

CASTRO COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2011

**CASTRO COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2011**

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FINANCIAL SECTION

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BROWN, GRAHAM & COMPANY
PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

7431 Continental Parkway • Amarillo, Texas 79119
P.O. Box 20210 • Amarillo, Texas 79114
806-355-8241 • FAX 806-355-6415

Independent Auditor's Report

**To the Honorable Judge and
Members of the Commissioner's 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, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions 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 the 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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Castro County, Texas, as of September 30, 2011, and the respective changes in financial position and the respective budgetary comparisons for the General Fund, the General Road and Bridge Fund, the Precinct #1 Road and Bridge Fund, the Precinct #2 Road and Bridge Fund, the Precinct #3 Road and Bridge Fund, and the Precinct #4 Road and Bridge Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated September 10, 2012, 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 *Government Auditing Standards* and should be considered in assessing the results of our audit.

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**To the Honorable Judge and
Members of the Commissioner's Court of
Castro County, Texas**
Page two

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 14 and the schedule of funding progress – Texas County and District Retirement System on page 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Brown, Graham & Company, P.C.

Amarillo, Texas
September 10, 2012

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CASTRO COUNTY DIMMITT, TEXAS

PAULINE GEORGE
COUNTY AUDITOR

(806) 647-3771
FAX (806) 647-3052

pgeorge@castrocounty.org

THE ROSS BUILDING
114 S. BROADWAY

DIMMITT, TEXAS
79027



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, 2011.

Financial Highlights

Government-Wide Financial Statements

- The assets of Castro County exceeded its liabilities at September 30, 2010 by \$5,573,774 (*net assets*). Of this amount, \$2,426,242 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors, \$1,760,977 (*restricted net assets*) legally must be used for expenditures for specified purposes, such as road and bridge, library, juvenile probation, etc., and \$1,386,555 of the County's equity is invested in capital assets, net of related debt.
- The County's total long-term debt outstanding at September 30, 2011 was zero, as the final payment on the County's capital leases was made during the 2011 fiscal year.
- The net assets (*equity*) of the County decreased by \$9,733 during the 2011 fiscal year.

Fund Financial Statements

- As of September 30, 2011, Castro County's governmental funds reported combined ending fund balances of \$4,088,794. This fund balance reflects an increase of \$144,228 for the current year. Approximately 56% of fund balance, \$2,289,536, is *available for spending* at the government's discretion.
- At September 30, 2011, nonspendable fund balance consisted of \$38,281 for prepaid expenses and restricted fund balance was \$1,760,977.

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 pages 19-21 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. 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, the general road and bridge fund (special revenue fund), and individual road and bridge funds for each of the County's four precincts (also special revenue funds), which are all considered to be major funds. Data from the other non-major governmental funds (special revenue funds) are combined into the aggregated presentation. Individual fund data for each of these non-major governmental funds (special revenue funds) is provided in the form of *combining statements* elsewhere in this report.

The governmental fund financial statements can be found on pages 24-36 of this report.

Castro County adopts an annual appropriated budget for its general fund, road and bridge fund (special revenue fund), and various other special revenue funds. Budgetary comparison statements have been provided for the general fund and the County's various road and bridge funds to demonstrate the County's compliance with the budget on pages 31-36.

Fiduciary funds. Fiduciary funds are used to account for assets held by Castro 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 page 37 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 (special revenue funds) and agency funds are presented immediately following the required supplementary information. Combining statements can be found on pages 62-77 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 Castro County, assets exceeded liabilities by \$5,573,774 at September 30, 2011, as detailed below:

Statement of Net Assets

Governmental activities:	<u>9/30/11</u>	<u>9/30/10</u>
Current and other assets	\$ 4,425,584	\$ 4,412,413
Capital assets (net of accumulated depreciation)	<u>1,386,555</u>	<u>1,523,526</u>
Total assets	<u>5,812,139</u>	<u>5,935,939</u>
Current and other liabilities	175,479	335,444
Long-term liabilities	<u>62,886</u>	<u>16,988</u>
Total liabilities	<u>238,365</u>	<u>352,432</u>
Net assets:		
Invested in capital assets	1,386,555	1,506,538
Restricted net assets	1,760,977	1,835,481
Unrestricted net assets	<u>2,426,242</u>	<u>2,241,488</u>
Total net assets	<u>\$ 5,573,774</u>	<u>\$ 5,583,507</u>

\$1,386,555 of Castro County's net assets (25 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.

The government's net assets decreased by \$9,733 during the year ended September 30, 2011, as noted below:

Statement of Activities

	<u>Net Change</u>	<u>9/30/11</u>	<u>9/30/10</u>
Governmental activities:			
Revenues			
Program revenues			
Charges for services	\$ 138,006	\$ 942,720	\$ 804,714
Operating grants and contributions	(167,284)	272,593	439,877
Capital grants and contributions	624	624	-
General revenues			
Property taxes	(187,936)	2,618,254	2,806,190
Other taxes	183,021	183,021	-
Sale of assets	-	-	-
Investment earnings	(11,874)	49,681	61,555
Miscellaneous revenues	(88,059)	5,547	93,606
Total revenues	<u>(133,502)</u>	<u>4,072,440</u>	<u>4,205,942</u>
Expenses			
General government	(104,880)	1,025,787	1,130,667
Judicial	3,884	181,325	177,441
Legal system	(16,999)	78,952	95,951
Public facilities	(1,208)	138,636	139,844
Public safety	24,027	1,375,974	1,351,947
Health and welfare	10,657	13,862	3,205
Road and bridge	13,094	1,270,134	1,257,040
Interest on capital leases	1,220	1,220	-
Total expenses	<u>(70,205)</u>	<u>4,085,890</u>	<u>4,156,095</u>
Change in net assets before transfers	(63,297)	(13,450)	49,847
Transfers	3,717	3,717	-
Change in net assets	<u>\$ (59,580)</u>	<u>(9,733)</u>	<u>49,847</u>
Net assets - beginning of year		<u>5,583,507</u>	<u>5,533,660</u>
Net assets - end of year		<u>\$ 5,573,774</u>	<u>\$ 5,583,507</u>

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, *unassigned 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 September 30, 2011, Castro County's governmental funds reported combined ending fund balances of \$4,088,794. Approximately 56 percent of this total amount or \$2,289,536 constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is either *restricted* for special revenue purposes, \$1,760,977, or in a nonspendable form (prepaid insurance) in the amount of \$38,281.

The general fund is the chief operating fund of the County. The unassigned fund balance at September 30, 2011 represents 98% of the total general fund expenditures.

Fund Budgetary Highlights

The original budget for the General fund reflected a deficit of \$231,992, which drew upon fund balance. The final amended budget resulted in a deficit of \$241,992. The actual expenditures were \$207,425 less than the final budgeted amounts, and actual revenues and net transfers in were \$64,721 more than was budgeted, resulting in a favorable variance of \$272,146.

In the Road and Bridge funds (special revenue funds), the combined original budgets reflected a deficit of \$112,191 which drew upon fund balance. The final amended budgets resulted in a deficit of \$130,399. The combined actual expenditures were \$125,220 less than the final budgeted amounts, and combined actual revenues and net transfers were \$50,840 more than was budgeted, resulting in a combined favorable variance of \$176,060.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. Castro County's investment in capital assets for its governmental activities as of September 30, 2011, amounts to \$1,386,555 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture and equipment. The County follows guidance from the Governmental Accounting Standards Board ("GASB") for accounting for and reporting of infrastructure assets (roads and bridges). Consequently, the County does not currently have any infrastructure assets that are required to be included on the government wide financial statements.

Governmental activities capital assets were as follows:

GOVERNMENTAL ACTIVITIES (NET OF DEPRECIATION)

	<u>9/30/11</u>	<u>9/30/10</u>
Land	\$ 14,388	\$ 14,388
Buildings and improvements	265,126	281,178
Equipment	<u>1,107,041</u>	<u>1,227,960</u>
Total	<u>\$ 1,386,555</u>	<u>\$ 1,523,526</u>

Additional information on Castro County's capital assets can be found in Note 5 of this report.

CAPITAL LEASES PAYABLE

- **Capital Leases Payable.** During the year ended September 30, 2011, the County paid the last installment on its capital lease payable. There were no new capital leases originating during the current year. Additional information on Castro County's leases payable can be found in Note 11 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.
- 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 2012 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

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**CASTRO COUNTY, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011**

	<u>Primary Government Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 2,971,534
Investments	1,253,085
Receivables (net of allowance for uncollectibles)	132,859
Intergovernmental receivables	27,035
Due from agency funds	2,790
Prepaid items	38,281
Capital assets (net of accumulated depreciation):	
Land and land improvements	14,388
Buildings and improvements	265,126
Equipment	1,107,041
Total assets	<u>5,812,139</u>
Liabilities:	
Accounts payable and other current liabilities	95,663
Intergovernmental payable	26,084
Due to others	783
Deferred revenue	52,949
Non-current liabilities:	
Due within one year	62,886
Due in more than one year	-
Total liabilities	<u>238,365</u>
Net assets:	
Invested in capital assets	1,386,555
Restricted net assets	1,760,977
Unrestricted net assets	2,426,242
Total net assets	<u>\$ 5,573,774</u>

The accompanying notes are an integral part of these financial statements.

**CASTRO COUNTY, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
General government	\$ 1,025,787	\$ 205,438	\$ -	\$ -
Judicial	181,325	71,121	-	624
Legal system	78,952	43,660	-	-
Public facilities	138,636	5,821	49,622	-
Public safety	1,375,974	125,299	222,971	-
Health and welfare	13,862	441	-	-
Road and bridge	1,270,134	490,940	-	-
Interest on capital leases	1,220	-	-	-
	<u>4,085,890</u>	<u>942,720</u>	<u>272,593</u>	<u>624</u>
Total governmental activities	<u>4,085,890</u>	<u>942,720</u>	<u>272,593</u>	<u>624</u>
Total primary government	<u>\$ 4,085,890</u>	<u>\$ 942,720</u>	<u>\$ 272,593</u>	<u>\$ 624</u>

General revenues:
Property taxes
Other taxes
Investment earnings
Miscellaneous revenues
Transfers in (out)

Total general revenues and transfers

Change in net assets

Net assets - beginning of year

Net assets - end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense)
Revenue and
Change in
Net Assets

Primary
Government

Governmental
Activities

\$ (820,349)
(109,580)
(35,292)
(83,193)
(1,027,704)
(13,421)
(779,194)
(1,220)

(2,869,953)

(2,869,953)

2,618,254
183,021
49,681
5,547
3,717

2,860,220

(9,733)

5,583,507

\$ 5,573,774

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FUND FINANCIAL STATEMENTS

CASTRO COUNTY, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	<u>General Fund</u>	<u>General Road and Bridge Fund</u>	<u>Precinct #1 Road and Bridge Fund</u>
Assets:			
Cash and cash equivalents	\$ 1,140,739	\$ 83,225	\$ 339,774
Investments	1,220,569	-	8,943
Taxes receivable (net of allowance for uncollectibles)	98,425	-	9,469
Intergovernmental receivables	27,035	-	-
Due from other funds	37,214	-	-
Prepaid items	24,113	-	3,564
Total assets	<u>\$ 2,548,095</u>	<u>\$ 83,225</u>	<u>\$ 361,750</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 27,159	\$ -	\$ 5,968
Accrued expenditures	30,872	-	2,853
Intergovernmental payable	26,084	-	-
Due to other funds	-	-	-
Due to others	183	-	-
Compensated absences payable	20,899	-	14,056
Deferred revenue	98,425	-	9,469
Total liabilities	<u>203,622</u>	<u>-</u>	<u>32,346</u>
Fund balances:			
Nonspendable fund balance:			
Prepaid items	24,113	-	3,564
Restricted fund balance:			
General government	-	-	-
Judicial	-	-	-
Legal system	-	-	-
Public facilities	-	-	-
Public safety	-	-	-
Road and bridge	-	83,225	325,840
Unassigned fund balance	2,320,360	-	-
Total fund balances	<u>2,344,473</u>	<u>83,225</u>	<u>329,404</u>
Total liabilities and fund balances	<u>\$ 2,548,095</u>	<u>\$ 83,225</u>	<u>\$ 361,750</u>

The accompanying notes are an integral part of these financial statements.

Precinct #2 Road and Bridge Fund	Precinct #3 Road and Bridge Fund	Precinct #4 Road and Bridge Fund	Other Governmental Funds	Total Governmental Funds
\$ 268,313	\$ 245,548	\$ 318,207	\$ 575,728	\$ 2,971,534
8,297	7,961	7,315	-	1,253,085
8,781	8,436	7,748	-	132,859
-	-	-	-	27,035
-	-	-	-	37,214
<u>3,593</u>	<u>3,459</u>	<u>3,490</u>	<u>62</u>	<u>38,281</u>
<u>\$ 288,984</u>	<u>\$ 265,404</u>	<u>\$ 336,760</u>	<u>\$ 575,790</u>	<u>\$ 4,460,008</u>
\$ 2,277	\$ 7,070	\$ 4,716	\$ 1,855	\$ 49,045
3,278	3,030	2,733	3,852	46,618
-	-	-	-	26,084
-	-	-	34,424	34,424
-	-	-	600	783
6,209	13,441	4,017	4,264	62,886
<u>8,781</u>	<u>8,436</u>	<u>7,748</u>	<u>18,515</u>	<u>151,374</u>
<u>20,545</u>	<u>31,977</u>	<u>19,214</u>	<u>63,510</u>	<u>371,214</u>
3,593	3,459	3,490	62	38,281
-	-	-	150,847	150,847
-	-	-	28,188	28,188
-	-	-	13,853	13,853
-	-	-	156,827	156,827
-	-	-	191,871	191,871
264,846	229,968	314,056	1,456	1,219,391
-	-	-	(30,824)	2,289,536
<u>268,439</u>	<u>233,427</u>	<u>317,546</u>	<u>512,280</u>	<u>4,088,794</u>
<u>\$ 288,984</u>	<u>\$ 265,404</u>	<u>\$ 336,760</u>	<u>\$ 575,790</u>	<u>\$ 4,460,008</u>

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CASTRO COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

Total fund balance - Governmental Funds	\$ 4,088,794
Capital assets used in the governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$4,061,412 and the accumulated depreciation was \$2,537,886. In addition, liabilities for capital leases payable in the amount of \$16,988 are not due and payable in the current period, and therefore are not reported as liabilities in the fund financial statements. The net effect of including the beginning balances for capital assets (net of accumulated depreciation) and capital leases payable in the governmental activities is to increase net assets.	1,506,538
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as an increase in capital assets in the government-wide financial statements. The net effect of including the 2011 capital outlays is to increase net assets.	195,058
The 2011 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(332,029)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue and eliminating inter-fund transactions. The net effect of these reclassifications, eliminations, and recognitions is to increase net assets.	115,413
Net assets - Governmental Activities	\$ <u>5,573,774</u>

The accompanying notes are an integral part of these financial statements.

CASTRO COUNTY, TEXAS
STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2011

	General Fund	General Road and Bridge Fund	Precinct #1 Road and Bridge Fund
Revenue:			
Taxes:			
Property taxes	\$ 1,926,992	\$ -	\$ 199,441
Other taxes	2,792	-	6,495
Intergovernmental revenue and grants	266,131	-	-
Charges for services	78,997	-	133,786
Fines and forfeitures	192,065	-	-
Investment earnings	33,663	618	3,750
Other revenue	28,462	-	2,183
Total revenue	<u>2,529,102</u>	<u>618</u>	<u>345,655</u>
Expenditures:			
Current:			
General government	967,948	-	-
Judicial	180,011	-	-
Legal system	73,456	-	-
Public facilities	30,031	-	-
Public safety	1,031,074	-	-
Health and welfare	13,862	-	-
Road and bridge	-	-	293,616
Debt service:			
Principal	-	-	-
Interest	-	-	-
Capital outlay	62,867	-	12,025
Total expenditures	<u>2,359,249</u>	<u>-</u>	<u>305,641</u>
Excess (deficiency) of revenue over (under) expenditures	<u>169,853</u>	<u>618</u>	<u>40,014</u>
Other financing sources (uses):			
Transfers in	7,000	40,000	-
Transfers out	(146,699)	-	(10,000)
Total other financing sources (uses)	<u>(139,699)</u>	<u>40,000</u>	<u>(10,000)</u>
Net change in fund balance	30,154	40,618	30,014
Fund balance at beginning of year	<u>2,314,319</u>	<u>42,607</u>	<u>299,390</u>
Fund balance at end of year	<u>\$ 2,344,473</u>	<u>\$ 83,225</u>	<u>\$ 329,404</u>

The accompanying notes are an integral part of these financial statements.

Precinct #2 Road and Bridge Fund	Precinct #3 Road and Bridge Fund	Precinct #4 Road and Bridge Fund	Other Governmental Funds	Total Governmental Funds
\$ 184,936	\$ 177,684	\$ 163,179	\$ -	\$ 2,652,232
6,495	6,495	6,495	57,151	85,923
-	-	-	214,665	480,796
124,056	119,191	109,461	39,001	604,492
-	-	-	2,520	194,585
3,266	3,129	3,624	2,409	50,459
-	-	2,263	5,023	37,931
<u>318,753</u>	<u>306,499</u>	<u>285,022</u>	<u>320,769</u>	<u>4,106,418</u>
-	-	-	19,658	987,606
-	-	-	1,314	181,325
-	-	-	4,896	78,352
-	-	-	88,804	118,835
-	-	-	279,866	1,310,940
-	-	-	-	13,862
256,642	245,413	237,380	5,750	1,038,801
16,988	-	-	-	16,988
1,220	-	-	-	1,220
10,959	103,175	26,468	2,484	217,978
<u>285,809</u>	<u>348,588</u>	<u>263,848</u>	<u>402,772</u>	<u>3,965,907</u>
<u>32,944</u>	<u>(42,089)</u>	<u>21,174</u>	<u>(82,003)</u>	<u>140,511</u>
-	-	-	150,416	197,416
(17,000)	(10,000)	(10,000)	-	(193,699)
(17,000)	(10,000)	(10,000)	150,416	3,717
15,944	(52,089)	11,174	68,413	144,228
252,495	285,516	306,372	443,867	3,944,566
<u>\$ 268,439</u>	<u>\$ 233,427</u>	<u>\$ 317,546</u>	<u>\$ 512,280</u>	<u>\$ 4,088,794</u>

**CASTRO COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2011**

Total net changes in fund balance - Governmental Funds	\$ 144,228
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as an increase in capital assets in the government-wide financial statements. The net effect of including the 2011 capital outlays is to increase net assets.	195,058
Depreciation is not recognized as an expense in the fund financial statements because it does not require the use of current financial resources. The net effect of including the current year's depreciation is to decrease net assets.	(332,029)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue, and eliminating inter-fund transactions. The net effect of these reclassifications, eliminations, and recognitions is to decrease net assets.	(16,990)
 Change in net assets - Governmental Activities	 \$ <u><u>(9,733)</u></u>

The accompanying notes are an integral part of these financial statements.

CASTRO COUNTY, TEXAS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2011

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenue:				
Taxes:				
Property taxes	\$ 1,884,493	\$ 1,884,493	\$ 1,926,992	\$ 42,499
Other taxes	3,000	3,000	2,792	(208)
Intergovernmental revenue and grants	240,002	240,002	266,131	26,129
Charges for services	97,220	97,220	78,997	(18,223)
Fines and forfeitures	156,980	156,980	192,065	35,085
Investment earnings	33,800	33,800	33,663	(137)
Other revenue	53,450	53,450	28,462	(24,988)
Total revenue	<u>2,468,945</u>	<u>2,468,945</u>	<u>2,529,102</u>	<u>60,157</u>
Expenditures:				
Current:				
General government	1,110,001	1,097,483	967,948	129,535
Judicial	191,447	191,447	180,011	11,436
Legal system	83,161	83,161	73,456	9,705
Public facilities	64,600	64,600	30,031	34,569
Public safety	1,034,252	1,058,836	1,031,074	27,762
Health and welfare	13,863	13,863	13,862	1
Capital outlay	69,350	57,284	62,867	(5,583)
Total expenditures	<u>2,566,674</u>	<u>2,566,674</u>	<u>2,359,249</u>	<u>207,425</u>
Excess of revenue over expenditures	<u>(97,729)</u>	<u>(97,729)</u>	<u>169,853</u>	<u>267,582</u>
Other financing sources (uses):				
Transfers in	-	-	7,000	7,000
Transfers out	(134,263)	(144,263)	(146,699)	(2,436)
Total other financing sources (uses)	<u>(134,263)</u>	<u>(144,263)</u>	<u>(139,699)</u>	<u>4,564</u>
Net change in fund balance	(231,992)	(241,992)	30,154	272,146
Fund balance at beginning of year	<u>2,314,319</u>	<u>2,314,319</u>	<u>2,314,319</u>	<u>-</u>
Fund balance at end of year	<u>\$ 2,082,327</u>	<u>\$ 2,072,327</u>	<u>\$ 2,344,473</u>	<u>\$ 272,146</u>

The accompanying notes are an integral part of these financial statements.

CASTRO COUNTY, TEXAS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL ROAD AND BRIDGE FUND
YEAR ENDED SEPTEMBER 30, 2011

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenue:				
Taxes:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Intergovernmental revenue and grants	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Investment earnings	-	-	618	618
Other revenue	-	-	-	-
Total revenue	<u>-</u>	<u>-</u>	<u>618</u>	<u>618</u>
Expenditures:				
Current:				
General government	-	-	-	-
Judicial	-	-	-	-
Legal system	-	-	-	-
Public facilities	-	-	-	-
Public safety	-	-	-	-
Health and welfare	-	-	-	-
Road and bridge	40,000	40,000	-	40,000
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>40,000</u>	<u>40,000</u>	<u>-</u>	<u>40,000</u>
Excess of revenue over expenditures	<u>(40,000)</u>	<u>(40,000)</u>	<u>618</u>	<u>40,618</u>
Other financing sources (uses):				
Transfers in	40,000	40,000	40,000	-
Sale of capital assets	-	-	-	-
Other resources	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Net change in fund balance	-	-	40,618	40,618
Fund balance at beginning of year	<u>42,607</u>	<u>42,607</u>	<u>42,607</u>	<u>-</u>
Fund balance at end of year	<u>\$ 42,607</u>	<u>\$ 42,607</u>	<u>\$ 83,225</u>	<u>\$ 40,618</u>

The accompanying notes are an integral part of these financial statements.

CASTRO COUNTY, TEXAS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – PRECINCT #1 ROAD AND BRIDGE FUND
YEAR ENDED SEPTEMBER 30, 2011

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenue:				
Taxes:				
Property taxes	\$ 196,456	\$ 196,456	\$ 199,441	\$ 2,985
Other taxes	6,500	6,500	6,495	(5)
Intergovernmental revenue and grants	-	-	-	-
Charges for services	124,000	124,000	133,786	9,786
Fines and forfeitures	-	-	-	-
Investment earnings	4,250	4,250	3,750	(500)
Other revenue	500	500	2,183	1,683
Total revenue	<u>331,706</u>	<u>331,706</u>	<u>345,655</u>	<u>13,949</u>
Expenditures:				
Current:				
General government	-	-	-	-
Judicial	-	-	-	-
Legal system	-	-	-	-
Public facilities	-	-	-	-
Public safety	-	-	-	-
Health and welfare	-	-	-	-
Road and bridge	280,682	280,682	293,616	(12,934)
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	50,000	50,000	12,025	37,975
Total expenditures	<u>330,682</u>	<u>330,682</u>	<u>305,641</u>	<u>25,041</u>
Excess of revenue over expenditures	<u>1,024</u>	<u>1,024</u>	<u>40,014</u>	<u>38,990</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Sale of capital assets	-	-	-	-
Other resources	-	-	-	-
Transfers out	(10,000)	(10,000)	(10,000)	-
Total other financing sources (uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Net change in fund balance	(8,976)	(8,976)	30,014	38,990
Fund balance at beginning of year	<u>299,390</u>	<u>299,390</u>	<u>299,390</u>	<u>-</u>
Fund balance at end of year	<u>\$ 290,414</u>	<u>\$ 290,414</u>	<u>\$ 329,404</u>	<u>\$ 38,990</u>

The accompanying notes are an integral part of these financial statements.

CASTRO COUNTY, TEXAS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – PRECINCT #2 ROAD AND BRIDGE FUND
YEAR ENDED SEPTEMBER 30, 2011

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenue:				
Taxes:				
Property taxes	\$ 182,247	\$ 182,247	\$ 184,936	\$ 2,689
Other taxes	6,500	6,500	6,495	(5)
Intergovernmental revenue and grants	-	-	-	-
Charges for services	111,200	111,200	124,056	12,856
Fines and forfeitures	-	-	-	-
Investment earnings	3,740	3,740	3,266	(474)
Other revenue	-	-	-	-
Total revenue	<u>303,687</u>	<u>303,687</u>	<u>318,753</u>	<u>15,066</u>
Expenditures:				
Current:				
General government	-	-	-	-
Judicial	-	-	-	-
Legal system	-	-	-	-
Public facilities	-	-	-	-
Public safety	-	-	-	-
Health and welfare	-	-	-	-
Road and bridge	267,618	267,618	256,642	10,976
Debt service:				
Principal	-	18,208	16,988	1,220
Interest	-	-	1,220	(1,220)
Capital outlay	20,000	20,000	10,959	9,041
Total expenditures	<u>287,618</u>	<u>305,826</u>	<u>285,809</u>	<u>20,017</u>
Excess of revenue over expenditures	<u>16,069</u>	<u>(2,139)</u>	<u>32,944</u>	<u>35,083</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Sale of capital assets	-	-	-	-
Other resources	-	-	-	-
Transfers out	(10,000)	(10,000)	(17,000)	(7,000)
Total other financing sources (uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>(17,000)</u>	<u>(7,000)</u>
Net change in fund balance	6,069	(12,139)	15,944	28,083
Fund balance at beginning of year	<u>252,495</u>	<u>252,495</u>	<u>252,495</u>	<u>-</u>
Fund balance at end of year	<u>\$ 258,564</u>	<u>\$ 240,356</u>	<u>\$ 268,439</u>	<u>\$ 28,083</u>

The accompanying notes are an integral part of these financial statements.

CASTRO COUNTY, TEXAS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – PRECINCT #3 ROAD AND BRIDGE FUND
YEAR ENDED SEPTEMBER 30, 2011

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenue:				
Taxes:				
Property taxes	\$ 175,085	\$ 175,085	\$ 177,684	\$ 2,599
Other taxes	6,500	6,500	6,495	(5)
Intergovernmental revenue and grants	-	-	-	-
Charges for services	107,000	107,000	119,191	12,191
Fines and forfeitures	-	-	-	-
Investment earnings	3,960	3,960	3,129	(831)
Other revenue	-	-	-	-
Total revenue	<u>292,545</u>	<u>292,545</u>	<u>306,499</u>	<u>13,954</u>
Expenditures:				
Current:				
General government	-	-	-	-
Judicial	-	-	-	-
Legal system	-	-	-	-
Public facilities	-	-	-	-
Public safety	-	-	-	-
Health and welfare	-	-	-	-
Road and bridge	265,302	265,302	245,413	19,889
Debt service:				
Principal	36,500	-	-	-
Interest	-	-	-	-
Capital outlay	70,000	106,500	103,175	3,325
Total expenditures	<u>371,802</u>	<u>371,802</u>	<u>348,588</u>	<u>23,214</u>
Excess of revenue over expenditures	<u>(79,257)</u>	<u>(79,257)</u>	<u>(42,089)</u>	<u>37,168</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Sale of capital assets	-	-	-	-
Other resources	-	-	-	-
Transfers out	(10,000)	(10,000)	(10,000)	-
Total other financing sources (uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Net change in fund balance	(89,257)	(89,257)	(52,089)	37,168
Fund balance at beginning of year	<u>285,516</u>	<u>285,516</u>	<u>285,516</u>	<u>-</u>
Fund balance at end of year	<u>\$ 196,259</u>	<u>\$ 196,259</u>	<u>\$ 233,427</u>	<u>\$ 37,168</u>

The accompanying notes are an integral part of these financial statements.

CASTRO COUNTY, TEXAS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – PRECINCT #4 ROAD AND BRIDGE FUND
YEAR ENDED SEPTEMBER 30, 2011

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenue:				
Taxes:				
Property taxes	\$ 160,749	\$ 160,749	\$ 163,179	\$ 2,430
Other taxes	6,500	6,500	6,495	(5)
Intergovernmental revenue and grants	-	-	-	-
Charges for services	100,200	100,200	109,461	9,261
Fines and forfeitures	-	-	-	-
Investment earnings	3,320	3,320	3,624	304
Other revenue	-	-	2,263	2,263
Total revenue	<u>270,769</u>	<u>270,769</u>	<u>285,022</u>	<u>14,253</u>
Expenditures:				
Current:				
General government	-	-	-	-
Judicial	-	-	-	-
Legal system	-	-	-	-
Public facilities	-	-	-	-
Public safety	-	-	-	-
Health and welfare	-	-	-	-
Road and bridge	250,796	250,796	237,380	13,416
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	30,000	30,000	26,468	3,532
Total expenditures	<u>280,796</u>	<u>280,796</u>	<u>263,848</u>	<u>16,948</u>
Excess of revenue over expenditures	<u>(10,027)</u>	<u>(10,027)</u>	<u>21,174</u>	<u>31,201</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Sale of capital assets	-	-	-	-
Other resources	-	-	-	-
Transfers out	(10,000)	(10,000)	(10,000)	-
Total other financing sources (uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Net change in fund balance	(20,027)	(20,027)	11,174	31,201
Fund balance at beginning of year	<u>306,372</u>	<u>306,372</u>	<u>306,372</u>	<u>-</u>
Fund balance at end of year	<u>\$ 286,345</u>	<u>\$ 286,345</u>	<u>\$ 317,546</u>	<u>\$ 31,201</u>

The accompanying notes are an integral part of these financial statements.

CASTRO COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
SEPTEMBER 30, 2011

	<u>Agency Funds</u>
Assets:	
Cash and cash equivalents	\$ 106,451
Investments	<u>39,965</u>
Total assets	<u>\$ 146,416</u>
Liabilities:	
Due to other governments	\$ 39,662
Due to other funds	2,790
Due to others	<u>103,964</u>
Total liabilities	<u>\$ 146,416</u>

The accompany notes are an integral part of these financial statements.

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CASTRO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of Castro County, Texas (the "County") have been prepared in conformity with accounting principles 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

Castro County, Texas is a public corporation and political subdivision of the State of Texas. 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 provides the following services as authorized by the statutes of the State of Texas: general administration, tax and recording (e.g. tax collection), judicial (courts, juries, etc.), legal (district attorney, county attorney, etc.), public safety (sheriff, fire protection, etc.), highway and street maintenance, correction and rehabilitation (adult and juvenile probation), community services (library), and health and human services (indigent care, etc.).

The County's basic financial statements include the accounts of all of its operations. The County evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the County's reporting entity, as set forth in GASB Statement No. 14 *The Financial Reporting Entity*, ("GASB No. 14") include whether:

- The organization is legally separate (can sue and be sued in its name)
- The County holds the corporate powers of the organization
- The County appoints a voting majority of the organization's board
- The County is able to impose its will on the organization
- The organization has the potential to impose a financial benefit or burden on the County
- There is fiscal dependency by the organization on the County
- The exclusion of the organization would result in misleading or incomplete financial statements

The County also evaluated each legally separate tax-exempt organization whose resources are used principally to provide support to the County to determine if its omission from the reporting entity would result in misleading or incomplete financial statements. GASB No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the County, its component units, or its constituents; and 2) The County or its component units are entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the County.

Based upon these criteria, the County has no component units. Additionally, the County is not a component unit of any other reporting entity as defined by GASB No. 14.

CASTRO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

B. Government-Wide and Fund 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 County. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County 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 claims and judgments, are recorded only when payment is due.

Property taxes, taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the County.

CASTRO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

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

The County reports the following major governmental funds:

- General Fund - the General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- General Road and Bridge Fund – a special revenue fund used to account for the expenditure of maintaining the roads and bridges of the County not accounted for under one of the other special revenue funds listed below.
- Precinct #1 Road and Bridge Fund – a special revenue fund used to account for the expenditures of maintaining the roads and bridges in Precinct #1 in the County.
- Precinct #2 Road and Bridge Fund – a special revenue fund used to account for the expenditures of maintaining the roads and bridges in Precinct #2 in the County.
- Precinct #3 Road and Bridge Fund – a special revenue fund used to account for the expenditures of maintaining the roads and bridges in Precinct #3 in the County.
- Precinct #4 Road and Bridge Fund – a special revenue fund used to account for the expenditures of maintaining the roads and bridges in Precinct #4 in the County.

Additionally, the County reports the following fund types:

- Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.
- Agency Funds - the County has five Agency Funds - Tax Assessor/Collector Agency Fund; the County Clerk Agency Fund; the County Clerk Bond Agency Fund; the County/District Attorney Agency Fund; and the County/District Attorney Hot Check Agency Fund. These agency or 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, 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 for the County's operations, these funds are not reported in either of the governmental-wide financial statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and fund 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 subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

CASTRO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

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

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

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

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

D. Budgets

As provided by state law, the County follows these procedures in establishing the annual budgetary data reflected in the financial statements:

At least 30 days prior to the time when the County Commission makes its tax levy for the upcoming fiscal year beginning October 1, the County Judge, as budget officer, files a proposed operating budget, including proposed expenditures and the means of financing them. Such budget is available for the inspection of any taxpayer and public hearings are conducted no less than 15 days subsequent to the time of filing. The County Commission has authority to make such changes in the budget as it deems warranted. Prior to October 1, the budget is legally enacted through passage of an ordinance.

The County's budget is prepared annually for the general and various special revenue funds on a detailed account level (line-item) basis. However, the legal level of budgetary control is directed at total expenditures at the individual fund level. The account level basis of the annual budget is intended purely as a management planning and control device. The Commissioner's Court must authorize transfers of budgeted amounts within and among departments and any revisions that alter the total expenditures on an individual fund basis. The budget to actual comparison in the financial statements is presented on a functional basis to provide information concerning the County's performance as it relates to the budget.

The County uses a flow of current financial resources method to budget for governmental funds. Governmental fund budgets are substantially on a basis consistent with GAAP. The budgeted amounts reflected in the financial statements are as last amended by the County Commission. Appropriations lapse at year-end.

CASTRO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

E. Cash and Investments

As permitted by State statute and County ordinance, required reserves and funds held pending expenditures are invested in either interest bearing checking accounts or in certificates of deposit.

The County maintains a cash pool that is used to transact a substantial majority of cash transactions for all funds. Interest income earned by the cash pool is allocated monthly to funds based on relative balances (of positive accounts only) at month end.

Investments are stated at cost, which approximates fair value.

F. Receivables

The County's management provides an allowance for uncollectible receivables based on an estimate of the amounts that will ultimately be uncollectible.

G. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the financial statements until such time as cash is transferred in payment of these accounts.

H. Inventories and Prepaid Items

The County records purchases of supplies and materials as expenditures. If a material amount of supplies and materials are on hand at the end of the year, their total cost is recorded as inventory in the financial statements. There was not a material amount of supplies and materials on hand at September 30, 2011.

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid items in both the government-wide and the fund financial statements. Prepaid items are recorded as expenditures when requisitioned by the various funds and departments of the County (the consumption method).

I. Capital Assets

Capital assets, which include land, buildings and improvements, vehicles and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**CASTRO COUNTY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED SEPTEMBER 30, 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

I. Capital Assets (continued)

The County was classified as a Phase 3 Government under GASB 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* “GASB No. 34” for the adoption and implementation of this pronouncement. Under GASB No. 34, Phase 3 Governments were not required to retroactively state their infrastructure assets unless they opted to do so. The County chose not to retroactively report its infrastructure assets; instead, the County chose to prospectively report the construction and acquisition of infrastructure assets after September 30, 2003. To date, the County has not constructed or acquired any infrastructure assets. The County does have roads, bridges, and other similar types of infrastructure assets located within the Count’s geographical border; however, none of these assets were constructed or acquired since September 30, 2003. Normal maintenance and repairs on infrastructure assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimates are reported as expenditures in the year incurred. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	5-10
Equipment	5-20
Vehicles	5

J. Compensated Absences

The County provides annual vacation leave of one to three weeks (depending upon years of service and employee classification). Employees can accumulate up to four weeks of vacation which will be paid upon termination or retirement. Since vacation leave is attributable to services already rendered and likely to be paid through time off or at termination or retirement, the County accrues a liability for this benefit. Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay the liability. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as an expense and a liability in the government-wide financial statements, but not in the fund financial statements.

Employees earn sick leave at the rate of 6.66 hours per month, and are allowed to accumulate up to 60 days for full time employees and 30 days for part time employees. Employees are not paid for accumulated sick leave upon termination or retirement; accordingly, the County recognizes as an expenditure only the amount of sick leave benefits used by employees during the year, and does not report any liability for unpaid sick leave on the financial statements.

CASTRO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

K. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations such as capital leases are reported as liabilities in the governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and unamortized bond issuance costs.

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

During the year ended September 30, 2011, the County's long term obligation were unpaid vacation benefits to its employees and a capital lease payable. These liabilities are discussed in further detail under Notes 10 and 11 respectively below.

L. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

M. Fund Balance

The County's fund balances for its governmental funds are presented in accordance with GASB 54, which classifies fund balance based on the level of constraints placed on the usage of fund resources. Under GASB 54, fund balances for governmental funds are reported in the following categories:

1. Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.
2. Restricted – The restricted fund balance classification includes amounts that are restricted to specific purposes. Fund balance is reported as restricted when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

CASTRO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

M. Fund Balance (continued)

3. Committed – The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the County’s highest level of decision-making authority, the Commissioners Court. Formal action consists of a resolution by a majority vote of the Commissioners Court in a publicly held scheduled meeting. Committed fund balance amounts cannot be used for any other purpose unless the Commissioners Court removes or changes the specified use by taking the same type of action (resolution). Commitments may be for facility expansion or renovation, program modifications, wage and salary adjustments, financial cushions (rainy day funds), and other purposes determined by the Commissioners Court. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. There were no committed fund balance amounts as of September 30, 2011.
4. Assigned – The assigned fund balance classification includes amounts that are constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed. The County Commissioners may delegate authority to specified persons or groups to make assignments of certain fund balances by a majority vote in a scheduled meeting. The County Commissioners may modify or rescind its delegation of authority by the same action. The authority to make assignments shall be in effect until modified or rescinded by the County Commissioners by majority vote in a publicly scheduled meeting. Currently, the Commissioners Court has not delegated the authority to make assignments of fund balance amounts.. There were no assigned fund balance amounts as of September 30, 2011.
5. Unassigned – The unassigned fund balance classification is the residual classification for the general fund. This classification represents fund balance that has not be assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

When the County incurs expenditures that can be made from either restricted or unrestricted balances, the expenditures are charged first to restricted balances, and then to unrestricted balances as they are needed. When the County incurs expenditures that can be made from either committed, assigned, or unassigned balances, the expenditures are charged to committed resources first, then to assigned resources and then to unassigned resources as they are needed.

N. Deferred Revenue

The County reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the County before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the County has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

CASTRO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

NOTE 2. DEPOSITS AND INVESTMENTS:

Legal and Contractual Provisions Governing Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) (the "Act") contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the County to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the County to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments

In compliance with the Act, and to meet the reporting requirements of the GASB Statement No. 40, *Deposit and Investment Risk Disclosures* "GASB No. 40", the County has disclosed the following information: The County has identified the following risks for its deposits and investments:

Interest rate risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The County has adopted the following in response to interest rate risk:

- Limiting investments to having a maximum allowable stated maturity of no more than twelve months from the date of purchase.
- The County will invest funds primarily in certificates of deposit, money market mutual funds, or local government investment pools functioning as money market mutual funds.
- Investing in investments with varying maturity dates.

Credit risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County's investment policy allows the following types of investments to mitigate its credit risk:

- Local government investment pools, which meet the requirements of Chapter 2256.016 of the Act and are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, and are authorized by resolution or ordinance by the Commissioners Court.
- Money Market Mutual funds that are registered and regulated by the Securities and Exchange Commission have a dollar weighted average stated maturity of 90 days or less, seek to maintain a net asset value of \$1.00 per share and are rated Triple A by at least one nationally recognized rating service.

CASTRO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

NOTE 2. DEPOSITS AND INVESTMENTS:

Policies Governing Deposits and Investments (continued)

- Certificates of Deposit issued by a depository institution that has its main office or a branch office in Texas. The certificate of deposit must be guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor and secured by obligations in a manner and amount as provided by law.

Concentration of credit risk - This is the risk of loss attributed to the magnitude of the County's investment in a single issuer. The County has adopted the following in response to its concentration of credit risk:

- Limiting investments to avoid over concentration in investments from a specific issuer or business section (excluding United States Treasury securities and certificates of deposit that are fully insured and collateralized in accordance with State and Federal law).
- Investing in investments with varying maturities.
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools and money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

Custodial credit risk - deposits - This is the risk that in the event of a bank failure, the County's deposits may not be returned to the County. The County has a policy of requiring that all deposits are collateralized by either the Federal Deposit Insurance Corporation (FDIC) or by one or more of the following:

- Obligations of the United States or its agencies and instrumentalities
- Direct obligations of the state of Texas or its agencies and instrumentalities
- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States
- Obligations of states, agencies, counties, cities, and other political subdivisions require a minimum rating to investment quality by a nationally recognized rating firm not less than an A

Custodial credit risk - investments - For an investment, this is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County has adopted the following policies to address this risk:

- Prequalifying financial institutions with which the County will conduct business.
- Requiring the County's investments to be collateralized by either the FDIC or by one or more of the methods listed above under the custodial credit risk – deposits section above.
- Requiring that pledged collateral be clearly marked as to evidence of ownership (safekeeping receipt), and that the pledged collateral be reviewed at least monthly to assure that the market value of the pledged collateral is adequate.

CASTRO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

NOTE 2. DEPOSITS AND INVESTMENTS (continued):

Investments Held

At September 30, 2011, the carrying amounts of the County's investments are shown below. The County did not invest in any other types of investments other than those shown below during the year.

<u>Investment</u>	<u>Carrying Amount</u>	<u>Cost</u>
Certificates of Deposit	\$ <u>1,253,085</u>	\$ <u>1,253,085</u>

NOTE 3. RECEIVABLES:

Receivables as of September 30, 2011, for the County's individual major funds and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Property Taxes</u>	<u>Inter- governmental</u>	<u>Less Allowance for Uncollectibles</u>	<u>Total Net Receivables</u>
Governmental Funds:				
General Fund	\$ 148,771	\$ 27,035	\$ (50,346)	\$ 125,460
Precinct #1 Road and Bridge Fund	13,839	-	(4,370)	9,469
Precinct #2 Road and Bridge Fund	12,833	-	(4,052)	8,781
Precinct #3 Road and Bridge Fund	12,329	-	(3,893)	8,436
Precinct #4 Road and Bridge Fund	<u>11,324</u>	<u>-</u>	<u>(3,576)</u>	<u>7,748</u>
 Total Governmental Funds	 <u>\$ 199,096</u>	 <u>\$ 27,035</u>	 <u>\$ (66,237)</u>	 <u>\$ 159,894</u>

NOTE 4. PROPERTY TAXES:

Property taxes attach as an enforceable lien on property as of January 1. Property taxes are levied on October 1 and become delinquent after January 31. The taxes accrue interest beginning February 1.

Current year property taxes are collected from the levy date October 1 through June 30, at which time the taxes are classified as delinquent and assessed penalties beginning July 1. The delinquent taxes receivable account represents past years uncollected tax levies. The allowance for estimated uncollectibles is approximately 33 % of the total delinquent taxes receivable at September 30, 2011. The allowance for uncollectible accounts is based upon historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the County is prohibited from writing off real property taxes without specific statutory authority from the Texas legislature.

The tax rate on the 2010 tax roll for the 2010-2011 fiscal year was \$.665 per \$100 of assessed valuation. The resulting tax levy was \$2,679,597 on an assessed value of \$402,946,986 (after final adjustments).

CASTRO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

NOTE 5. CAPITAL ASSETS:

Capital asset activity for the year ended September 30, 2011 was as follows:

Governmental activities:	Balance Oct 1, 2010	Additions	Sales, Retirements, and Transfers	Balance Sept. 30, 2011
Capital assets, not being depreciated:				
Land	\$ 14,388	\$ -	\$ -	\$ 14,388
Total capital assets, not being depreciated	<u>14,388</u>	<u>-</u>	<u>-</u>	<u>14,388</u>
Capital assets being depreciated:				
Buildings and improvements	899,457	50	-	899,507
Equipment	3,147,567	249,496	142,773	3,254,290
Total capital assets, being depreciated	<u>4,047,024</u>	<u>249,546</u>	<u>142,773</u>	<u>4,153,797</u>
Less accumulated depreciation for:				
Buildings and improvements	618,279	16,102	-	634,381
Equipment	1,919,607	315,927	88,285	2,147,249
Total accumulated depreciation	<u>2,537,886</u>	<u>332,029</u>	<u>88,285</u>	<u>2,781,630</u>
Total capital assets, being depreciated, net	<u>1,509,138</u>	<u>(82,483)</u>	<u>54,488</u>	<u>1,372,167</u>
Total governmental activities capital assets, net	<u>\$ 1,523,526</u>	<u>\$ (82,483)</u>	<u>\$ 54,488</u>	<u>\$ 1,386,555</u>

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

Governmental activities:	
General government	\$ 37,840
Public facilities	14,347
Public safety	58,741
Road and bridge	<u>221,101</u>
Total depreciation expense - governmental activities	<u>\$ 332,029</u>

**CASTRO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011**

NOTE 6. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

The composition of interfund balances as of September 30, 2011, is as follows:

	Payable Fund:		
	Tax		
	Assessor/ Collector's Agency Fund	Non-major Governmental Funds	Total
Governmental activities:	Fund	Funds	Total
Receivable fund:			
General Fund	\$ 2,790	\$ 34,424	\$ 37,214

The outstanding balances between funds result mainly from the time lag between the dates that monies have been collected by various departments within the County and the dates at which the monies are transferred to the appropriate fund within the County.

Interfund transfers during the year ended September 30, 2011 were as follows:

	Tranfers In:			
	General	General	Non-major	Total
	Fund	Road and Bridge Fund	Governmental Funds *	Transfers In
	Fund	Bridge Fund	Funds *	In
Transfers Out:				
General Fund	\$ -	\$ -	\$ 146,699	\$ 146,699
Non-major Governmental Funds	7,000	-	-	7,000
Precinct #1 Road and Bridge Fund	-	10,000	-	10,000
Precinct #1 Road and Bridge Fund	-	10,000	-	10,000
Precinct #1 Road and Bridge Fund	-	10,000	-	10,000
Precinct #1 Road and Bridge Fund	-	10,000	-	10,000
Total Transfers Out	\$ 7,000	\$ 40,000	\$ 146,699	\$ 193,699

* In addition to the transfers shown above, the non-major governmental funds reported an additional \$3,717 as transfers in from the general fund. The general fund had reported the offsetting transfer out in the prior fiscal year.

Transfers are done in order to move revenues from various funds to finance various programs and operations in other funds that the County must account for separately in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

CASTRO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

NOTE 7. FUND BALANCE:

The County's composition of its governmental fund balances as of September 30, 2011, is as follows:

	General Fund	General Road and Bridge Fund	Precinct #1 Road and Bridge Fund	Precinct #2 Road and Bridge Fund	Precinct #3 Road and Bridge Fund	Precinct #4 Road and Bridge Fund	Non-major Governmental Funds	Total
Non-expendable:								
Prepaid expenditures	\$ 24,113	\$ -	\$ 3,564	\$ 3,593	\$ 3,459	\$ 3,490	\$ 62	\$ 38,281
Restricted:								
General government:								
State of TX. election div. chapter 19	-	-	-	-	-	-	90	90
County judge excess salary supplement	-	-	-	-	-	-	354	354
Check & sight	-	-	-	-	-	-	19,761	19,761
Courthouse security	-	-	-	-	-	-	56,231	56,231
County clerk records management	-	-	-	-	-	-	24,744	24,744
District clerk records archive	-	-	-	-	-	-	45	45
County clerk records archive	-	-	-	-	-	-	47,280	47,280
County/District clerk technology grant	-	-	-	-	-	-	1,899	1,899
Unknown fund name	-	-	-	-	-	-	239	239
Bond election advertising	-	-	-	-	-	-	204	204
Judicial:								
Justice court technology fund	-	-	-	-	-	-	28,188	28,188
Legal system:								
County law library	-	-	-	-	-	-	10,558	10,558
County/District attorney forfeited funds	-	-	-	-	-	-	3,295	3,295
Public facilities:								
Centennial plaza	-	-	-	-	-	-	14,246	14,246
Hazel Merritt bequest	-	-	-	-	-	-	59,467	59,467
Rhoades memorial library - donations	-	-	-	-	-	-	6,613	6,613
Rhoades memorial library	-	-	-	-	-	-	75,366	75,366
District Attorney fund	-	-	-	-	-	-	1,135	1,135
Public safety:								
Juvenile probation	-	-	-	-	-	-	90,458	90,458
Sheriff's petty cash	-	-	-	-	-	-	2,791	2,791
Sheriff's special account	-	-	-	-	-	-	855	855
Emergency management	-	-	-	-	-	-	66	66
Unclaimed property	-	-	-	-	-	-	9,904	9,904
Constable law enforcement education	-	-	-	-	-	-	6,376	6,376
Sheriff's forfeited funds	-	-	-	-	-	-	4,655	4,655
Sheriff law enforcement education	-	-	-	-	-	-	6,010	6,010
Crime line	-	-	-	-	-	-	4,784	4,784
Juvenile probation state aide grant	-	-	-	-	-	-	239	239
Juvenile probation Title IV-E grant	-	-	-	-	-	-	65,461	65,461
Community corrections	-	-	-	-	-	-	272	272
Road and bridge:								
General road and bridge fund	-	83,225	-	-	-	-	-	83,225
Precinct #1 road and bridge fund	-	-	325,840	-	-	-	-	325,840
Precinct #2 road and bridge fund	-	-	-	264,846	-	-	-	264,846
Precinct #3 road and bridge fund	-	-	-	-	229,968	-	-	229,968
Precinct #4 road and bridge fund	-	-	-	-	-	314,056	-	314,056
Sunnyside dam	-	-	-	-	-	-	1,456	1,456
Unassigned	2,320,360	-	-	-	-	-	(30,824)	2,289,536
Total fund balance	\$ 2,344,473	\$ 83,225	\$ 329,404	\$ 268,439	\$ 233,427	\$ 317,546	\$ 512,280	\$ 4,088,794

CASTRO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

NOTE 8. EMPLOYEE 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 the TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 618 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034, or may be obtained from the TCDRS website at <http://www.tcdrs.com>.

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 deposits in the plan to receive any County-financed benefit. Members who withdraw their personal deposits in a lump sum are not entitled to any amounts contributed by the County. Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and County-financed monetary credits. The level of these monetary credits is adopted by the governing body of the County within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the County's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated deposits and the County-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding policy

The County has elected the annually determined contribution rate (variable rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the County based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the County is actuarially determined annually. The County contributed using the actuarially determined rate of 9.14% for the months of the accounting year in 2011, and 9.49% for the months of the accounting year in 2010. The contribution rate payable by the employee members is the rate of 7.0% as adopted by the governing body of the County. The employee contribution rate and the County contribution rate may be changed by the governing body of the County within the options available in the TCDRS Act. The TCDRS Act also allows the County to elect to make an additional optional contribution to its account during the year, in addition to its regular monthly contributions.

Annual pension cost

For the County's accounting year ending September 30, 2011, the annual pension cost for the TCDRS plan for its employees was \$151,296, which equals the County's required and actual contributions. The required contribution was determined as part of the December 31, 2010 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2010 included (a) 8.0% investment rate of return (net of administrative expenses), and (b) projected salary increases of 5.4%. Both (a) and (b) included an inflation factor of 3.5%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 10 year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2010 was 20 years.

CASTRO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

NOTE 8. EMPLOYEE RETIREMENT PLAN (continued):

Funded Status and Funding Progress

As of December 31, 2010, the most recent actuarial valuation date, the plan was 93.94% funded. The actuarial accrued liability for benefits was \$5,353,728, and the actuarial value of assets was \$5,029,537, resulting in an unfunded actuarial accrued liability (UAAL) of \$324,191. The covered payroll (annual payroll of active employees covered by the plan) was \$1,634,639, and the ratio of the UAAL to the covered payroll was 19.83%. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

**Three-Year Trend Information for the Retirement Plan
for the Employees of Castro County, Texas**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2009	\$ 114,658	100%	-
September 30, 2010	\$ 145,228	100%	-
September 30, 2011	\$ 151,296	100%	-

Actuarial Valuation Information

	<u>12/31/08</u>	<u>12/31/09</u>	<u>12/31/10</u>
Actuarial valuation date	12/31/08	12/31/09	12/31/10
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period in years	20	20	20
Asset valuation method	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value
Assumptions:			
Investment rate of return**	8%	8%	8%
Projected salary increases**	5.3%	5.4%	5.4%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	0.0%	0.0%	0.0%

**Includes inflation at the state rate

CASTRO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

NOTE 9. RISK MANAGEMENT:

The County is exposed to various risk of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. All risk management programs of the general fund with inherent risk of significant loss are covered by commercial insurance funded through general fund operations. 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

NOTE 10. COMPENSATED ABSENCES:

Below is a summary of the changes in compensated absences for the year ended September 30, 2011:

Governmental activities:	Balance				Balance
	Oct. 1, 2010	Additions	Reductions		Sept. 30, 2011
Compensated absences	\$ <u>65,030</u>	\$ <u>62,886</u>	\$ <u>(65,030)</u>	\$	<u>62,886</u>

In prior years, compensated absences have been typically liquidated by the governmental fund in which the liability has been incurred for governmental activities. The County does not anticipate any changes in the future for liquidation of these types of liabilities from how they have been liquidated in the past.

NOTE 11. CAPITAL LEASE PAYABLE:

The County has leased certain equipment under the terms of a capital lease. The final payment on the capital lease was made during the year. Following is a summary of the activity for the capital lease payable:

Governmental Activities:	Balance				Balance	Interest
	Oct. 1, 2010	Additions	Payments		Sept. 30, 2011	Expense
Capital lease payable	\$ <u>16,988</u>	\$ <u>-</u>	\$ <u>(16,988)</u>	\$	<u>-</u>	<u>1,220</u>

NOTE 12. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through September 10, 2012, which is the date on which the financial statements were issued.

CASTRO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

NOTE 13. BUDGET VARIANCES:

As noted on the statement of revenue, expenditures, and changes in fund balance - budget and actual – general fund on page 31, the County had one negative variance in an expenditure categories compared to the final amended budget for the year. The County attempts to monitor the annual budget throughout the year and amend it as necessary; however, sometimes variance will result due to timing differences, etc. The County’s management will attempt to more closely monitor the budget variances in the future and amend the budget as needed in order to alleviate this negative variance.

REQUIRED SUPPLEMENTARY INFORMATION

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**CASTRO COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
TEXAS COUNTY AND DISTRICT
RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2011**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability Entry Age</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2005	\$ 4,480,433	\$ 4,644,842	\$ 164,409	96.46%	\$ 1,346,504	12.21%
12/31/2006	5,094,997	5,138,481	43,484	99.15%	1,395,485	3.12%
12/31/2007	5,414,321	5,408,929	(5,392)	100.10%	1,475,208	-0.37%
12/31/2008	4,926,915	5,334,562	407,647	92.36%	1,525,860	26.72%
12/31/2009	5,044,944	5,401,234	356,290	93.40%	1,579,665	22.55%
12/31/2010	5,029,537	5,353,728	324,191	93.94%	1,634,639	19.83%

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**COMBINING AND INDIVIDUAL
FUND STATEMENTS**

**CASTRO COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

	<u>Juvenile Probation</u>	<u>Centennial Plaza</u>	<u>Hazel Merritt Bequest</u>	<u>Rhoads Memorial Library Donations & Memorials</u>
Assets:				
Cash and cash equivalents	\$ 93,470	\$ 14,246	\$ 59,467	\$ 6,613
Prepaid expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 93,470</u>	<u>\$ 14,246</u>	<u>\$ 59,467</u>	<u>\$ 6,613</u>
Liabilities and Fund balances:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued expenditures	253	-	-	-
Due to other funds	-	-	-	-
Due to others	-	-	-	-
Compensated absences payable	2,759	-	-	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>3,012</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Nonspendable fund balance:				
Prepaid items	-	-	-	-
Restricted fund balance:				
General government	-	-	-	-
Judicial	-	-	-	-
Legal system	-	-	-	-
Public facilities	-	14,246	59,467	6,613
Public safety	90,458	-	-	-
Road and bridge	-	-	-	-
Unassigned fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>90,458</u>	<u>14,246</u>	<u>59,467</u>	<u>6,613</u>
Total liabilities and fund balances	<u>\$ 93,470</u>	<u>\$ 14,246</u>	<u>\$ 59,467</u>	<u>\$ 6,613</u>

The accompanying notes are an integral part of these financial statements.

<u>Rhoads Memorial Library</u>	<u>State of Texas Election Division Chapter 19</u>	<u>County Judge Excess Salary Supplement</u>	<u>Sheriff's Petty Cash</u>	<u>Sheriff's Special Account</u>	<u>Emergency Management</u>	<u>Sunnyside Dam</u>
\$ 79,444	\$ 90	\$ 354	\$ 2,818	\$ 855	\$ 66	\$ 1,456
<u>62</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 79,506</u>	<u>\$ 90</u>	<u>\$ 354</u>	<u>\$ 2,818</u>	<u>\$ 855</u>	<u>\$ 66</u>	<u>\$ 1,456</u>
\$ 1,341	\$ -	\$ -	\$ 27	\$ -	\$ -	\$ -
1,232	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1,505	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>4,078</u>	<u>-</u>	<u>-</u>	<u>27</u>	<u>-</u>	<u>-</u>	<u>-</u>
62	-	-	-	-	-	-
-	90	354	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
75,366	-	-	-	-	-	-
-	-	-	2,791	855	66	-
-	-	-	-	-	-	1,456
-	-	-	-	-	-	-
<u>75,428</u>	<u>90</u>	<u>354</u>	<u>2,791</u>	<u>855</u>	<u>66</u>	<u>1,456</u>
<u>\$ 79,506</u>	<u>\$ 90</u>	<u>\$ 354</u>	<u>\$ 2,818</u>	<u>\$ 855</u>	<u>\$ 66</u>	<u>\$ 1,456</u>

**CASTRO COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

	<u>Unclaimed Property</u>	<u>Check & Sight</u>	<u>Courthouse Security</u>	<u>County Clerk Records Management</u>
Assets:				
Cash and cash equivalents	\$ 9,904	\$ 19,761	\$ 56,231	\$ 24,744
Prepaid expenditures	-	-	-	-
Total assets	<u>\$ 9,904</u>	<u>\$ 19,761</u>	<u>\$ 56,231</u>	<u>\$ 24,744</u>
Liabilities and Fund balances:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued expenditures	-	-	-	-
Due to other funds	-	-	-	-
Due to others	-	-	-	-
Compensated absences payable	-	-	-	-
Deferred revenue	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Nonspendable fund balance:				
Prepaid items	-	-	-	-
Restricted fund balance:				
General government	-	19,761	56,231	24,744
Judicial	-	-	-	-
Legal system	-	-	-	-
Public facilities	-	-	-	-
Public safety	9,904	-	-	-
Road and bridge	-	-	-	-
Unassigned fund balance	-	-	-	-
Total fund balances	<u>9,904</u>	<u>19,761</u>	<u>56,231</u>	<u>24,744</u>
Total liabilities and fund balances	<u>\$ 9,904</u>	<u>\$ 19,761</u>	<u>\$ 56,231</u>	<u>\$ 24,744</u>

The accompanying notes are an integral part of these financial statements.

**CASTRO COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

	<u>County Clerk Records Archive</u>	<u>County/ District Clerk Technology Grant</u>	<u>Courthouse Records Management</u>	<u>(Fund 75) Unknown Fund Name</u>
Assets:				
Cash and cash equivalents	\$ 47,530	\$ 1,899	\$ -	\$ 239
Prepaid expenditures	-	-	-	-
Total assets	<u>\$ 47,530</u>	<u>\$ 1,899</u>	<u>\$ -</u>	<u>\$ 239</u>
Liabilities and Fund balances:				
Liabilities:				
Accounts payable	\$ 250	\$ -	\$ -	\$ -
Accrued expenditures	-	-	-	-
Due to other funds	-	-	30,824	-
Due to others	-	-	-	-
Compensated absences payable	-	-	-	-
Deferred revenue	-	-	-	-
Total liabilities	<u>250</u>	<u>-</u>	<u>30,824</u>	<u>-</u>
Fund balances:				
Nonspendable fund balance:				
Prepaid items	-	-	-	-
Restricted fund balance:				
General government	47,280	1,899	-	239
Judicial	-	-	-	-
Legal system	-	-	-	-
Public facilities	-	-	-	-
Public safety	-	-	-	-
Road and bridge	-	-	-	-
Unassigned fund balance	-	-	(30,824)	-
Total fund balances	<u>47,280</u>	<u>1,899</u>	<u>(30,824)</u>	<u>239</u>
Total liabilities and fund balances	<u>\$ 47,530</u>	<u>\$ 1,899</u>	<u>\$ -</u>	<u>\$ 239</u>

The accompanying notes are an integral part of these financial statements.

<u>Expo Building</u>	<u>Bond Election Advertising</u>	<u>Crime Line</u>	<u>Juvenile Probation State Aid Grant</u>	<u>Juvenile Probation Title IV-E Grant</u>	<u>Juvenile Probation Grant H</u>	<u>Juvenile Probation Grant C</u>
\$ 1,935	\$ 204	\$ 4,821	\$ 3,839	\$ 65,461	\$ -	\$ 3,517
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 1,935</u>	<u>\$ 204</u>	<u>\$ 4,821</u>	<u>\$ 3,839</u>	<u>\$ 65,461</u>	<u>\$ -</u>	<u>\$ 3,517</u>
\$ 200	\$ -	\$ 37	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	3,600	-	-	-
600	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,517</u>
<u>800</u>	<u>-</u>	<u>37</u>	<u>3,600</u>	<u>-</u>	<u>-</u>	<u>3,517</u>
-	-	-	-	-	-	-
-	204	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1,135	-	-	-	-	-	-
-	-	4,784	239	65,461	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>1,135</u>	<u>204</u>	<u>4,784</u>	<u>239</u>	<u>65,461</u>	<u>-</u>	<u>-</u>
<u>\$ 1,935</u>	<u>\$ 204</u>	<u>\$ 4,821</u>	<u>\$ 3,839</u>	<u>\$ 65,461</u>	<u>\$ -</u>	<u>\$ 3,517</u>

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**CASTRO COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

	<u>XICPE Grant</u>	<u>Community Corrections</u>	<u>Juvenile Probation Grant A</u>	<u>Total Non-Major Governmental Funds</u>
Assets:				
Cash and cash equivalents	\$ -	\$ 272	\$ 17,365	\$ 575,728
Prepaid expenditures	-	-	-	62
Total assets	<u>\$ -</u>	<u>\$ 272</u>	<u>\$ 17,365</u>	<u>\$ 575,790</u>
Liabilities and Fund balances:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 1,855
Accrued expenditures	-	-	2,367	3,852
Due to other funds	-	-	-	34,424
Due to others	-	-	-	600
Compensated absences payable	-	-	-	4,264
Deferred revenue	-	-	14,998	18,515
Total liabilities	<u>-</u>	<u>-</u>	<u>17,365</u>	<u>63,510</u>
Fund balances:				
Nonspendable fund balance:				
Prepaid items	-	-	-	62
Restricted fund balance:				
General government	-	-	-	150,847
Judicial	-	-	-	28,188
Legal system	-	-	-	13,853
Public facilities	-	-	-	156,827
Public safety	-	272	-	191,871
Road and bridge	-	-	-	1,456
Unassigned fund balance	-	-	-	(30,824)
Total fund balances	<u>-</u>	<u>272</u>	<u>-</u>	<u>512,280</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 272</u>	<u>\$ 17,365</u>	<u>\$ 575,790</u>

The accompanying notes are an integral part of these financial statements.

CASTRO COUNTY, TEXAS
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2011

	<u>Juvenile Probation</u>	<u>Centennial Plaza</u>	<u>Hazel Merritt Bequest</u>	<u>Rhoads Memorial Library Donations & Memorials</u>
Revenue:				
Taxes:				
Other taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenue and grants	71,779	-	-	660
Charges for services	3,498	-	-	-
Fines and forfeitures	-	-	-	-
Investment earnings	426	117	488	52
Other revenue	-	-	-	-
	<u>75,703</u>	<u>117</u>	<u>488</u>	<u>712</u>
Total revenue				
Expenditures:				
Current:				
General government	-	-	-	-
Judicial	-	-	-	-
Legal system	-	-	-	-
Public facilities	-	-	-	-
Public safety	87,786	-	-	-
Road and bridge	-	-	-	-
Capital outlay	-	-	-	-
	<u>87,786</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures				
Excess (deficiency) of revenue over (under) expenditures	<u>(12,083)</u>	<u>117</u>	<u>488</u>	<u>712</u>
Other financing sources (uses):				
Transfers in	<u>72,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>72,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	59,917	117	488	712
Fund balances at beginning of year	<u>30,541</u>	<u>14,129</u>	<u>58,979</u>	<u>5,901</u>
Fund balances at end of year	<u>\$ 90,458</u>	<u>\$ 14,246</u>	<u>\$ 59,467</u>	<u>\$ 6,613</u>

The accompanying notes are an integral part of these financial statements.

<u>Rhoads Memorial Library</u>	<u>State of Texas Election Division Chapter 19</u>	<u>County Judge Excess Salary Supplement</u>	<u>Sheriff's Petty Cash</u>	<u>Sheriff's Special Account</u>	<u>Emergency Management</u>	<u>Sunnyside Dam</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
48,962	-	-	-	-	-	-
2,496	-	-	-	-	-	-
-	-	-	-	-	-	-
454	-	-	23	10	-	-
16	-	624	-	389	-	-
<u>51,928</u>	<u>-</u>	<u>624</u>	<u>23</u>	<u>399</u>	<u>-</u>	<u>-</u>
-	-	270	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
87,954	-	-	-	-	-	-
-	-	-	1,760	1,020	8,178	-
-	-	-	-	-	-	750
-	-	-	-	-	-	-
<u>87,954</u>	<u>-</u>	<u>270</u>	<u>1,760</u>	<u>1,020</u>	<u>8,178</u>	<u>750</u>
<u>(36,026)</u>	<u>-</u>	<u>354</u>	<u>(1,737)</u>	<u>(621)</u>	<u>(8,178)</u>	<u>(750)</u>
<u>48,317</u>	<u>-</u>	<u>-</u>	<u>1,623</u>	<u>1,476</u>	<u>25,000</u>	<u>2,000</u>
<u>48,317</u>	<u>-</u>	<u>-</u>	<u>1,623</u>	<u>1,476</u>	<u>25,000</u>	<u>2,000</u>
12,291	-	354	(114)	855	16,822	1,250
<u>63,137</u>	<u>90</u>	<u>-</u>	<u>2,905</u>	<u>-</u>	<u>(16,756)</u>	<u>206</u>
<u>\$ 75,428</u>	<u>\$ 90</u>	<u>\$ 354</u>	<u>\$ 2,791</u>	<u>\$ 855</u>	<u>\$ 66</u>	<u>\$ 1,456</u>

CASTRO COUNTY, TEXAS
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2011

	<u>Unclaimed Property</u>	<u>Check & Sight</u>	<u>Courthouse Security</u>	<u>County Clerk Records Management</u>
Revenue:				
Taxes:				
Other taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenue and grants	-	-	-	-
Charges for services	-	-	5,075	7,757
Fines and forfeitures	-	-	-	-
Investment earnings	-	-	-	-
Other revenue	1,310	2,684	-	-
Total revenue	<u>1,310</u>	<u>2,684</u>	<u>5,075</u>	<u>7,757</u>
Expenditures:				
Current:				
General government	-	4,285	53	14,550
Judicial	-	-	-	-
Legal system	-	-	-	-
Public facilities	-	-	-	-
Public safety	2,500	-	-	-
Road and bridge	5,000	-	-	-
Capital outlay	-	600	-	-
Total expenditures	<u>7,500</u>	<u>4,885</u>	<u>53</u>	<u>14,550</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(6,190)</u>	<u>(2,201)</u>	<u>5,022</u>	<u>(6,793)</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(6,190)	(2,201)	5,022	(6,793)
Fund balances at beginning of year	<u>16,094</u>	<u>21,962</u>	<u>51,209</u>	<u>31,537</u>
Fund balances at end of year	<u>\$ 9,904</u>	<u>\$ 19,761</u>	<u>\$ 56,231</u>	<u>\$ 24,744</u>

The accompanying notes are an integral part of these financial statements.

<u>County Law Library</u>	<u>Constable Law Enforcement Education</u>	<u>Sheriff's Forfeited Funds</u>	<u>County/ District Attorney Forfeited Funds</u>	<u>Sheriff Law Enforcement Education</u>	<u>Justice Court Technology Fund</u>	<u>District Clerk Records Archive</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
2,674	663	-	-	1,689	2,712	-
-	-	-	2,520.00	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>2,674</u>	<u>663</u>	<u>-</u>	<u>2,520.00</u>	<u>1,689</u>	<u>2,712</u>	<u>-</u>
-	-	-	-	-	-	-
-	-	-	-	-	1,314	-
3,149	-	-	1,747	-	-	-
-	-	-	-	-	-	-
-	615	913	-	540	-	-
-	-	-	-	-	-	-
-	-	1,884	-	-	-	-
<u>3,149</u>	<u>615</u>	<u>2,797</u>	<u>1,747</u>	<u>540</u>	<u>1,314</u>	<u>-</u>
-	-	-	-	-	-	-
(475)	48	(2,797)	773	1,149	1,398	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(475)	48	(2,797)	773	1,149	1,398	-
<u>11,033</u>	<u>6,328</u>	<u>7,452</u>	<u>2,522</u>	<u>4,861</u>	<u>26,790</u>	<u>45</u>
<u>\$ 10,558</u>	<u>\$ 6,376</u>	<u>\$ 4,655</u>	<u>\$ 3,295</u>	<u>\$ 6,010</u>	<u>\$ 28,188</u>	<u>\$ 45</u>

CASTRO COUNTY, TEXAS
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2011

	<u>County Clerk Records Archive</u>	<u>County/ District Clerk Technology Grant</u>	<u>Courthouse Records Management</u>	<u>(Fund 75) Unknown Fund Name</u>
Revenue:				
Taxes:				
Other taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenue and grants	-	-	-	-
Charges for services	6,560	1,281	2,359	-
Fines and forfeitures	-	-	-	-
Investment earnings	-	-	-	-
Other revenue	-	-	-	-
Total revenue	<u>6,560</u>	<u>1,281</u>	<u>2,359</u>	<u>-</u>
Expenditures:				
Current:				
General government	500	-	-	-
Judicial	-	-	-	-
Legal system	-	-	-	-
Public facilities	-	-	-	-
Public safety	-	-	-	-
Road and bridge	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenue over (under) expenditures	<u>6,060</u>	<u>1,281</u>	<u>2,359</u>	<u>-</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	6,060	1,281	2,359	-
Fund balances at beginning of year	<u>41,220</u>	<u>618</u>	<u>(33,183)</u>	<u>239</u>
Fund balances at end of year	<u>\$ 47,280</u>	<u>\$ 1,899</u>	<u>\$ (30,824)</u>	<u>\$ 239</u>

The accompanying notes are an integral part of these financial statements.

<u>Expo Building</u>	<u>Bond Election Advertising</u>	<u>Crime Line</u>	<u>Juvenile Probation State Aid Grant</u>	<u>Juvenile Probation Title IV-E Grant</u>	<u>Juvenile Probation Grant H</u>	<u>Juvenile Probation Grant C</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	58,931	-	13,500	20,833
-	-	2,237	-	-	-	-
-	-	-	-	-	-	-
25	-	37	-	777	-	-
-	-	-	-	-	-	-
<u>25</u>	<u>-</u>	<u>2,274</u>	<u>58,931</u>	<u>777</u>	<u>13,500</u>	<u>20,833</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
850	-	-	-	-	-	-
-	-	1,250	66,866	3,850	16,200	25,000
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>850</u>	<u>-</u>	<u>1,250</u>	<u>66,866</u>	<u>3,850</u>	<u>16,200</u>	<u>25,000</u>
<u>(825)</u>	<u>-</u>	<u>1,024</u>	<u>(7,935)</u>	<u>(3,073)</u>	<u>(2,700)</u>	<u>(4,167)</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>(825)</u>	<u>-</u>	<u>1,024</u>	<u>(7,935)</u>	<u>(3,073)</u>	<u>(2,700)</u>	<u>(4,167)</u>
<u>1,960</u>	<u>204</u>	<u>3,760</u>	<u>8,174</u>	<u>68,534</u>	<u>2,700</u>	<u>4,167</u>
<u>\$ 1,135</u>	<u>\$ 204</u>	<u>\$ 4,784</u>	<u>\$ 239</u>	<u>\$ 65,461</u>	<u>\$ -</u>	<u>\$ -</u>

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CASTRO COUNTY, TEXAS
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2011

	<u>XICPE Grant</u>	<u>Community Corrections</u>	<u>Juvenile Probation Grant A</u>	<u>Total Nonmajor Govern- mental Funds</u>
Revenue:				
Taxes:				
Other taxes	\$ -	\$ -	\$ -	\$ 57,151
Intergovernmental revenue and grants	3,776	41,642	11,733	214,665
Charges for services	-	-	-	39,001
Fines and forfeitures	-	-	-	2,520
Investment earnings	-	-	-	2,409
Other revenue	-	-	-	5,023
Total revenue	<u>3,776</u>	<u>41,642</u>	<u>11,733</u>	<u>320,769</u>
Expenditures:				
Current:				
General government	-	-	-	19,658
Judicial	-	-	-	1,314
Legal system	-	-	-	4,896
Public facilities	-	-	-	88,804
Public safety	4,843	46,812	11,733	279,866
Road and bridge	-	-	-	5,750
Capital outlay	-	-	-	2,484
Total expenditures	<u>4,843</u>	<u>46,812</u>	<u>11,733</u>	<u>402,772</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(1,067)</u>	<u>(5,170)</u>	<u>-</u>	<u>(82,003)</u>
Other financing sources (uses):				
Transfers in	-	-	-	150,416
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,416</u>
Net change in fund balances	(1,067)	(5,170)	-	68,413
Fund balances at beginning of year	<u>1,067</u>	<u>5,442</u>	<u>-</u>	<u>443,867</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ 272</u>	<u>\$ -</u>	<u>\$ 512,280</u>

The accompanying notes are an integral part of these financial statements.

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**OVERALL COMPLIANCE AND
INTERNAL CONTROL SECTION**

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BROWN, GRAHAM & COMPANY

PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

7431 Continental Parkway • Amarillo, Texas 79119
P.O. Box 20210 • Amarillo, Texas 79114
806-355-8241 • FAX 806-355-6415

**INDEPENDENT AUDITOR'S 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 and
Members of the Commissioner's 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, 2011, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 10 2012. 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

Management of the County is responsible for establishing and maintaining effective 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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

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**To the Honorable Judge and
Members of the Commissioner's Court of
Castro County, Texas**
Page two

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item two to be a significant deficiency.

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, 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 no instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards*.

The County's response to the finding 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 for the information of the County Judge, County Commissioners, and management of the County, and is not intended to be used and should not be used by anyone other than these specified parties.

Brown, Graham & Company, P.C.

Amarillo, Texas
September 10, 2012

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**CASTRO COUNTY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Section I: Summary of the Auditor's Results:

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Are any material weaknesses identified?	<u> X </u> Yes	<u> </u> No
Are any significant deficiencies identified not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> No
Is any noncompliance material to the financial statements?	<u> </u> Yes	<u> X </u> No

Section II: Internal Control Over Financial Reporting:

Item One – Material Adjustments to the Financial Statements:

Criteria: Under current generally accepted auditing standards, the County is required to take the ultimate responsibility for the financial statements to be materially correct. As a part of that process, the County is expected to have the controls in place internally as well as the skills and competencies necessary to prevent, detect, and correct material misstatements. This process does not stop at the general ledger; rather, it extends on to the preparation of the County's financial statements and related notes.

Condition: During the audit, it was noted that various accounts on the general ledger needed to be adjusted in order for the financial statements to be materially correct in accordance with generally accepted accounting principles. The adjusting entries proposed during the audit of the County included but were not limited to the following: reversing various prior year accrual basis accounts; recording various agency fund activity; adjusting various accounts for the current year's accrual basis account balances; reclassifying various revenue and expenditure amounts; recording various capital asset activity for the year; adjusting various accounts for grant activity for the year; adjusting interfund payables/receivables and transfers in/out; adjusting deferred revenue at year end; and various other accounting adjustments.

Cause: The County did not have the policies and procedures in place to allow the financial statements to be prepared in accordance with Governmental Accounting Standards without material adjustments having to be recommended by the outside auditor.

CASTRO COUNTY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Section II: Financial Statement Findings (continued)

Item One – Material Adjustments to the Financial Statements (continued):

Effect: If the material adjustments hadn't been recommended by the outside auditor, the County's financial statements would have had material misstatements in them for financial statements prepared in accordance with Governmental Accounting Standards.

Recommendation: We recommend that the County review its current policies and procedures in place over the financial reporting process, and that the County consider providing the training necessary to enable its staff to be able to prepare the financial statements in accordance with the most current generally accepted accounting principles, and that the staff try to make the types of journal entries recommended by the outside auditor during the audit rather than having the outside auditor recommend them to the County's staff.

Responsible official's response: The Castro County Auditor's office has had a considerable amount of turnover for the past seven years, including having four different County Auditors during this time period. In addition, the County has recently implemented new general ledger accounting software package. During the conversion of the software, the software provider had carried forwards only the cash balances into the new software. As a result, numerous adjustments were required, some of which were material to the County's financial statements, to carry forward the prior years balances for various other accounts such as receivables and payables. Now that the County's general ledger accounting has been converted to the new software, the amount of audit adjustments are expected to decrease significantly. The County will attempt to have all adjustments made to convert the County's books from a cash basis to an accrual basis for the year ended September 30, 2012 prior to when the audit is started. In addition, Castro County will be converting from a cash basis to an accrual basis of accounting for the fiscal year ended September 30, 2013.

Planned implementation date of corrective action: October 1, 2012

Person responsible for corrective action: Pauline George, County Auditor

Item Two – Review of Journal Entries:

Criteria: Internal control over financial reporting for governmental entities should ensure that policies and procedures are in place that require the review and approval of the monthly financial reporting processes of the County, which should include a requirement to have journal entries including recurring and nonrecurring entries be reviewed and approved by an appropriate level of management.

Condition: During our audit procedures, we noted that although journal entries are prepared on a regular basis by the County Auditor's office, there did not appear to be anyone reviewing the journal entries for appropriateness and approving them.

**CASTRO COUNTY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Section II: Financial Statement Findings (continued)

Item Two – Review of Journal Entries (continued):

Cause: The County did not have the policies and procedures in place to ensure that journal entries are reviewed and approved by an appropriate level of management.

Effect: Misstatements, whether intentional or unintentional, could occur and not be detected on a timely basis by employees of the County while performed their assigned duties.

Recommendation: We recommend that an appropriate level of management review and approve adjusting entries made to the County's general ledger, which would include the supporting documentation for the adjusting journal entries.

Responsible official's response: The County Auditor has reviewed the current procedures in place, and will have journal entries and the supporting documentation behind the entries be reviewed and approved by the County Treasurer.

Planned implementation date of corrective action: October 1, 2012, which is the beginning of the County's fiscal year ending September 30, 2013.

Person responsible for corrective action: Pauline George, County Auditor

CASTRO COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 20, 2011

Prior Year Finding:

Item One – Reliance Upon the Independent Auditor:

Condition: During the 2010 audit, it was noted that various accounts on the general ledger needed to be adjusted in order for the County's financial statements to be materially correct. The adjusting entries proposed during the audit of the County included but were not limited to: adjusting cash accounts; tax receivable and the related deferred revenue; compensated absences payable; interfund transfers; grant income; and interfund payables and receivables.

Current Status: During the 2011 audit, it was again noted that various accounts on the general ledger needed to be adjusted in order for the County's financial statements to be materially correct.