments	\$ 191,757
Total Assets	<u>\$ 191,757</u>
Liabilities	
Due to others	\$ 139,541
Due to other funds	1,335
Due to State	<u>50,881</u>
Total Liabilities	<u>\$ 191,757</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*

The financial statements of Castro County, Texas (the County) have been prepared in conformity with accounting principals generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board, (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies are described below.

**A. 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. The County is governed by the Commissioner's Court, which is made up of four commissioners and the County Judge in accordance with Article 5, Paragraph 18 of the Texas Constitution. 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.

**B. 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*

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, 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*

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type and enterprise funds, subject to this same limitation. The County has no business type or enterprise funds.

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

**D. 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 the 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, 2008.

**E. 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.

**F. Rounding**

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

**CASTRO COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**

*Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

**G. Cash 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, 2008, the County had the following cash and cash equivalents, which represents all of the County's cash and cash equivalents:

<b>First United Bank</b>	<b>Demand and Time Deposits</b>	<b>\$ 3,648,607</b>
<b>Peoples Bank</b>	<b>Time Deposit</b>	<b>\$ 92,602</b>
<b>HTFCU</b>	<b>Time Deposit</b>	<b>\$ 30,755</b>

**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.

**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, 2008 were entirely covered by the FDIC insurance or by pledged collateral held by the County's agent bank.

**CASTRO COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**

*Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

**H. 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 principal as established by the Attorney General of the State of Texas. The tax rate for the year ended September 30, 2008 was \$.670 per \$100 valuation.

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

**I. 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

**J. 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.

**K. 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.

**CASTRO COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**

*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 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 7.45% for the months of the accounting year in 2008, and 8.21% for the months of the accounting year in 2007. The contribution rate payable by the employee members for calendar years 2008 and 2007 was 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, 2008 and 2007, the annual pension cost for the TCDRS plan for the County was \$117,554 and \$ 119,105, and the actual employee contributions were \$104,411 and \$102,780, 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, 2006 and December 31, 2007, the basis for determining the contribution rates for calendar years 2007 and 2008. The December 31, 2007 actuarial valuation is the most recent valuation.

**CASTRO COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**

*Note 2: RETIREMENT PLAN – continued*

Actuarial Valuation Information

Actuarial valuation date	<u>12/31/05</u>	<u>12/31/06</u>	<u>12/31/07</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	15	30
Asset valuation method	long-term appreciation with adjustment	SAF: 10 yrs smoothed value; ESF: fund value	SAF: 10 yr smoothed value; ESF: fund value
Actuarial Assumptions:			
Investment return*	8.00%	8.00%	8.00%
Projected salary increases*	5.5%	5.3%	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

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, 2008	\$117,554	100%	-0-
September 30, 2007	\$119,105	100%	-0-
September 30, 2006	\$112,972	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 Accrued 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
12/31/05	4,480,433	4,644,842	164,409	96.46%	1,346,504	12.21%
12/31/06	5,094,997	5,138,481	43,484	99.15%	1,395,485	3.12%
12/31/07	5,414,321	5,408,929	(5,392)	100.1%	1,475,208	-.37%

**CASTRO COUNTY, TEXAS**  
NOTES TO FINANCIAL STATEMENTS

*Note 3: CHANGES IN CAPITAL ASSETS*

The changes in capital assets for the year ended September 30, 2008 are as follows:

	Balance October 1, 2007	Additions	Deletions	Balance September 30, 2008
<b>Capital Assets</b>				
Land (not depreciated)	\$ 14,388			\$ 14,388
Buildings	859,913	39,544		899,457
Furniture and equipment	2,652,497	172,163	(42,075)	2,782,584
<b>Total capital assets</b>	<b>3,526,798</b>	<b>211,706</b>	<b>(42,075)</b>	<b>3,696,429</b>
Less accumulated depreciation for:				
Buildings	566,478	17,206		583,684
Furniture and equipment	1,236,802	252,168	(42,075)	1,446,895
<b>Total accumulated depreciation</b>	<b>1,803,280</b>	<b>269,373</b>	<b>(42,075)</b>	<b>2,030,579</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 1,723,518</b>			<b>\$ 1,665,850</b>

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

Governmental Activities

General government	\$ 12,302
Public facilities	15,586
Public safety	31,808
Road and bridge	209,678
	<u>269,373</u>
	<u>\$ 269,373</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, 2008.

	Balance October 1, 2007	Additions	Retirements	Balance September 30, 2008	Due within one year
Governmental activities:					
Capital lease payable	\$ 240,519	\$ 0	\$ 94,523	\$ 145,996	\$ 85,922
<b>Total governmental activities</b>	<b>\$ 240,519</b>	<b>\$ 0</b>	<b>\$ 94,523</b>	<b>\$ 145,996</b>	<b>\$ 85,922</b>



**CASTRO COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**

*Note 4: OBLIGATIONS UNDER CAPITAL LEASES- continued*

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 three years. Interest paid on the capital leases ranges from 4.0% to 5.5%. Total interest expense amounted to \$10,431 for the year ended September 30, 2008. Future minimum lease commitments under the lease agreements are as follows:

<u>Year</u>	<u>Payments</u>
2009	93,635
2010	42,743
2011	<u>18,209</u>
	154,587
Less: Amount representing interest	<u>(8,591)</u>
Present Value of minimum lease payments	<u>\$ 145,996</u>

Total equipment, net of accumulated depreciation, under capital lease is \$568,605. Related amortization, in the amount of \$78,975, is included in depreciation expense.

*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 2008, 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, 2008

	General Fund			Variance Favorable (Unfavorable)
	Budget		(Budget Basis)	
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 28,463	\$ 28,463	\$ 33,860	\$ 5,397
State and Federal	39,000	39,000	46,034	7,034
Property taxes, other taxes and penalties	1,867,700	1,867,700	1,946,151	78,451
Interest earnings	75,000	75,000	81,941	6,941
Fees and charges for services	82,000	82,000	106,626	24,626
Fines and forfeitures	165,000	165,000	161,652	(3,348)
Rent and utilities	16,700	16,700	17,150	450
Other miscellaneous	74,400	74,400	76,420	2,020
<b>Total Revenues</b>	<b>2,348,263</b>	<b>2,348,263</b>	<b>2,469,834</b>	<b>121,571</b>
Expenditures:				
Current:				
General administration	1,243,167	1,103,718	1,029,878	73,840
Judicial	174,629	174,629	143,617	31,012
Legal	77,987	77,987	76,495	1,492
Public facilities	36,942	36,942	34,068	2,874
Public safety	928,096	932,639	882,148	50,491
Health and welfare	13,508	13,508	18,408	(4,900)
Road and bridge	-	-	-	-
Capital Outlay	25,682	116,084	109,987	6,097
<b>Total Expenditures</b>	<b>2,500,011</b>	<b>2,455,507</b>	<b>2,294,601</b>	<b>160,906</b>
Excess of Revenues over (under) Expenditures	(151,748)	(107,244)	175,233	282,477
Other Financing Sources (Uses):				
Sale of Assets	-	-	-	-
Interfund Transfers In (Out)	-	-	(27,000)	27,000
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>(27,000)</b>	<b>27,000</b>
Net Change in Fund Balance	(151,748)	(107,244)	148,233	309,477
Fund Balance- Beginning of Year	1,875,556	1,875,556	1,875,556	-
<b>Fund Balance- End of Year</b>	<b>\$ 1,723,808</b>	<b>\$ 1,768,312</b>	<b>\$ 2,023,789</b>	<b>\$ 309,477</b>

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, 2008

	Road and Bridge			
	Budget		(Budget Basis)	Variance
	Original	Final	Actual	Favorable (Unfavorable)
Revenues:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
State and Federal	-	-	-	-
Property taxes, other taxes and penalties	606,070	606,070	610,505	4,435
Interest earnings	57,478	57,478	37,261	(20,217)
Fees and charges for services	495,491	495,491	490,851	(4,640)
Fines and forfeitures	-	-	-	-
Rent and utilities	-	-	-	-
Other miscellaneous	-	-	160	160
<b>Total Revenues</b>	<b>1,159,039</b>	<b>1,159,039</b>	<b>1,138,777</b>	<b>(20,262)</b>
Expenditures:				
Current:				
General administration	-	-	-	-
Judicial	-	-	-	-
Legal	-	-	-	-
Public facilities	-	-	-	-
Public safety	-	-	-	-
Health and welfare	-	-	-	-
Road and bridge	1,063,080	1,063,080	1,033,110	29,970
Capital Outlay	128,000	128,000	70,216	57,784
<b>Total Expenditures</b>	<b>1,191,080</b>	<b>1,191,080</b>	<b>1,103,326</b>	<b>87,754</b>
Excess of Revenues over (under) Expenditures	(32,041)	(32,041)	35,451	67,492
Other Financing Sources (Uses):				
Sale of Assets	-	-	2,470	2,470
Interfund Transfers In (Out)	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>2,470</b>	<b>2,470</b>
Net Change in Fund Balance	(32,041)	(32,041)	37,921	69,962
Fund Balance- Beginning of Year	1,035,867	1,035,867	1,035,867	-
Fund Balance- End of Year	\$ 1,003,826	\$ 1,003,826	\$ 1,073,788	\$ 69,962

**Combining Fund Statements  
and Schedules**

**Castro County, Texas**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**September 30, 2008**

	Check and Sight Fund	Courthouse Security	Clerks Records Management	Law Library	Library
<b>Assets:</b>					
Cash and cash equivalents	\$ 29,158	\$ 42,658	\$ 70,179	\$ 10,526	\$ 119,143
Prepays	-	-	-	-	1,225
Other Current Assets	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 29,158</b>	<b>\$ 42,658</b>	<b>\$ 70,179</b>	<b>\$ 10,526</b>	<b>\$ 120,368</b>
<b>Liabilities</b>					
Accounts payable	\$ 672	\$ -	\$ 751	\$ 162	\$ 1,092
Due to Others	-	-	-	-	1,818
Due to other funds	-	-	-	-	-
<b>Total Liabilities</b>	<b>672</b>	<b>-</b>	<b>751</b>	<b>162</b>	<b>2,910</b>
<b>Fund Equity</b>					
Reserved for prepaids	-	-	-	-	1,225
Reserved fund balances	28,486	42,658	69,428	10,364	116,233
<b>Total Fund Balance</b>	<b>28,486</b>	<b>42,658</b>	<b>69,428</b>	<b>10,364</b>	<b>117,458</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 29,158</b>	<b>\$ 42,658</b>	<b>\$ 70,179</b>	<b>\$ 10,526</b>	<b>\$ 120,368</b>

**Castro County, Texas**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**September 30, 2008**

	Juvenile Probation	Constable Law Enforcement Education	Sheriff Law Enforcement Education	Sherriff Forfeited Funds	Attorney Forfeited Funds
<b>Assets:</b>					
Cash and cash equivalents	\$ 139,671	\$ 6,036	\$ 4,293	\$ 2,046	\$ 6,442
Prepays	1,838	-	-	-	-
Other Current Assets	579				
<b>Total Assets</b>	<b><u>\$ 142,088</u></b>	<b><u>\$ 6,036</u></b>	<b><u>\$ 4,293</u></b>	<b><u>\$ 2,046</u></b>	<b><u>\$ 6,442</u></b>
<b>Liabilities</b>					
Accounts payable	\$ 6,933	\$ -	\$ -	\$ 325	\$ 14
Due to Others	3,158	-	-	-	-
Due to other funds	28,248	-	-	-	-
<b>Total Liabilities</b>	<b><u>38,339</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>325</u></b>	<b><u>14</u></b>
<b>Fund Equity</b>					
Reserved for prepaids	1,838	-	-	-	-
Reserved fund balances	101,911	6,036	4,293	1,721	6,428
<b>Total Fund Balance</b>	<b><u>103,749</u></b>	<b><u>6,036</u></b>	<b><u>4,293</u></b>	<b><u>1,721</u></b>	<b><u>6,428</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 142,088</u></b>	<b><u>\$ 6,036</u></b>	<b><u>\$ 4,293</u></b>	<b><u>\$ 2,046</u></b>	<b><u>\$ 6,442</u></b>

**Castro County, Texas**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**September 30, 2008**

	JP Court Technology Fund	Courthouse Records Management	Unclaimed Property Holder Account	Centennial Plaza	Crime Line
<b>Assets:</b>					
Cash and cash equivalents	\$ 22,155	\$ 14,979	\$ 6,317	\$ 14,421	\$ 3,692
Prepays	-	-	-	-	-
Other Current Assets	-	-	-	-	-
<b>Total Assets</b>	<b><u>\$ 22,155</u></b>	<b><u>\$ 14,979</u></b>	<b><u>\$ 6,317</u></b>	<b><u>\$ 14,421</u></b>	<b><u>\$ 3,692</u></b>
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to Others	-	-	-	-	-
Due to other funds	-	-	-	-	-
<b>Total Liabilities</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Fund Equity</b>					
Reserved for prepaids	-	-	-	-	-
Reserved fund balances	22,155	14,979	6,317	14,421	3,692
<b>Total Fund Balance</b>	<b><u>22,155</u></b>	<b><u>14,979</u></b>	<b><u>6,317</u></b>	<b><u>14,421</u></b>	<b><u>3,692</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 22,155</u></b>	<b><u>\$ 14,979</u></b>	<b><u>\$ 6,317</u></b>	<b><u>\$ 14,421</u></b>	<b><u>\$ 3,692</u></b>



Castro County, Texas  
 Combining Balance Sheet  
 Non-Major Governmental Funds  
 September 30, 2008

	Sunnyside Dam	Payroll Fund	Expo Building	Emergency Management	Conference & Training	Totals Nonmajor Governmental Funds
Assets:						
Cash and cash equivalents	\$ 1,500	\$ 10,116	\$ 375	\$ 25,000	\$ 26	\$ 528,733
Prepays	-	-	-	-	-	3,063
Other Current Assets						579
<b>Total Assets</b>	<b>\$ 1,500</b>	<b>\$ 10,116</b>	<b>\$ 375</b>	<b>\$ 25,000</b>	<b>\$ 26</b>	<b>\$ 532,375</b>
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,949
Due to Others	-	7,939	250	-	-	13,165
Due to other funds	-	2,177	-	-	-	30,425
<b>Total Liabilities</b>	<b>-</b>	<b>10,116</b>	<b>250</b>	<b>-</b>	<b>-</b>	<b>53,539</b>
Fund Equity						
Reserved for prepaids	-	-	-	-	-	3,063
Reserved fund balances	1,500	-	125	25,000	26	475,773
<b>Total Fund Balance</b>	<b>1,500</b>	<b>-</b>	<b>125</b>	<b>25,000</b>	<b>26</b>	<b>478,836</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,500</b>	<b>\$ 10,116</b>	<b>\$ 375</b>	<b>\$ 25,000</b>	<b>\$ 26</b>	<b>\$ 532,375</b>

Castro County, Texas  
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balance  
 Non-Major Governmental Funds  
 For the Year ended September 30, 2008

	Check and Sight Fund	Courthouse Security	Clerks Records Management	Law Library	Library
<b>Revenues</b>					
Fees and charges for services	\$ 7,229	\$ 5,415	\$ 14,145	\$ 3,682	\$ -
Taxes	-	-	-	-	-
Intergovernmental	-	-	-	-	97,203
State and Federal	-	-	-	-	4,311
Interest earnings	-	-	-	-	1,572
Sale of labor and materials	-	-	-	-	-
Other miscellaneous	-	-	-	-	3,329
Forfeitures and settlements	-	-	-	-	-
<b>Total Revenues</b>	<b>7,229</b>	<b>5,415</b>	<b>14,145</b>	<b>3,682</b>	<b>106,415</b>
<b>Expenditures</b>					
Current:					
Salaries and benefits	-	-	-	-	62,394
Supplies	1,986	-	-	-	2,883
Other operating	3,091	520	10,108	2,323	28,546
Capital Outlay	-	19,504	-	-	-
<b>Total Expenditures</b>	<b>5,077</b>	<b>20,024</b>	<b>10,108</b>	<b>2,323</b>	<b>93,823</b>
<b>Excess (Deficit) of Revenues Over Expenditures</b>					
	<b>2,152</b>	<b>(14,609)</b>	<b>4,037</b>	<b>1,359</b>	<b>12,592</b>
<b>Other Financing Sources (Uses):</b>					
Interfund Transfers In (Out)	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>2,152</b>	<b>(14,609)</b>	<b>4,037</b>	<b>1,359</b>	<b>12,592</b>
<b>Fund Balance - Beginning of Year</b>	<b>26,334</b>	<b>57,267</b>	<b>65,391</b>	<b>9,005</b>	<b>104,866</b>
<b>Fund Balance - End of Year</b>	<b>\$ 28,486</b>	<b>\$ 42,658</b>	<b>\$ 69,428</b>	<b>\$ 10,364</b>	<b>\$ 117,458</b>

**Castro County, Texas**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Non-Major Governmental Funds**  
**For the Year ended September 30, 2008**

	Juvenile Probation	Constable Law Enforcement Education	Sheriff Law Enforcement Education	Sherriff Forfeited Funds	Attorney Forfeited Funds
<b>Revenues</b>					
Fees and charges for services	\$ 2,092	\$ 670	\$ 1,749	\$ -	\$ -
Taxes	-	-	-	-	-
Intergovernmental	119,332	-	-	-	-
State and Federal	159,610	-	-	-	-
Interest earnings	2,632	-	-	-	-
Sale of labor and materials	-	-	-	-	-
Other miscellaneous	-	-	-	-	-
Forfeitures and settlements	-	-	-	1,916	747
<b>Total Revenues</b>	<b>283,666</b>	<b>670</b>	<b>1,749</b>	<b>1,916</b>	<b>747</b>
<b>Expenditures</b>					
Current:					
Salaries and benefits	133,727	-	-	-	-
Supplies	842	-	-	280	-
Other operating	153,066	-	1,795	630	3,398
Capital Outlay	-	-	-	-	-
<b>Total Expenditures</b>	<b>287,635</b>	<b>-</b>	<b>1,795</b>	<b>910</b>	<b>3,398</b>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<b>(3,969)</b>	<b>670</b>	<b>(46)</b>	<b>1,006</b>	<b>(2,651)</b>
<b>Other Financing Sources (Uses):</b>					
Interfund Transfers In (Out)	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>(3,969)</b>	<b>670</b>	<b>(46)</b>	<b>1,006</b>	<b>(2,651)</b>
<b>Fund Balance - Beginning of Year</b>	<b>107,718</b>	<b>5,366</b>	<b>4,339</b>	<b>715</b>	<b>9,079</b>
<b>Fund Balance - End of Year</b>	<b>\$ 103,749</b>	<b>\$ 6,036</b>	<b>\$ 4,293</b>	<b>\$ 1,721</b>	<b>\$ 6,428</b>

**Castro County, Texas**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Non-Major Governmental Funds**  
**For the Year ended September 30, 2008**

	JP Court Technology Fund	Courthouse Records Management	Unclaimed Property Holder Account	Centennial Plaza	Crime Line
<b>Revenues</b>					
Fees and charges for services	\$ 3,064	\$ 3,814	\$ -	\$ -	\$ 649
Taxes	-	-	-	-	-
Intergovernmental	-	-	-	-	-
State and Federal	-	-	-	-	-
Interest earnings	-	-	-	360	-
Sale of labor and materials	-	-	-	-	-
Other miscellaneous	-	-	-	-	-
Forfeitures and settlements	-	-	109	-	-
<b>Total Revenues</b>	<b>3,064</b>	<b>3,814</b>	<b>109</b>	<b>360</b>	<b>649</b>
<b>Expenditures</b>					
Current:					
Salaries and benefits	-	-	-	-	-
Supplies	-	-	-	-	-
Other operating	450	292	-	343	254
Capital Outlay	-	-	-	-	-
<b>Total Expenditures</b>	<b>450</b>	<b>292</b>	<b>-</b>	<b>343</b>	<b>254</b>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<b>2,614</b>	<b>3,522</b>	<b>109</b>	<b>17</b>	<b>395</b>
<b>Other Financing Sources (Uses):</b>					
Interfund Transfers In (Out)	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>2,614</b>	<b>3,522</b>	<b>109</b>	<b>17</b>	<b>395</b>
<b>Fund Balance - Beginning of Year</b>	<b>19,541</b>	<b>11,457</b>	<b>6,208</b>	<b>14,404</b>	<b>3,297</b>
<b>Fund Balance - End of Year</b>	<b>\$ 22,155</b>	<b>\$ 14,979</b>	<b>\$ 6,317</b>	<b>\$ 14,421</b>	<b>\$ 3,692</b>

**Castro County, Texas**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Non-Major Governmental Funds**  
**For the Year ended September 30, 2008**

**Exhibit E-2**  
**Page 4 of 4**

	Sunnyside Dam	Expo Building	Emergency Management	Conference and Training	Total Non-Major Governmental Funds
<b>Revenues</b>					
Fees and charges for services	\$ -	\$ -	\$ -	\$ -	\$ 42,509
Taxes	-	-	-	-	-
Intergovernmental	-	-	-	-	216,535
State and Federal	-	-	-	877	164,798
Interest earnings	-	-	-	-	4,564
Sale of labor and materials	-	-	-	-	-
Other miscellaneous	-	125	-	-	3,454
Forfeitures and settlements	-	-	-	-	2,772
<b>Total Revenues</b>	<b>-</b>	<b>125</b>	<b>-</b>	<b>877</b>	<b>434,632</b>
<b>Expenditures</b>					
Current:					
Salaries and benefits	-	-	-	-	196,121
Supplies	-	-	-	-	5,991
Other operating	500	-	-	851	206,167
Capital Outlay	-	-	-	-	19,504
<b>Total Expenditures</b>	<b>500</b>	<b>-</b>	<b>-</b>	<b>851</b>	<b>427,783</b>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<b>(500)</b>	<b>125</b>	<b>-</b>	<b>26</b>	<b>6,849</b>
<b>Other Financing Sources (Uses):</b>					
Interfund Transfers In (Out)	2,000	-	25,000	-	27,000
<b>Total Other Financing Sources (Uses)</b>	<b>2,000</b>	<b>-</b>	<b>25,000</b>	<b>-</b>	<b>27,000</b>
<b>Net Change in Fund Balance</b>	<b>1,500</b>	<b>125</b>	<b>25,000</b>	<b>26</b>	<b>33,849</b>
<b>Fund Balance - Beginning of Year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>444,987</b>
<b>Fund Balance - End of Year</b>	<b>\$ 1,500</b>	<b>\$ 125</b>	<b>\$ 25,000</b>	<b>\$ 26</b>	<b>\$ 478,836</b>

Castro County, Texas  
Combining Statement of Changes in Assets and Liabilities  
All Agency Funds  
For the Year ended September 30, 2008

Exhibit E-3

	Balance October 1, 2007	Additions	Deductions	Balance September 30, 2008
<b>Tax Assessor Collector</b>				
Assets:				
Cash and cash equivalents	\$ 52,607	\$ 1,174,928	\$ 1,173,053	\$ 54,482
Total Assets	<u>\$ 52,607</u>	<u>\$ 1,174,928</u>	<u>\$ 1,173,053</u>	<u>\$ 54,482</u>
Liabilities:				
Due to State	\$ 51,272	\$ -	\$ 391	\$ 50,881
Due to County	1,335	-	-	1,335
Due to Others	-	2,266	-	2,266
Total Liabilities	<u>\$ 52,607</u>	<u>\$ 2,266</u>	<u>\$ 391</u>	<u>\$ 54,482</u>
<b>Court Deposits</b>				
Assets:				
Cash and cash equivalents	\$ 83,205	\$ 37,822	\$ 17,035	\$ 103,991
Total Assets	<u>\$ 83,205</u>	<u>\$ 37,822</u>	<u>\$ 17,035</u>	<u>\$ 103,991</u>
Liabilities:				
Due to others	\$ 83,205	\$ 37,822	\$ 17,035	\$ 103,991
Total Liabilities	<u>\$ 83,205</u>	<u>\$ 37,822</u>	<u>\$ 17,035</u>	<u>\$ 103,991</u>
<b>Bail Bond Security</b>				
Assets:				
Cash and cash equivalents	\$ 29,580	\$ 31,729	\$ 30,695	\$ 30,614
Total Assets	<u>\$ 29,580</u>	<u>\$ 31,729</u>	<u>\$ 30,695</u>	<u>\$ 30,614</u>
Liabilities:				
Due to others	\$ 29,580	\$ 31,729	\$ 30,695	\$ 30,614
Total Liabilities	<u>\$ 29,580</u>	<u>\$ 31,729</u>	<u>\$ 30,695</u>	<u>\$ 30,614</u>
<b>Juvenile Probation Restitution</b>				
Assets:				
Cash and cash equivalents	\$ 1,616	\$ 13,141	\$ 13,294	\$ 1,464
Total Assets	<u>\$ 1,616</u>	<u>\$ 13,141</u>	<u>\$ 13,294</u>	<u>\$ 1,464</u>
Liabilities:				
Due to others	\$ 1,616	\$ 13,141	\$ 13,294	\$ 1,464
Total Liabilities	<u>\$ 1,616</u>	<u>\$ 13,141</u>	<u>\$ 13,294</u>	<u>\$ 1,464</u>
<b>Other Departments</b>				
Assets:				
Cash and cash equivalents	\$ 599	\$ 120,763	\$ 120,156	\$ 1,206
Total Assets	<u>\$ 599</u>	<u>\$ 120,763</u>	<u>\$ 120,156</u>	<u>\$ 1,206</u>
Liabilities:				
Due to Others	599	120,763	120,156	1,206
Total Liabilities	<u>\$ 599</u>	<u>\$ 120,763</u>	<u>\$ 120,156</u>	<u>\$ 1,206</u>
<b>Total All Agency Funds</b>				
Assets:				
Cash and cash equivalents	\$ 167,607	\$ 1,378,384	\$ 1,354,233	\$ 191,757
Total Assets	<u>\$ 167,607</u>	<u>\$ 1,378,384</u>	<u>\$ 1,354,233</u>	<u>\$ 191,757</u>
Liabilities:				
Due to state	\$ 51,272	\$ -	\$ 391	\$ 50,881
Due to others	114,999	205,721	181,180	139,541
Due to other funds	1,335	-	-	1,335
Total Liabilities	<u>\$ 167,607</u>	<u>\$ 205,721</u>	<u>\$ 181,571</u>	<u>\$ 191,757</u>



## **BROWN, GRAHAM & COMPANY**

PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

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

**To the Honorable Judge Sava, County Judge  
and Members of the Commissioners Court  
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, 2008, which collectively comprise Castro County, Texas's basic financial statements and have issued our report thereon dated September 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items one and two to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items one and two to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and responses as items one and two.

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

This report is intended solely for the information and use of 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, and Company P.C.*

Dimmitt, Texas

September 14, 2009



**Castro County, Texas**  
**Schedule of Findings and Responses**  
**For the Year ended September 30, 2008**

**Item 1- Incomplete and Inaccurate Bank Reconciliations**

Criteria- Under current generally accepted auditing standards, Castro County, Texas (the County) is required to take ultimate responsibility for the financial statements to be materially correct. As part of these requirements and standards, the County is expected to have controls in place internally as well as the skills and competencies necessary to prevent, detect and correct material misstatements. This process includes complete and accurate bank reconciliations prepared by the County.

Condition- During the audit, it was noted that cash accounts were not properly reconciled to the general ledger.

Cause- The County did not have procedures in place to ensure that the bank reconciliations were done in an accurate and complete manner.

Effect- Since procedures were not in place; the bank reconciliation resulted in an unreconciled variance and extensive procedures were performed by the auditor to ensure cash accounts were materially correct.

Recommendation- Management should review and revise procedures to ensure complete and accurate bank reconciliations are performed on a monthly basis on all cash accounts.

**Item 2- Prior Period Dating on Certain Check Payments and Payables**

Criteria- The County is required to comply with accounting principles that require expenses to either be paid or payable at the end of the fiscal year in order to be allocated to that fiscal year.

Condition- During the audit, it was noted that in various instances, the County was recording expenses either paid or payable in the subsequent year into the prior audit/budget fiscal year. The reason we were given for this was to match budgeted funds with expended funds.

Cause- The County was not aware that this practice was neither necessary nor acceptable.

Effect- Due to the incorrect dating on the expense and payables, the financial statements required adjustment to correctly allocate these amounts to the correct fiscal year.

Recommendation- Procedures should be put in place to ensure that the expenses paid or incurred are allocated to the correct fiscal year regardless of when these amounts were budgeted.

**Management Response to Both Items 1 and 2:**

After discussion with management concerning both of these items, they have assured the auditor that both areas would be corrected and monitored on a timely basis to prevent these weaknesses from recurring in the future audit years.

**Castro County, Texas**  
**Schedule of Prior Year Findings and Responses**  
**For the Year ended September 30, 2008**

No prior year findings and responses.