

Palo Pinto County

Annual Financial Report

Year Ended September 30, 2007



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January 28, 2008

To the Honorable County Judge and County Commissioners
Palo Pinto County
Palo Pinto, TX 76484

We have audited the financial statements of Palo Pinto County for the year ended September 30, 2007, and have issued our report thereon dated January 22, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 26, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Palo Pinto County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Palo Pinto County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by Palo Pinto County during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Palo Pinto County's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded, either individually or in the aggregate, indicate matters that could have a significant effect on Palo Pinto County's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Palo Pinto County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Availability for Public Inspection

This report should be made available for public inspection upon request. The report is a matter of public record and its distribution is not limited.

Other Matters

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding these matters. This comment does not affect our report dated January 22, 2008.

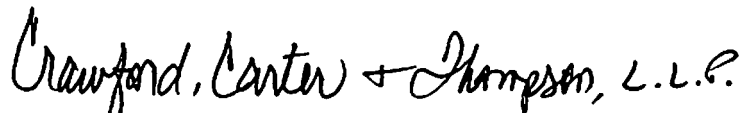
During our review of the County's Information Technology System (ITS), we noted some progress; however, improvements need to continue in cross-training, off-site back-up security and review of system access and communications with the various departments. We recommend that an employee policy for computer and technological systems usage be implemented. Additionally, it is recommended that the ITS monthly reporting process be expanded to include information regarding system failures, communication logs for both external and internal technical support provided to the departments and annexes, system design and layout, logs regarding back-up data and storage sites, security reviews of system access and employee noncompliance.

We noted that funds collected by the County Treasurer are not being deposited in a timely manner. The cash and checks are being secured in a vault; however, the County is not able to earn interest on those funds until deposited and the risks that assets could be lost or misappropriated increase. Checks are being held which could affect their collectability. We recommend that all funds received be receipted in and deposited on a daily basis.

During our review of forfeited funds in the District Attorney's office we noted that there is not a system in place to track and account for non-cash items such as prepaid gift cards that have been seized and subsequently forfeited by the court. We recommend that a gift card general ledger account be established within the general ledger when those items are received and that the District Attorney's office reconcile these periodically with the general ledger account balance to insure accountability and proper recording of revenue and expenditures for these forfeited items.

We noted that the County Clerk's office holds cash bonds for individuals, however, the list of cash bonds does not reconcile with the bank account balance. The bank account has an overage. We recommend that each month the transactions in the bank accounts be posted and compared to the list of cash bonds and that any discrepancies be investigated and corrected as they occur.

Very truly yours,



CRAWFORD, CARTER & THOMPSON, L.L.P.
Certified Public Accountants

Palo Pinto County

Annual Financial Report

Year Ended September 30, 2007

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Palo Pinto County
Annual Financial Report
Year Ended September 30, 2007

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Palo Pinto County
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January 22, 2008

INDEPENDENT AUDITORS' REPORT

Honorable Judge and County Commissioners
Palo Pinto County
Palo Pinto, Texas 76484

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Pinto County (the County), as of and for the year ended September 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these basic 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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of Palo Pinto County as of September 30, 2007, and the respective changes in financial position 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 also issued our report dated January 22, 2008 on our consideration of Palo Pinto 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.

The Management's Discussion and Analysis and the budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Crawford, Carter + Thompson, L.L.P.



MIKE A. SMIDDY
COUNTY JUDGE
PALO PINTO COUNTY



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Management's Discussion and Analysis

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

Financial Highlights

The assets of Palo Pinto County exceeded its liabilities at the close of the fiscal year by \$15,963,297 (*net assets*). Of this amount, \$7,564,464 (*unrestricted net assets*) may be used to meet the County's ongoing obligations.

As of the close of the fiscal year, the Palo Pinto County's governmental funds reported combined ending fund balances of \$8,098,746. Of this total amount, \$7,516,668 (92.8 percent) is *available for spending* at the County's discretion (*unreserved fund balance*).

At the end of the fiscal year, unreserved fund balance for the general fund is \$6,851,671 or 66.2 percent of total general fund expenditures.

The County's total long-term debt increased \$47,005 (3 percent) during the fiscal year. The increase is the net difference between two new capital lease's in the amount of \$415,896 and the annual Tax Note and Capital Lease maturities.

Overview of Financial Statements

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

Government-wide financial statements. The *government-wide financial statements* are designed to provide a broad overview of Palo Pinto County's finances, in a manner similar to private sector business.

The *Statement of Net Assets* presents information on all of Palo Pinto County's assets and liabilities, with the difference reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of whether the County's financial position is improving or deteriorating.

The *Statement of Activities* presents information showing how the County's net assets changed during the year. All changes in net assets are reported as soon as the event causing 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 result in cash flows in future periods (e.g., uncollected taxes).

The government-wide financial statements are presented on pages 9-10 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. Palo Pinto 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 Palo Pinto 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 focus is 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 of 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 county's near-term financing decisions. Both the governmental balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Palo Pinto County maintains twenty-four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other twenty-three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining funds* elsewhere in this report.

Palo Pinto County adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund.

The basic governmental financial statements can be found on pages 11-15 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The combined fiduciary fund *Statement of Fiduciary Net Assets* can be found on page 16 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the audited financial statements.

The notes can be found on pages 17-38 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 Palo Pinto County, assets exceeded liabilities by \$15,963,297 at September 30, 2007.

The largest portion of the County's net assets (49.6 percent) reflects its investment in capital assets (eg., land, buildings, machinery and equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Palo Pinto 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.

Net Assets

	<i>Government Activities</i>	
	<u>2007</u>	<u>2006</u>
<i>Current and Other Assets</i>	\$ 8,607,990	\$ 6,707,085
<i>Capital Assets</i>	<u>9,373,165</u>	<u>7,691,912</u>
Total Assets	<u>\$ 17,981,155</u>	<u>\$ 14,398,997</u>
 <i>Long-Term Liabilities</i>	 \$ 1,137,417	 \$ 1,208,607
<i>Other Liabilities</i>	<u>880,441</u>	<u>636,323</u>
Total Liabilities	<u>\$ 2,017,858</u>	<u>\$ 1,844,930</u>
 Net Assets:		
<i>Capital Assets Net of Related Debt</i>	\$ 7,915,121	\$ 6,256,349
<i>Restricted</i>	483,712	254,977
<i>Unrestricted</i>	<u>7,564,464</u>	<u>6,042,741</u>
Total Net Assets	<u>\$ 15,963,297</u>	<u>\$ 12,554,067</u>

Restricted net assets represents resources that are subject to external restrictions. Unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. An internal designation was made to reserve \$67,344 for future improvements, replacement and maintenance of the control systems (HVAC) for the Law Enforcement Center from unrestricted net assets.

At the end of the fiscal year, Palo Pinto County is able to report positive balances in net assets, for the government as a whole, as well as for its separate governmental activities.

Changes in Net Assets

	<i>Government Activities</i>	
	<u>2007</u>	<u>2006</u>
Revenues:		
Program Revenues:		
<i>Charges for Services</i>	\$ 3,840,603	\$ 3,541,726
<i>Operating Grants and Contributions</i>	245,729	271,962
<i>Capital Grants and Contributions</i>	1,266,331	228,137
General Revenues:		
<i>Property Taxes</i>	6,063,510	5,740,091
<i>Other Taxes</i>	1,815,550	1,424,032
<i>Other</i>	388,855	298,416
Total Revenues	<u>\$ 13,620,578</u>	<u>\$ 11,504,364</u>
Expenses:		
<i>General Government</i>	\$ 3,058,100	\$ 3,278,310
<i>Administration of Justice</i>	1,503,946	1,440,925
<i>Public Safety</i>	1,842,602	1,600,757
<i>Corrections and Rehabilitation</i>	1,766,815	1,758,261
<i>Health and Human Services</i>	181,605	173,777
<i>Community and Economic Development</i>	276,253	219,548
<i>Infrastructure and Environmental Services</i>	1,525,467	1,167,015
<i>Capital Projects</i>		40,393
<i>Debt Service: Interest and Fiscal Charges</i>	56,560	68,159
Total Expenses	<u>\$ 10,211,348</u>	<u>\$ 9,747,145</u>
 <i>Change in Net Assets</i>	 \$ 3,409,230	 \$ 1,757,219
<i>Net Assets - 10/1/06</i>	<u>12,554,067</u>	<u>10,796,848</u>
<i>Net Assets - 9/30/07</i>	<u>\$ 15,963,297</u>	<u>\$ 12,554,067</u>

Financial Analysis of the Government's Funds

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

The general fund is the chief operating fund of Palo Pinto County. At the end of the current fiscal year, unreserved fund balance of the general fund is \$6,851,671 while the total fund balance reached \$6,955,893. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total general fund expenditures. Unreserved fund balance represents 66.2 percent of total general fund expenditures, while total fund balance represents 67.2 percent of total general fund expenditures.

Other items

The fund balance of Palo Pinto County's general fund increased by \$1,416,990 during the current fiscal year. Key factors in this growth are as follows:

- ◆ Ad Valorem Taxes increased by \$309,334.
- ◆ Sales Tax revenue increased by \$383,779.
- ◆ Licenses Fees and Fines increased by \$146,464
- ◆ Investment Earnings increased by \$100,367.

The Capital Projects Funds have a total fund balance of \$431,800 all of which is reserved for future capital projects. This represents an increase from 2006 of \$226,104. This increase is primarily the result of a new Capital Projects Fund, set up in 2007 to account for the future growth and expansion needs of the County. These needs will be funded by annual transfers from the General Fund reserves.

The Debt Service Funds have a total fund balance of \$45,341 all of which is reserved for the payment of debt service.

Palo Pinto County's Special Revenue Funds have a combined unreserved fund balance of \$664,998 which represents an increase of \$147,218 primarily due to increased revenues and decreased expenditures in the preservation of records fund and the courthouse security fund. Palo Pinto County is currently contracting for records preservation services and is reviewing future courthouse security needs. In addition, the Sheriff's Forfeiture fund balance increased \$32,391 due to an intergovernmental payment as a result of the dissolution of Cross Timbers Narcotics Task Force.

General Fund Budgetary Highlights

The final amended budget showed an increase of \$208,358 (1.9 percent) over the original budget which can be briefly summarized as below:

- ◆ \$26,425 increase in Sheriff's Dept. due to two totaled deputy vehicles.
- ◆ \$64,533 increase due to Homeland Security Grant approved after the beginning of the fiscal year.
- ◆ \$86,400 increase in road and bridge operations due to unexpected storm damage to roads and a precinct barn.

These increases were funded by insurance proceeds and grant funding.

It is the practice of the County to budget very conservatively. Actual revenues were 9.9 percent higher than budgeted. Licenses, Fees and Fines were 12.3 percent higher than budgeted, due to both the unpredictable nature of court fee collection and to the implementation of a delinquent collection program. Taxes, primarily sales tax, were 6.95 percent higher than budgeted. Investment earnings were 57.9 percent higher than budgeted. Actual operating expenditures

were 5 percent lower than budgeted. This can be attributed primarily to lower than anticipated costs in general operations.

Capital Asset and Debt Administration

Capital assets. Palo Pinto County's investment in capital assets for its governmental activities as of September 30, 2007 amounts to \$9,373,165 (net of depreciation). This investment in capital assets includes land, buildings and building improvements, other improvements, transportation, machinery, equipment and other assets, infrastructure and construction-in-progress.

Major capital asset events during the current fiscal year included the following:

- ◆ The addition of infrastructure in the form of major road improvements.
- ◆ The addition of 3 bridges totaling \$1,222,000 constructed by Texas Department of Transportation as part of the state bridge project.
- ◆ The purchase of various heavy equipment including asphalt zippers, and a soil drum compacter totaling \$415,546.
- ◆ The purchase of a number of vehicles primarily for law enforcement and infrastructure support for \$237,584.
- ◆ The purchase of several dump trucks and trailers for road and bridge operations totaling \$131,386.

Additional information on the County's capital assets can be found in Note 3.D on page 28 of this report.

Long-term debt. At the end of the fiscal year, the County had total long-term debt of \$1,619,014 outstanding. This debt is 100% backed by the full faith and credit of the County.

Additional information on the County's long-term debt can be found in Note 3.I on pages 35-36 of this report.

Economic Factors and Next Year's Budgets

At the end of the fiscal year the unreserved fund balance in the general fund was \$6,851,671. The County appropriated \$1,343,712 of this amount for spending in the 2007-08 fiscal year budget primarily for road and bridge operations, and to fund a transfer to the new Capital Improvements Fund for future expansion needs. It is intended that the use of available fund balance will avoid the need to raise taxes during the 2008 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of Palo Pinto County's finances. Questions concerning information in this report should be addressed to the County Auditor, Palo Pinto County, P.O. Box 159, Palo Pinto, Texas 76484.

Reference: Gauthier, Stephen J. Governmental Accounting, Auditing, and Financial Reporting, Chicago: Government Finance Officers Association, 2001.

BASIC FINANCIAL STATEMENTS

Palo Pinto County
Statement of Net Assets
September 30, 2007

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$ 1,590,238.61
Investments	6,497,826.47
Accounts Receivable (Net)	197,758.26
Taxes Receivable (Net)	245,563.66
Other Receivables	24,013.38
Inventory	715.00
Prepaid Expense	34,759.57
Bond Issuance Costs (Net)	17,114.77
Capital Assets:	
Land	96,820.00
Buildings	7,202,947.18
Improvements	508,099.52
Equipment and Vehicles	5,168,888.55
Infrastructure	2,343,071.03
Construction-in-Progress	27,999.78
Accumulated Depreciation	(5,974,660.65)
<u>Total Capital Assets, Net of Depreciation</u>	<u>9,373,165.41</u>
<u>Total Assets</u>	<u>17,981,155.13</u>
 <u>Liabilities</u>	
Accounts Payable	363,013.77
Interest Payable	12,090.36
Accrued Liabilities	2,054.50
Due to Others	21,684.93
Current Portion:	
Tax Notes Payable	295,000.00
Capital Leases Payable	186,597.00
Long-term Portion:	
Tax Notes Payable	545,000.00
Capital Leases Payable	432,261.00
Uncompensated Absences	160,156.40
<u>Total Liabilities</u>	<u>2,017,857.96</u>
 <u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	7,915,121.03
Restricted for:	
Debt Service	49,793.97
Education	2,118.90
Capital Projects	431,799.62
Unrestricted	7,564,463.65
<u>Total Net Assets</u>	<u>\$ 15,963,297.17</u>

Palo Pinto County
Statement of Activities
For the Year Ended September 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General Government	\$ 3,058,100.02	\$ 1,334,602.12	\$ 7,035.90		\$ (1,716,462.00)
Administration of Justice	1,503,945.70	959,134.92	116,524.39		(428,286.39)
Public Safety	1,842,601.63	86,079.18	122,168.55	\$ 109,452.17	(1,524,901.73)
Corrections and Rehabilitation	1,766,814.73	439,415.31			(1,327,399.42)
Health and Human Services	181,605.23				(181,605.23)
Community and Economic Development	276,253.24	137,814.78			(138,438.46)
Infrastructure and Environmental Services	1,525,466.99	796,056.50		1,156,878.74	427,468.25
Capital Projects		87,500.00			87,500.00
Debt Service: Interest and Fiscal Charges	56,560.63				(56,560.63)
<u>Total Governmental Activities</u>	<u>\$ 10,211,348.17</u>	<u>\$ 3,840,602.81</u>	<u>\$ 245,728.84</u>	<u>\$ 1,266,330.91</u>	<u>(\$4,858,685.61)</u>
General Revenues:					
Property Taxes					6,063,510.22
Sales Tax					1,790,465.01
Mixed Beverage Taxes					25,084.76
Intergovernmental					19,995.81
Investment Earnings					312,249.90
Miscellaneous					58,837.85
Loss on Disposition of Assets					(2,227.63)
<u>Total General Revenues</u>					<u>8,267,915.92</u>
Change in Net Assets					3,409,230.31
Net Assets - Beginning					12,554,066.86
Net Assets - Ending					<u>\$ 15,963,297.17</u>

The Accompanying Notes are an Integral
Part of the Financial Statements

Palo Pinto County
Balance Sheet
Governmental Funds
September 30, 2007

	General	Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets</u>			
Cash	\$ 440,625.99	\$ 1,149,612.62	\$ 1,590,238.61
Investments	6,497,826.47		6,497,826.47
Receivables (Net of Allow- ance for Uncollectibles):			
Taxes Receivable	237,809.42	7,754.24	245,563.66
Accounts	197,544.26	214.00	197,758.26
Due from Other Funds	72,823.41	6,629.01	79,452.42
Prepaid Expenses	34,759.57		34,759.57
Inventory		715.00	715.00
<u>Total Assets</u>	<u>\$ 7,481,389.12</u>	<u>\$ 1,164,924.87</u>	<u>\$ 8,646,313.99</u>
<u>Liabilities and Fund Equity</u>			
<u>Liabilities:</u>			
Accounts Payable	\$ 354,366.00	\$ 8,647.77	\$ 363,013.77
Accrued Liabilities	2,054.50		2,054.50
Due to:			
Other Funds	55,239.04	200.00	55,439.04
Others	16,214.93	5,470.00	21,684.93
Deferred Revenue	97,621.40	7,754.24	105,375.64
<u>Total Liabilities</u>	<u>525,495.87</u>	<u>22,072.01</u>	<u>547,567.88</u>
<u>Fund Equity:</u>			
<u>Fund Balances:</u>			
Reserved for Prepaid Expenses	34,759.57		34,759.57
Reserved for Inventory		715.00	715.00
Reserved for Debt Service		45,340.73	45,340.73
Reserved for Education	2,118.90		2,118.90
Reserved for Capital Projects	67,344.00	431,799.62	499,143.62
Unreserved - Undesignated	6,851,670.78	664,997.51	7,516,668.29
<u>Total Fund Equity</u>	<u>6,955,893.25</u>	<u>1,142,852.86</u>	<u>8,098,746.11</u>
<u>Total Liabilities and Fund Equity</u>	<u>\$ 7,481,389.12</u>	<u>\$ 1,164,924.87</u>	<u>\$ 8,646,313.99</u>

Palo Pinto County
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
September 30, 2007

Total Fund Balances - Governmental Funds Balance Sheet	\$ 8,098,746.11
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Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Net capital assets used in governmental activities are not reported in the funds.	9,373,165.41
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	105,375.64
Payables for bond principal and capital leases are not reported in the funds.	(1,619,014.40)
Payables for tax note interest and capital lease interest are not reported in the funds.	(12,090.36)
Bond issuance costs are not reported in the funds.	<u>17,114.77</u>

Net Assets of Governmental Activities - Statement of Net Assets	<u>\$ 15,963,297.17</u>
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Palo Pinto County
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended September 30, 2007

	General	Nonmajor Governmental Funds	Total Governmental Funds
<u>Revenues</u>			
Ad Valorem Taxes	\$ 5,753,207.13	\$ 310,806.13	\$ 6,064,013.26
Licenses, Fees and Fines	2,886,223.21	245,860.80	3,132,084.01
Sales Tax	1,790,465.01		1,790,465.01
Inmate Revenue	347,115.00		347,115.00
Interest Earned	300,831.97	11,218.09	312,050.06
Occupancy Tax		137,814.78	137,814.78
Federal and State Grants	77,786.15	7,035.90	84,822.05
Commissary Revenue		32,895.19	32,895.19
Mixed Beverage Tax	25,084.76		25,084.76
Vending Revenue		4,250.70	4,250.70
Forfeiture Revenue		79,863.90	79,863.90
Other Revenue	366,894.55	112,996.14	479,890.69
<u>Total Revenues</u>	<u>11,547,607.78</u>	<u>942,741.63</u>	<u>12,490,349.41</u>
<u>Expenditures</u>			
29th District Court	233,857.67		233,857.67
Capital Projects		50,232.25	50,232.25
Commissary		26,099.81	26,099.81
Commissioner's Court	28,166.14		28,166.14
Constable	243,086.93		243,086.93
County Attorney	162,617.52	16,184.32	178,801.84
County Auditor	148,868.72		148,868.72
County Clerk	205,286.22	102,455.07	307,741.29
County Court	169,719.96		169,719.96
County Extension Service	63,396.18		63,396.18
County Treasurer	77,151.33		77,151.33
Courthouse Security		1,346.00	1,346.00
Department of Public Safety	26,132.10		26,132.10
District Attorney	138,330.16	68,376.02	206,706.18
District Clerk	139,366.01		139,366.01
General Supplies		11,672.16	11,672.16
Emergency Management	71,518.72		71,518.72
Emergency Medical & Health Services	74,307.37		74,307.37
Forfeiture Expenditures		12,224.62	12,224.62
General Operations	3,364,778.83	16,880.77	3,381,659.60

Tax Notes:			
Principal		275,000.00	275,000.00
Interest and Fiscal Charges		33,932.94	33,932.94
Hotel/Motel Tax		136,124.03	136,124.03
Inmate Contract	166,346.51		166,346.51
Jail and Detention	1,110,616.40		1,110,616.40
Justice of the Peace	277,428.38		277,428.38
Narcotics Unit	90,560.72		90,560.72
Public Works	186,857.05		186,857.05
Road and Bridge:			
Precinct No. 1	308,301.05		308,301.05
Precinct No. 2	754,523.71		754,523.71
Precinct No. 3	419,274.32		419,274.32
Precinct No. 4	552,013.10		552,013.10
Sheriff	953,077.10	15,000.00	968,077.10
Tax Assessor-Collector	348,282.76		348,282.76
Vending Expenditures		3,840.33	3,840.33
Veteran's Administration	32,649.08		32,649.08
<u>Total Expenditures</u>	<u>10,346,514.04</u>	<u>769,368.32</u>	<u>11,115,882.36</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,201,093.74</u>	<u>173,373.31</u>	<u>1,374,467.05</u>
<u>Other Financing Sources and (Uses)</u>			
Transfers In (Out)	(200,000.00)	200,000.00	
Proceeds from Capital Leases	415,896.01		415,896.01
<u>Total Other Financing Sources and (Uses)</u>	<u>215,896.01</u>	<u>200,000.00</u>	<u>415,896.01</u>
Net Change in Fund Balances	<u>1,416,989.75</u>	<u>373,373.31</u>	<u>1,790,363.06</u>
Fund Balances - Beginning	<u>5,538,903.50</u>	<u>769,479.55</u>	<u>6,308,383.05</u>
Fund Balances - Ending	<u>\$ 6,955,893.25</u>	<u>\$ 1,142,852.86</u>	<u>\$ 8,098,746.11</u>

The Accompanying Notes are an Integral
Part of the Financial Statements

Palo Pinto County
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 1,790,363.06
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Amounts reported for governmental activities in the Statement of Activities are different because:

Capital asset additions and deletions are not recorded as assets on the fund statements.	2,390,245.02
The depreciation of capital assets used in governmental activities is not reported in the funds.	(708,991.61)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(503.04)
Changes in long-term debt balances are recorded as revenue and expenditures in the funds but as increases or reductions of liabilities in the Statement of Activities.	(47,004.84)
Increase in accrued interest from beginning of period to end of period.	(5,969.39)
Bond issuance costs are not amortized in the funds.	<u>(8,908.89)</u>

Change in Net Assets of Governmental Activities - Statement of Activities	<u>\$ 3,409,230.31</u>
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Palo Pinto County
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2007

	<u>Agency Funds</u>
<u>Assets</u>	
Cash	\$ 1,518,903.64
Investments	186,934.07
Accounts Receivable	1,297.83
Due from Other Funds	54,708.04
	<hr/>
<u>Total Assets</u>	<u>\$ 1,761,843.58</u>
	<hr/>
<u>Liabilities</u>	
Due to Other Funds	\$ 78,721.43
Due to Other Jurisdictions	589,529.73
Due to Others	1,093,592.42
	<hr/>
<u>Total Liabilities</u>	<u>\$ 1,761,843.58</u>
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Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 1: Summary of Significant Accounting Policies

The County of Palo Pinto, Texas, (County) was created by the Act of Legislature of August 27, 1856, and operates as specified under the Constitution of the State of Texas and statutes which provide for a Commissioners Court consisting of the County Judge and four Commissioners, one from each of four geographical precincts. The County Judge is elected for a term of four years and the Commissioners for four year staggered terms. Other major County elective officers include the County Clerk, District Clerk, County Tax Assessor-Collector and County Treasurer. The County Auditor is appointed for a term of two years and serves at the will of the District Judge, whose court is located in Palo Pinto County. The 2000 Census population for the County was 27,026 and the area covered is approximately 949 square miles. The unincorporated community of Palo Pinto is the County Seat. The County provides the following public services: Public Safety – Sheriff's Department and Jail Detention, Tax Assessing and Collecting, Sanitation, Fire, Emergency Medical Services, Public Records, Criminal and Civil Prosecution, Road and Bridge Maintenance and General Operations.

The financial statements of the County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The government's significant accounting policies are described below:

A. Reporting Entity

In evaluating Palo Pinto County for financial reporting purposes, management has considered all potential component units. The evaluation was made by applying the criteria set forth in generally accepted accounting principles for inclusion of component units with a reporting entity. The major criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility over the unit. The most significant manifestation of this ability to exercise oversight responsibility includes, but is not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the County is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no potential component units included in the reporting entity as defined by GASB 14, "The Reporting Entity".

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 1: Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements (continued)

Governmental activities, which normally are supported by taxes and inter-governmental 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. 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 1: Summary of Significant Accounting Policies (continued)

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

The government reports the following major governmental fund:

General Fund – This 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.

Additionally, the County reports the following fund types:

Special Revenue Funds – These funds are established to account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

Debt Service Fund – This governmental fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.

Capital Projects Fund – This governmental fund is established to account for the acquisition or construction of major capital assets.

Agency Funds – These funds are used to report cash and investments and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments.

Fiduciary funds are reported in the Fiduciary Fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support County programs, these funds are not included in the government-wide statements.

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. 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.

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 1: Summary of Significant Accounting Policies (continued)

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

The preparation of the financial statements, in conformity with generally accepted accounting principles, requires the use of estimates by management that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

State statutes authorize the County to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and investment pools.

Investments for the County are reported at fair value. The authorized investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Due to/from Other Funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "Due to/from Other Funds".

All trade and property tax receivables, including those for the County, are shown net of an allowance of uncollectibles.

Property taxes are levied by October 1. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed.

3. Uncollected Taxes Receivable

The office of the Tax Assessor-Collector is under contract to eighteen (18) different taxing entities. It is the responsibility of the Tax Assessor-Collector to

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

3. Uncollected Taxes Receivable (continued)

collect the taxes for the various taxing districts and then to remit the tax, including any penalty and interest, less a 1% fee of current taxes and 7% of delinquent taxes, to the tax district, except for the Palo Pinto County Education District, in which the Tax Assessor-Collector receives all penalties collected. The amount recorded as investment in uncollected taxes represents the total taxes receivable for the eighteen districts and the Palo Pinto County Education District.

4. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital Assets

Capital assets, which include property, plant, equipment, transportation and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs on fixed assets are not capitalized. Interest is charged to the debt service fund for assets acquired with tax notes. For assets purchased under capital lease agreements, interest is expensed in the fund responsible for making the lease payments.

According to the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments*, prospective reporting of general infrastructure is required at the effective date of GASB Statement No. 34. Effective October 1, 2003, the County began recording infrastructure

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

5. Capital Assets (continued)

prospectively as required. The County is considered a Phase 3 government, as defined by GASB Statement No. 34. Phase 3 governments are not required to retroactively report infrastructure. At September 30, 2007, the County has not retroactively reported infrastructure.

Property, plant and equipment recorded in the governmental funds of Palo Pinto County are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Furniture & Fixtures	7
Vehicles	3 - 15
Equipment	5 - 7
Heavy Equipment	8 - 30
Buildings and Improvements	5 - 40
Other Improvements	10 - 20
Public Domain Infrastructure	15 - 30

6. Accumulated Compensated Absences

It is the County's policy to permit employees to accumulate a limited amount of earned but unused vacation and compensated absences, which will be paid to employees upon separation from the County's service. In governmental funds, the cost of vacation and compensated absences is recognized when payments are made to employees. A long-term liability of \$160,156 of accrued vacation and compensated absences at September 30, 2007 has been recorded in the government-wide statements, representing the County's commitment to fund such costs from future operations. The department for which the employee works is charged when payments for vacation or compensated absences are paid. The County's sick leave policy provides for an unlimited accumulation of earned sick leave. The County has no obligation for the accumulated sick leave until it is actually taken; therefore, no accrual for sick leave has been made.

7. Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

7. Long-term Obligations (continued)

Statement of Net Assets. Issuance costs associated with long-term debt are reported as deferred charges and amortized over the term of the related debt.

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 issuances are reported as other financing sources, while discounts on debt issuances and issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Restrictions of net assets are limited to outside third-party restrictions. An internal reservation was made for future improvements and maintenance of control systems relating primarily to HVAC systems for the law enforcement center. At September 30, 2007, \$67,344 was reserved. Annually, future amounts will be reserved to cover anticipated costs. The reservation is being funded from savings resulting from the termination of a maintenance contract.

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

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

- (a) Formal budgetary integration is employed as a management control device during the year for the General Fund (both the General and Road and Bridge segments), Special Revenue Fund and Debt Service Fund. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- (b) The Commissioners' Court approves budget appropriations and any line item transfers within funds. Any revisions that alter the total appropriations for funds must be approved by the Commissioners' Court to authorize an emergency expenditure due to an unusual and unforeseen event.

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 2: Stewardship, Compliance and Accountability (continued)

Budgetary Information (continued)

- (c) Unused appropriations for all annually budgeted funds lapse at year end.
- (d) The budgets, as presented in the financial statements, are the authorized final revised budgets.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund (both the General and Road and Bridge segments), Special Revenue Fund and Debt Service Fund. Appropriations lapse at September 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

There were no outstanding encumbrances at year end that were provided for in the subsequent year's budget.

Note 3: Detailed Notes All Funds

A. Deposits and Investments

1. Deposits

Deposits, except for those held in trust by the County and District Clerks, were with the contracted depository banks in interest bearing accounts which were secured at the balance sheet date by FDIC coverage and by pledged government securities held by First National Bank, Santo, Texas, and subdepository, First Financial Bank, Mineral Wells, Texas, in the name of the depository banks. At September 30, 2007, the carrying amount of the County's deposits was \$5,402,317 and the balance per the bank was \$5,483,458. Included in the carrying amount and bank balance are certificates of deposit (recorded as investments) totaling \$2,300,000. Also included under the County's depository contract are the bank accounts and certificates of deposit for Palo Pinto County Juvenile Probation Department, Community Supervision and Corrections Department of Palo Pinto County and Palo Pinto County Emergency Services District No. 1. These entities are not considered component units of Palo Pinto County under GASB 14. The combined bank balance for these entities and Palo Pinto County was \$6,033,853. Included in the carrying amount and bank balance are certificates of deposit (recorded as investments) totaling \$2,475,000. These deposits were entirely secured by FDIC coverage and pledged government agencies securities. Although the pledged securities are not in the name of Palo Pinto County, the deposits are deemed collateralized under Texas law.

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 3: Detailed Notes All Funds (continued)

A. Deposits and Investments (continued)

1. Deposits (continued)

The County and District Clerks hold deposit accounts and investments as trustees under court orders in various banks. The accounts are styled for the benefit of the individual beneficiaries and do not actually belong to the County. The investments consist of interest bearing demand deposits and certificates of deposit whose carrying value and market value are the same. The carrying amounts of agency funds held by the County at September 30, 2007 were \$401,434 and the balance per the bank was \$401,434. All deposits and investments were secured by FDIC coverage.

Custodial Credit Risk – Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk. As of September 30, 2007, \$4,862,380 of the County's bank balance and \$5,412,112 of Palo Pinto County Juvenile Probation Department, Community Supervision and Corrections Department, Palo Pinto County Emergency Services District No. 1 and the County's combined bank balances were exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institutions trust department or agent, but not in the government's name; however, under state law they are considered collateralized.

2. Investments

As authorized under Section 1, Chapter 2256, Government Code, Public Funds Investment, Palo Pinto County may invest its funds in:

- (a) Money market mutual funds that are registered or regulated by the Securities and Exchange Commission and subject to certain other limitations;
- (b) Fully insured or collateralized certificates of deposit;
- (c) Direct obligations of the State of Texas, the United States or of any state agencies, counties, cities and other political subdivisions of any state, having received a rating of not less than "A" by a nationally recognized investment rating firm;
- (d) Fully collateralized and secured direct repurchase agreements having a defined termination date;
- (e) Local government's investment pools which adhere to this policy;
- (f) Banker's acceptances and commercial paper having a stated maturity of 270 days or less.

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 3: Detailed Notes All Funds (continued)

A. Deposits and Investments (continued)

2. Investments (continued)

The County invests its general funds in the Lone Star Investment Pool, a public funds investment pool held in trust by the State Treasurer, certificates of deposit and the ICT-Treasury Portfolio, a money market mutual fund.

Interest earned is recorded in the respective fund. The County complied with its investment policy during the fiscal year.

The County's investments carried at fair value at September 30, 2007 are:

<u>Investments</u>	<u>Fair Value</u>	<u>Maturity (in months)</u>
Government Pools (Lone Star)	\$ 186,240	—
Certificates of Deposit	2,300,000	6
ICT - Treasury Portfolio	<u>4,011,587</u>	—
<u>Total</u>	<u>\$ 6,497,827</u>	

Interest Rate Risk – In accordance with its investment policy, the County manages its exposure to declines in fair value by limiting the maturity of its investments portfolio to twelve months or less.

Credit Risk – As of September 30, 2007, the County's investment in Lone Star Investment Pool was rated "AAAf/S1+" by Standard & Poor's. The County's investment in ICT's – Treasury Portfolio was rated "AAA" by Standard & Poor's.

Concentration Risk – As of September 30, 2007, the County had the following investments that represent positions of five percent or more in the securities of a single issuer:

Certificate of Deposit – First Financial Bank	\$1,000,000
Certificate of Deposit – First National Bank of Santo	\$1,300,000

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 3: Detailed Notes All Funds (continued)

B. Taxes Receivable

Taxes receivable in the General Fund and Debt Service Fund are stated net of allowance for doubtful accounts. The allowance was \$292,864 for the General Fund and \$23,263 for the Debt Service Fund.

C. Deferred Compensation Plan

Palo Pinto County offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all County employees on a voluntary basis, permits them to defer a portion of their salaries until future years. The County does not make any contributions to the plans.

Deferred compensation is available to employees' beneficiaries in case of death. One plan is through National Association of Counties and it's assets are administered by Nationwide Retirement Solutions, an independent third party administrator. The second plan's assets are managed by ITT Hartford, an independent administrator. All amounts of compensation deferred under the plans, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are solely the property and rights of the participants.

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 3: Detailed Notes All Funds (continued)

D. Capital Assets

Capital asset activity for the year ended September 30, 2007 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital Assets, Not Being				
Depreciated:				
Land	\$ 96,820			\$ 96,820
Construction-in-Progress	82,016	\$ 71,332	(\$ 125,348)	28,000
<u>Total Capital Assets, Not Being Depreciated</u>	<u>178,836</u>	<u>71,332</u>	<u>(125,348)</u>	<u>124,820</u>
Capital Assets, Being				
Depreciated:				
Buildings	7,158,878	44,069		7,202,947
Improvements Other than Buildings	508,099			508,099
Equipment	2,540,711	527,210	(18,500)	3,049,421
Vehicles	1,801,978	407,519	(90,029)	2,119,468
Infrastructure	822,144	1,520,927		2,343,071
<u>Total Capital Assets, Being Depreciated</u>	<u>12,831,810</u>	<u>2,499,725</u>	<u>(108,529)</u>	<u>15,223,006</u>
Less Accumulated Depreciation for:				
Buildings	(2,813,302)	(271,829)		(3,085,131)
Improvements Other than Buildings	(175,346)	(25,655)		(201,001)
Equipment	(1,249,485)	(128,131)	3,160	(1,374,456)
Vehicles	(1,050,930)	(203,109)	49,905	(1,204,134)
Infrastructure	(29,672)	(80,267)		(109,939)
<u>Total Accumulated Depreciation</u>	<u>(5,318,735)</u>	<u>(708,991)</u>	<u>53,065</u>	<u>(5,974,661)</u>
<u>Total Capital Assets, Being Depreciated, Net</u>	<u>7,513,075</u>	<u>1,790,734</u>	<u>(55,464)</u>	<u>9,248,345</u>
<u>Governmental Activities Capital Assets, Net</u>	<u>\$ 7,691,911</u>	<u>\$ 1,862,066</u>	<u>(\$ 180,812)</u>	<u>\$ 9,373,165</u>

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 3: Detailed Notes All Funds (continued)

D. Capital Assets (continued)

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

Governmental Activities

General Government	\$ 180,664
Administration of Justice	7,036
Public Safety	135,741
Corrections and Rehabilitation	104,244
Health and Human Services	27,727
Community and Economic Development	11,921
Infrastructure and Environmental Services	<u>241,658</u>

Total Depreciation Expense -
Governmental Activities

\$ 708,991

E. Retirement Plan

1. Plan Description

Palo Pinto 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 & District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 573 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a Comprehensive Annual Financial Report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

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

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 3: Detailed Notes All Funds (continued)

E. Retirement Plan (continued)

1. Plan Description (continued)

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

2. Funding Policy

The employer has elected the Annually Determined Contribution Rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually.

The employer contributed using the actuarially determined rate of 8.45% for the months of the accounting year in 2006 and 8.91% for the months of the accounting year in 2007.

The contribution rate payable by the employee members for calendar year 2007 is the rate of 7.00% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

3. Annual Pension Cost

For the employer's accounting year ending September 30, 2007, the annual pension cost for the TCDRS plan for its employees was \$428,572 and the actual contributions were \$428,572.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2004 and December 31, 2005, the basis for determining the contribution rates for calendar years 2006 and 2007.

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 3: Detailed Notes All Funds (continued)

E. Retirement Plan (continued)

3. Annual Pension Cost (continued)

The December 31, 2006 actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial Valuation Date	12/31/04	12/31/05	12/31/06
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Closed
Amortization Period	20	20	15
Asset Valuation Method	Long-term Appreciation with Adjustment	Long-term Appreciation with Adjustment	SAF: 10-year Smoothed Value ESF: Fund Value
Actuarial Assumptions:			
Investment Return ¹	8.00%	8.00%	8.00%
Projected Salary Increases ¹	5.50%	5.30%	5.30%
Inflation	3.50%	3.50%	3.50%
Cost-of-Living Adjustments	0.00%	0.00%	0.00%

¹Includes Inflation at the Stated Rate

Trend Information of the Retirement Plan for the Employees of Palo Pinto County

<u>Accounting Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/05	\$ 365,853	100%	\$ 0
9/30/06	\$ 384,792	100%	\$ 0
9/30/07	\$ 428,572	100%	\$ 0

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 3: Detailed Notes All Funds (continued)

E. Retirement Plan (continued)

4. Transition Disclosure

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/04	\$ 8,370,159	\$ 9,989,377	\$ 1,619,218	83.79%	\$ 4,301,326	37.64%
12/31/05	\$ 8,497,648	\$ 10,100,574	\$ 1,602,926	84.13%	\$ 4,334,736	36.98%
12/31/06	\$ 9,339,729	\$ 10,492,310	\$ 1,152,581	89.01%	\$ 4,609,910	25.00%

F. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2007 is as follows:

Due to/from Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Special Revenue	\$ 200
General Fund	Agency Funds	72,623
Nonmajor Governmental Fund	General Fund	531
Nonmajor Governmental Fund	Agency Funds	6,098
Agency Funds	General Fund	54,708
<u>Total</u>		<u>\$ 134,160</u>

Interfund transactions consist of fees and other revenue collected by Agency Funds, which are owed to other departments of the County. The General Fund receives certain amounts that are due to Agency Funds. During the year the General Fund transferred \$200,000 to the Capital Projects Fund for future growth and expansion.

G. Leases

1. Operating Leases

The County has various month to month operating leases for offices, postage meter service, computer expenses and software for various offices for various amounts. None of the leases are non-cancelable nor contain contingent rentals. Lease expense for the year amounted to \$12,347.

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 3: Detailed Notes All Funds (continued)

G. Leases (continued)

2. Capital Leases

The County is the lessee of lighting and climate control improvements and a postage machine with carrying amounts of \$915,300 and \$29,257, respectively. In April 2007 and June 2007, the County became the lessee of a soil drum compactor and three asphalt zippers with carrying amounts of \$118,815 and \$296,731, respectively. The interest rate on the improvements is 5.518%, 9.370% on the postage machine, 4.85% on the compactor and 5.195% on the asphalt zippers. Assets and liabilities are reported in the government-wide financial statements. Future minimum lease payments at September 30, 2007 are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Governmental</u> <u>Activities</u>
2008	\$ 207,316
2009	209,021
2010	132,662
2011	103,664
2012	26,843
<u>Total</u>	<u>679,506</u>
Amount Representing Interest	<u>(60,648)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 618,858</u>

The assets acquired through capital leases are as follows:

	<u>Governmental</u> <u>Activities</u>
Lighting and Climate Control Improvements	\$ 915,300
Pitney Bowes Postage Machine	29,257
3 Asphalt Zippers	296,731
Caterpillar Soil Drum Compactor	118,815
Less: Accumulated Depreciation	<u>(649,330)</u>
<u>Total</u>	<u>\$ 710,773</u>

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 3: Detailed Notes All Funds (continued)

H. Taxes Collected Due to Entities and Investment in Uncollected Taxes

Taxes collected due to entities is the amount of taxes due to the various taxing entities for taxes collected by the Tax Assessor-Collector's office prior to September 30, 2007. Investment in uncollected taxes is payable to the districts only after it is collected by the Tax Assessor-Collector. These amounts have not been adjusted for the collection fee. Included in the Adjustments column is the difference between ending 8/31/07 balances and beginning 9/01/07 balances due to refund checks, real property over 20 years old and personal property over 10 years old written off at 8/31/07.

	Investment in Uncollected Taxes 9-30-06	Tax Levy	Taxes Collected 10-1-06 to 9-30-07	Adjustments	Investment in Uncollected Taxes 9-30-07
State	\$ 73				\$ 73
Palo Pinto County	423,515	\$ 6,086,727	(\$ 6,052,364)	(\$ 36,375)	421,503
Gordon ISD	107,063	1,202,331	(1,252,188)	69,675	126,881
Graford ISD	266,776	6,366,039	(6,248,874)	(99,234)	284,707
Mineral Wells ISD	746,580	9,168,559	(9,018,077)	(158,232)	738,830
Palo Pinto ISD	110,111	4,393,604	(4,351,787)	(48,329)	103,599
Santo ISD	190,007	2,903,952	(2,872,023)	(23,447)	198,489
Strawn ISD	66,327	961,228	(940,377)	(13,148)	74,030
City of Gordon	3,025	41,344	(39,793)	(595)	3,981
City of Graford	6,141	20,638	(20,423)	(236)	6,120
City of Mineral Wells	277,504	2,740,191	(2,541,911)	(230,525)	245,259
City of Mingus	3,212	10,671	(10,263)	(422)	3,198
City of Strawn	4,818	33,349	(33,103)	(393)	4,671
Countywide Fire District	31,149	502,192	(498,292)	(3,334)	31,715
Countywide Hospital District	206,057	3,362,103	(3,336,291)	(21,223)	210,646
Keechi Water District	426	3,482	(3,376)	(14)	518
Sportsman's World	5,867	581,936	(579,534)	(3,224)	5,045
Palo Pinto Water District	15,150		(776)	(2,279)	12,095
Palo Pinto County ED	33,554		(242)	(2,857)	30,455
Total	\$ 2,497,355	\$ 38,378,346	(\$ 37,799,694)	(\$ 574,192)	\$ 2,501,815

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 3: Detailed Notes All Funds (continued)

I. Long-term Debt

1. Tax Note

The County issues tax notes where the government pledges ad valorem taxes to be collected to pay debt service. Tax notes outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	1.70% - 3.95%	\$ 685,000

Annual debt service requirements to maturity for the 2003 Tax Notes are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 220,000	\$ 20,968
2009	230,000	13,365
2010	235,000	4,641
<u>Total</u>	<u>\$ 685,000</u>	<u>\$ 38,974</u>

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Capital Projects	3.47%	\$ 155,000

Annual debt service requirements to maturity for the 2004 Tax Notes are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 75,000	\$ 4,077
2009	80,000	1,388
<u>Total</u>	<u>\$ 155,000</u>	<u>\$ 5,465</u>

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 3: Detailed Notes All Funds (continued)

I. Long-term Debt (continued)

2. Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
<u>Governmental Activities</u>					
Tax Note	\$ 1,115,000		\$ 275,000	\$ 840,000	\$ 295,000
Capital Leases	321,376	\$ 415,896	118,414	618,858	186,597
Uncompensated Absences	135,633	24,523		160,156	
<u>Governmental Activity</u>					
<u>Long-term Liabilities</u>	<u>\$ 1,572,009</u>	<u>\$ 440,419</u>	<u>\$ 393,414</u>	<u>\$ 1,619,014</u>	<u>\$ 481,597</u>

3. Interest Expense

Interest expense at September 30, 2007 for governmental activities was \$63,547.

4. Tax Note Compliance

The County has complied with the covenants of all ordinances and resolutions pertaining to outstanding tax note indebtedness of the County as of September 30, 2007.

5. Post-employment Benefits

a) Health and Supplemental Insurance

Effective October 1, 2002, the County began offering post-employment benefits, subject to appropriations, for monthly healthcare premiums for qualified retirees under 65 years of age. In addition, the County pays a portion of the cost of a Medicare supplement for retirees over 65 years of age. Effective January 1, 2006, the County's contribution amount is 35% of the supplement premium. At year end there were twelve participants receiving healthcare benefits and nine participants receiving Medicare supplement benefits. The cost to the County for retiree healthcare benefits was \$59,426 and the cost for retiree Medicare supplemental benefits was \$2,558 and is funded on a pay-as-you-go basis.

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 3: Detailed Notes All Funds (continued)

I. Long-term Debt (continued)

5. Post-employment Benefits (continued)

b) Life Insurance Benefit

Plan Description: The County participates in a cost-sharing multiple-employer defined-benefit group-term life insurance plan operated by the Texas County & District Retirement System (TCDRS). This plan is referred to as the Supplemental Death Benefit Fund (SDBF). This optional plan provides group-term life insurance coverage to current eligible employees and, if elected by employers, to retired employees. The coverage provided to retired employees is a post-employment benefit other than pension benefits (OPEB). Retired employees are insured for \$5,000.

The SDBF is a separate trust administered by the TCDRS Board of Trustees. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the SDBF. This report may be obtained by writing to the Texas County & District Retirement System, P. O. Box 2034, Austin, TX 78768-2034, or by calling 800-823-7782. TCDRS's CAFR is also available at www.tcdrs.org.

Funding Policy: Each participating employer contributes to the SDBF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is determined using the unit credit method for providing one-year term life insurance. The County's contributions to the SDBF, attributable to retired employees, for the years ended 9/30/07, 9/30/06 and 9/30/05 were \$6,832, \$6,350 and \$5,969, respectively, which equaled the contractually required contributions each year.

Note 4: Other Information

A. Risk Management

The County is exposed to various risks of loss, related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and inmates; and natural disasters. The County has joined with other counties who are all members of the Texas Association of Counties to create the Risk Management Program. The Risk Management Program, which began in the mid 1970's, offers a variety of risk management pools such as Workers' Compensation, County Law Enforcement Liability, Comprehensive General Liability, Public Officials Liability, Automobile Liability and Property and Casualty.

Palo Pinto County
Notes to Financial Statements
September 30, 2007

Note 4: Other Information (continued)

A. Risk Management (continued)

Members are assessed an annual insurance premium based on coverage amounts with the risk of loss shared among participants of that pool. Members are not subject to additional assessments in the event of losses exceeding premiums. Premiums are expensed by the appropriate fund when incurred. The County's premium expense for the year was \$246,408.

B. Related Party

Palo Pinto County appoints directors of Palo Pinto County Emergency Services District No. 1 and Palo Pinto County Historical Commission, which are not component units of the County.

Note 5: Subsequent Events

On December 21, 2006 the County entered into a contract with the Texas Department of Transportation (TxDOT) for the replacement of four bridges in Palo Pinto County. The total cost of the project is estimated at \$3,547,000 with the County contributing a 10% match of \$354,700. The County's match may be made in cash or in-kind. The County's match is required to be made no more than three years from the date the State lets contracts for the construction project. As of September 30, 2007, the contracts were not let and no cash or in-kind payments had been paid.

REQUIRED SUPPLEMENTARY INFORMATION

Palo Pinto County
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended September 30, 2007

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget- Positive (Negative)
<u>Revenues</u>				
Ad Valorem Taxes	\$ 5,750,000.00	\$ 5,750,000.00	\$ 5,753,207.13	\$ 3,207.13
Licenses, Fees and Fines	2,569,100.00	2,569,100.00	2,886,223.21	317,123.21
Sales Tax	1,310,000.00	1,310,000.00	1,790,465.01	480,465.01
Inmate Revenue	250,000.00	250,000.00	347,115.00	97,115.00
Interest Earned	190,500.00	190,500.00	300,831.97	110,331.97
Federal and State Grants	9,500.00	74,033.00	77,786.15	3,753.15
Mixed Beverage Tax	17,000.00	17,000.00	25,084.76	8,084.76
Other Revenue	272,200.00	350,025.00	366,894.55	16,869.55
<u>Total Revenues</u>	<u>10,368,300.00</u>	<u>10,510,658.00</u>	<u>11,547,607.78</u>	<u>1,036,949.78</u>
<u>Expenditures</u>				
29th District Court	287,929.00	287,929.00	233,857.67	54,071.33
Commissioner's Court	28,839.80	28,839.80	28,166.14	673.66
Constable	248,640.00	249,340.00	243,086.93	6,253.07
County Attorney	163,806.00	165,781.00	162,617.52	3,163.48
County Auditor	150,323.20	150,323.20	148,868.72	1,454.48
County Clerk	222,904.60	222,904.60	205,286.22	17,618.38
County Court	187,410.20	195,110.20	169,719.96	25,390.24
County Extension Service	63,717.60	65,217.60	63,396.18	1,821.42
County Treasurer	79,211.80	79,211.80	77,151.33	2,060.47
Department of Public Safety	26,141.60	26,141.60	26,132.10	9.50
District Attorney	110,756.60	138,556.60	138,330.16	226.44
District Clerk	158,586.60	158,586.60	139,366.01	19,220.59
Emergency Management	71,858.00	71,858.00	71,518.72	339.28
Emergency Medical & Health Services	77,250.00	77,250.00	74,307.37	2,942.63
General Operations	3,580,100.00	3,599,758.00	3,364,778.83	234,979.17
Inmate Contract	179,345.60	179,345.60	166,346.51	12,999.09
Jail and Detention	1,203,160.80	1,188,560.80	1,110,616.40	77,944.40
Justice of the Peace	277,648.80	283,848.80	277,428.38	6,420.42
Narcotics Unit	99,117.64	99,617.64	90,560.72	9,056.92
Public Works	211,612.40	211,612.40	186,857.05	24,755.35

Road and Bridge:

Precinct No. 1	356,315.00	356,315.00	308,301.05	48,013.95
Precinct No. 2	587,462.20	673,862.20	754,523.71	(80,661.51)
Precinct No. 3	477,032.60	477,032.60	419,274.32	57,758.28
Precinct No. 4	527,312.20	527,312.20	552,013.10	(24,700.90)
Sheriff	919,002.08	989,527.08	953,077.10	36,449.98
Tax Assessor-Collector	362,639.00	362,639.00	348,282.76	14,356.24
Veteran's Administration	33,784.60	33,784.60	32,649.08	1,135.52
Total Expenditures	10,691,907.92	10,900,265.92	10,346,514.04	553,751.88
Excess (Deficiency) of Revenues over Expenditures	(323,607.92)	(389,607.92)	1,201,093.74	1,590,701.66
Other Financing Sources (Uses)				
Transfers In (Out)	(200,000.00)	(200,000.00)	(200,000.00)	
Proceeds from Capital Leases			415,896.01	415,896.01
Total Other Financing Sources and (Uses)	(200,000.00)	(200,000.00)	(215,896.01)	415,896.01
Net Change in Fund Balances	(523,607.92)	(589,607.92)	1,416,989.75	2,006,597.67
Change in Fund Balances - Beginning	5,538,903.50	5,538,903.50	5,538,903.50	
Change in Fund Balances - Ending	\$ 5,015,295.58	\$ 4,949,295.58	\$ 6,955,893.25	\$ 2,006,597.67

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OTHER SUPPLEMENTARY INFORMATION

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Palo Pinto County
General Fund
Combining Balance Sheet
September 30, 2007

Schedule 1

	General	Road and Bridge	Eliminations	Total
<u>Assets</u>				
Cash	\$ 414,528.48	\$ 26,097.51		\$ 440,625.99
Investments	4,811,580.94	1,686,245.53		6,497,826.47
Receivables (Net of Allow- ance for Uncollectibles):				
Taxes Receivable	225,903.01	11,906.41		237,809.42
Accounts	197,114.26	430.00		197,544.26
Due from Other Funds	45,761.68	27,061.73		72,823.41
Prepaid Expenses	34,759.57			34,759.57
<u>Total Assets</u>	<u>\$ 5,729,647.94</u>	<u>\$ 1,751,741.18</u>	<u>\$ 0.00</u>	<u>\$ 7,481,389.12</u>
<u>Liabilities and Fund Balances</u>				
<u>Liabilities:</u>				
Accounts Payable	\$ 206,605.64	\$ 147,760.36		\$ 354,366.00
Accrued Liabilities	2,054.50			2,054.50
Due to:				
Other Funds	55,239.04			55,239.04
Others	16,214.93			16,214.93
Deferred Revenue	85,714.99	11,906.41		97,621.40
<u>Total Liabilities</u>	<u>365,829.10</u>	<u>159,666.77</u>		<u>525,495.87</u>
<u>Fund Balances:</u>				
Reserved for Prepaid Expenses	34,759.57			34,759.57
Reserved for Education	2,118.90			2,118.90
Reserved for Capital Projects	67,344.00			67,344.00
Unreserved - Undesignated	5,259,596.37	1,592,074.41		6,851,670.78
<u>Total Fund Balances</u>	<u>5,363,818.84</u>	<u>1,592,074.41</u>		<u>6,955,893.25</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$ 5,729,647.94</u>	<u>\$ 1,751,741.18</u>	<u>\$ 0.00</u>	<u>\$ 7,481,389.12</u>

Palo Pinto County
General Fund
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended September 30, 2007

Schedule 2

	General	Road and Bridge	Total
<u>Revenues</u>			
Ad Valorem Taxes	\$ 4,899,206.70	\$ 854,000.43	\$ 5,753,207.13
Licenses, Fees and Fines	2,144,566.71	741,656.50	2,886,223.21
Sales Tax	1,790,465.01		1,790,465.01
Inmate Revenue	347,115.00		347,115.00
Interest Earned	210,945.33	89,886.64	300,831.97
Federal and State Grants	77,786.15		77,786.15
Mixed Beverage Tax	25,084.76		25,084.76
Other Revenue	300,408.33	66,486.22	366,894.55
<u>Total Revenues</u>	<u>9,795,577.99</u>	<u>1,752,029.79</u>	<u>11,547,607.78</u>
<u>Expenditures</u>			
29th District Court	233,857.67		233,857.67
Commissioner's Court	28,166.14		28,166.14
Constable	243,086.93		243,086.93
County Attorney	162,617.52		162,617.52
County Auditor	148,868.72		148,868.72
County Clerk	205,286.22		205,286.22
County Court	169,719.96		169,719.96
County Extension Service	63,396.18		63,396.18
County Treasurer	77,151.33		77,151.33
Department of Public Safety	26,132.10		26,132.10
District Attorney	138,330.16		138,330.16
District Clerk	139,366.01		139,366.01
Emergency Management	71,518.72		71,518.72
Emergency Medical & Health Services	74,307.37		74,307.37
General Operations	3,364,778.83		3,364,778.83
Inmate Contract	166,346.51		166,346.51
Jail and Detention	1,110,616.40		1,110,616.40
Justice of the Peace	277,428.38		277,428.38
Narcotics Unit	90,560.72		90,560.72
Public Works	186,857.05		186,857.05
Road and Bridge:			
Precinct No. 1		308,301.05	308,301.05
Precinct No. 2		754,523.71	754,523.71
Precinct No. 3		419,274.32	419,274.32
Precinct No. 4		552,013.10	552,013.10
Sheriff	953,077.10		953,077.10
Tax Assessor-Collector	348,282.76		348,282.76
Veteran's Administration	32,649.08		32,649.08
<u>Total Expenditures</u>	<u>8,312,401.86</u>	<u>2,034,112.18</u>	<u>10,346,514.04</u>
Excess (Deficiency) Revenues over Expenditures	1,483,176.13	(282,082.39)	1,201,093.74
<u>Other Financing Sources and (Uses)</u>			
Transfers In (Out)	(215,000.00)	15,000.00	(200,000.00)
Proceeds from Capital Leases		415,896.01	415,896.01
<u>Total Other Financing Sources and (Uses)</u>	<u>(215,000.00)</u>	<u>430,896.01</u>	<u>215,896.01</u>
Net Change in Fund Balance	1,268,176.13	148,813.62	1,416,989.75
Fund Balances - Beginning	4,095,642.71	1,443,260.79	5,538,903.50
Fund Balances - Ending	<u>\$ 5,363,818.84</u>	<u>\$ 1,592,074.41</u>	<u>\$ 6,955,893.25</u>

Palo Pinto County
General Fund
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
For the Year Ended September 30, 2007

Schedule 3

	<u>General Fund</u>		Variance
	Actual	Budget	Favorable (Unfavorable)
<u>Revenues</u>			
Ad Valorem Taxes	\$ 4,899,206.70	\$ 4,890,000.00	\$ 9,206.70
Licenses, Fees and Fines	2,144,566.71	1,860,200.00	284,366.71
Sales Tax	1,790,465.01	1,310,000.00	480,465.01
Inmate Revenue	347,115.00	250,000.00	97,115.00
Interest Earned	210,945.33	135,000.00	75,945.33
Federal and State Grants	77,786.15	74,033.00	3,753.15
Mixed Beverage Tax	25,084.76	17,000.00	8,084.76
Other Revenue	300,408.33	313,625.00	(13,216.67)
<u>Total Revenues</u>	<u>9,795,577.99</u>	<u>8,849,858.00</u>	<u>945,719.99</u>
<u>Expenditures</u>			
29th District Court	233,857.67	287,929.00	54,071.33
Commissioner's Court	28,166.14	28,839.80	673.66
Constable	243,086.93	249,340.00	6,253.07
County Attorney	162,617.52	165,781.00	3,163.48
County Auditor	148,868.72	150,323.20	1,454.48
County Clerk	205,286.22	222,904.60	17,618.38
County Court	169,719.96	195,110.20	25,390.24
County Extension Service	63,396.18	65,217.60	1,821.42
County Treasurer	77,151.33	79,211.80	2,060.47
Department of Public Safety	26,132.10	26,141.60	9.50
District Attorney	138,330.16	138,556.60	226.44
District Clerk	139,366.01	158,586.60	19,220.59
Emergency Management	71,518.72	71,858.00	339.28
Emergency Medical & Health Services	74,307.37	77,250.00	2,942.63
General Operations	3,364,778.83	3,599,758.00	234,979.17
Inmate Contract	166,346.51	179,345.60	12,999.09
Jail and Detention	1,110,616.40	1,188,560.80	77,944.40
Justice of the Peace	277,428.38	283,848.80	6,420.42
Narcotics Unit	90,560.72	99,617.64	9,056.92
Public Works	186,857.05	211,612.40	24,755.35
Road and Bridge:			
Precinct No. 1			
Precinct No. 2			
Precinct No. 3			
Precinct No. 4			
Sheriff	953,077.10	989,527.08	36,449.98
Tax Assessor-Collector	348,282.76	362,639.00	14,356.24
Veteran's Administration	32,649.08	33,784.60	1,135.52
<u>Total Expenditures</u>	<u>8,312,401.86</u>	<u>8,865,743.92</u>	<u>553,342.06</u>
Excess (Deficiency) of Revenues over Expenditures	1,483,176.13	(15,885.92)	1,499,062.05
<u>Other Financing Sources and (Uses)</u>			
Transfers In (Out)	(215,000.00)	(215,000.00)	
Proceeds from Capital Leases			
<u>Total Other Financing Sources and (Uses)</u>	<u>(215,000.00)</u>	<u>(215,000.00)</u>	
Net Change in Fund Balance	1,268,176.13	(230,885.92)	1,499,062.05
Fund Balances - Beginning	4,095,642.71	4,095,642.71	
Fund Balances - Ending	\$ 5,363,818.84	\$ 3,864,756.79	\$ 1,499,062.05

Palo Pinto County
General Fund
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
For the Year Ended September 30, 2007

Schedule 3
Continued

	<u>Road and Bridge</u>		Variance Favorable (Unfavorable)
	Actual	Budget	
<u>Revenues</u>			
Ad Valorem Taxes	\$ 854,000.43	\$ 860,000.00	\$ (5,999.57)
Licenses, Fees and Fines	741,656.50	708,900.00	32,756.50
Sales Tax			
Inmate Revenue			
Interest Earned	89,886.64	55,500.00	34,386.64
Federal and State Grants			
Mixed Beverage Tax			
Other Revenue	66,486.22	36,400.00	30,086.22
<u>Total Revenues</u>	<u>1,752,029.79</u>	<u>1,660,800.00</u>	<u>91,229.79</u>
<u>Expenditures</u>			
29th District Court			
Commissioner's Court			
Constable			
County Attorney			
County Auditor			
County Clerk			
County Court			
County Extension Service			
County Treasurer			
Department of Public Safety			
District Attorney			
District Clerk			
Emergency Management			
Emergency Medical & Health Services			
General Operations			
Inmate Contract			
Jail and Detention			
Justice of the Peace			
Narcotics Unit			
Public Works			
Road and Bridge:			
Precinct No. 1	308,301.05	356,315.00	48,013.95
Precinct No. 2	754,523.71	673,862.20	(80,661.51)
Precinct No. 3	419,274.32	477,032.60	57,758.28
Precinct No. 4	552,013.10	527,312.20	(24,700.90)
Sheriff			
Tax Assessor-Collector			
Veteran's Administration			
<u>Total Expenditures</u>	<u>2,034,112.18</u>	<u>2,034,522.00</u>	<u>409.82</u>
Excess (Deficiency) of Revenues over Expenditures	(282,082.39)	(373,722.00)	91,639.61
<u>Other Financing Sources and (Uses)</u>			
Transfers In (Out)	15,000.00	15,000.00	
Proceeds from Capital Leases	415,896.01		415,896.01
<u>Total Other Financing Sources and (Uses)</u>	<u>430,896.01</u>	<u>15,000.00</u>	<u>415,896.01</u>
Net Change in Fund Balance	148,813.62	(358,722.00)	507,535.62
Fund Balances - Beginning	1,443,260.79	1,443,260.79	
Fund Balances - Ending	\$ 1,592,074.41	\$ 1,084,538.79	\$ 507,535.62

Palo Pinto County
General Fund
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
For the Year Ended September 30, 2007

Schedule 3
Concluded

	<u>Total</u>		<u>Variance</u>
	<u>Actual</u>	<u>Budget</u>	<u>Favorable</u> <u>(Unfavorable)</u>
<u>Revenues</u>			
Ad Valorem Taxes	\$ 5,753,207.13	\$ 5,750,000.00	\$ 3,207.13
Licenses, Fees and Fines	2,886,223.21	2,569,100.00	317,123.21
Sales Tax	1,790,465.01	1,310,000.00	480,465.01
Inmate Revenue	347,115.00	250,000.00	97,115.00
Interest Earned	300,831.97	190,500.00	110,331.97
Federal and State Grants	77,786.15	74,033.00	3,753.15
Mixed Beverage Tax	25,084.76	17,000.00	8,084.76
Other Revenue	366,894.55	350,025.00	16,869.55
<u>Total Revenues</u>	<u>11,547,607.78</u>	<u>10,510,658.00</u>	<u>1,036,949.78</u>
<u>Expenditures</u>			
29th District Court	233,857.67	287,929.00	54,071.33
Commissioner's Court	28,166.14	28,839.80	673.66
Constable	243,086.93	249,340.00	6,253.07
County Attorney	162,617.52	165,781.00	3,163.48
County Auditor	148,868.72	150,323.20	1,454.48
County Clerk	205,286.22	222,904.60	17,618.38
County Court	169,719.96	195,110.20	25,390.24
County Extension Service	63,396.18	65,217.60	1,821.42
County Treasurer	77,151.33	79,211.80	2,060.47
Department of Public Safety	26,132.10	26,141.60	9.50
District Attorney	138,330.16	138,556.60	226.44
District Clerk	139,366.01	158,586.60	19,220.59
Emergency Management	71,518.72	71,858.00	339.28
Emergency Medical & Health Services	74,307.37	77,250.00	2,942.63
General Operations	3,364,778.83	3,599,758.00	234,979.17
Inmate Contract	166,346.51	179,345.60	12,999.09
Jail and Detention	1,110,616.40	1,188,560.80	77,944.40
Justice of the Peace	277,428.38	283,848.80	6,420.42
Narcotics Unit	90,560.72	99,617.64	9,056.92
Public Works	186,857.05	211,612.40	24,755.35
Road and Bridge:			
Precinct No. 1	308,301.05	356,315.00	48,013.95
Precinct No. 2	754,523.71	673,862.20	(80,661.51)
Precinct No. 3	419,274.32	477,032.60	57,758.28
Precinct No. 4	552,013.10	527,312.20	(24,700.90)
Sheriff	953,077.10	989,527.08	36,449.98
Tax Assessor-Collector	348,282.76	362,639.00	14,356.24
Veteran's Administration	32,649.08	33,784.60	1,135.52
<u>Total Expenditures</u>	<u>10,346,514.04</u>	<u>10,900,265.92</u>	<u>553,751.88</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,201,093.74</u>	<u>(389,607.92)</u>	<u>1,590,701.66</u>
<u>Other Financing Sources and (Uses)</u>			
Transfers In (Out)	(200,000.00)	(200,000.00)	
Proceeds from Capital Leases	415,896.01		415,896.01
<u>Total Other Financing Sources and (Uses)</u>	<u>215,896.01</u>	<u>(200,000.00)</u>	<u>415,896.01</u>
Net Change in Fund Balance	<u>1,416,989.75</u>	<u>(589,607.92)</u>	<u>2,006,597.67</u>
Fund Balances - Beginning	<u>5,538,903.50</u>	<u>5,538,903.50</u>	
Fund Balances - Ending	<u>\$ 6,955,893.25</u>	<u>\$ 4,949,295.58</u>	<u>\$ 2,006,597.67</u>

The Accompanying Notes are an Integral
Part of the Financial Statements

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Palo Pinto County
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2007

Schedule 4

Special Revenue Funds

	District Clerk PRF	Commissary	County Attorney	County Clerk PRF	Preservation of Records
<u>Assets</u>					
Cash	\$ 9,614.85	\$ 22,011.20	\$ 132.58	\$ 261,116.70	\$ 33,391.23
Taxes Receivable, Net					
Receivables - Other					
Due from Other Funds	25.00		786.43	3,566.50	127.50
Inventory		715.00			
<u>Total Assets</u>	<u>\$ 9,639.85</u>	<u>\$ 22,726.20</u>	<u>\$ 919.01</u>	<u>\$ 264,683.20</u>	<u>\$ 33,518.73</u>
<u>Liabilities and Fund Balances</u>					
<u>Liabilities:</u>					
Accounts Payable				\$ 4,783.93	
Due to Other Funds		\$ 200.00			
Due to Others					
Deferred Revenue					
<u>Total Liabilities</u>		<u>200.00</u>		<u>4,783.93</u>	
<u>Fund Balances:</u>					
Reserved for Inventory		715.00			
Reserved for Debt Service					
Reserved for Capital Projects					
Unreserved - Undesignated	\$ 9,639.85	21,811.20	\$ 919.01	259,899.27	\$ 33,518.73
<u>Total Fund Balances</u>	<u>9,639.85</u>	<u>22,526.20</u>	<u>919.01</u>	<u>259,899.27</u>	<u>33,518.73</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$ 9,639.85</u>	<u>\$ 22,726.20</u>	<u>\$ 919.01</u>	<u>\$ 264,683.20</u>	<u>\$ 33,518.73</u>

Palo Pinto County
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2007

Schedule 4
Continued

Special Revenue Funds

	<u>Courthouse Security Fund</u>	<u>District Attorney Fees</u>	<u>District Attorney Forfeited</u>	<u>District Attorney State</u>
<u>Assets</u>				
Cash	\$ 165,727.00	\$ 1,364.30	\$ 32,587.33	\$ 8,795.38
Taxes Receivable, Net				
Receivables - Other	81.00			
Due from Other Funds	622.00			
Inventory				
<u>Total Assets</u>	<u>\$ 166,430.00</u>	<u>\$ 1,364.30</u>	<u>\$ 32,587.33</u>	<u>\$ 8,795.38</u>
<u>Liabilities and Fund Balances</u>				
<u>Liabilities:</u>				
Accounts Payable			\$ 213.00	
Due to Other Funds				
Due to Others			5,470.00	
Deferred Revenue				
<u>Total Liabilities</u>			<u>5,683.00</u>	
<u>Fund Balances:</u>				
Reserved for Inventory				
Reserved for Debt Service				
Reserved for Capital Projects				
Unreserved - Undesignated	\$ 166,430.00	\$ 1,364.30	26,904.33	\$ 8,795.38
<u>Total Fund Balances</u>	<u>166,430.00</u>	<u>1,364.30</u>	<u>26,904.33</u>	<u>8,795.38</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$ 166,430.00</u>	<u>\$ 1,364.30</u>	<u>\$ 32,587.33</u>	<u>\$ 8,795.38</u>

Palo Pinto County
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2007

Schedule 4
Continued

Special Revenue Funds

	<u>HAVA Grant</u>	<u>Employee Fund</u>	<u>Hotel/ Motel Fund</u>	<u>Justice Technology Fund</u>	<u>Sheriff Forfeited</u>
<u>Assets</u>					
Cash		\$ 1,741.65	\$ 15,979.46	\$ 38,280.78	\$ 40,866.20
Taxes Receivable, Net					
Receivables - Other				108.00	
Due from Other Funds				268.00	
Inventory					
<u>Total Assets</u>	<u>\$ 0.00</u>	<u>\$ 1,741.65</u>	<u>\$ 15,979.46</u>	<u>\$ 38,656.78</u>	<u>\$ 40,866.20</u>
<u>Liabilities and Fund Balances</u>					
<u>Liabilities:</u>					
Accounts Payable		\$ 247.34		\$ 389.35	
Due to Other Funds					
Due to Others					
Deferred Revenue					
<u>Total Liabilities</u>		<u>247.34</u>		<u>389.35</u>	
<u>Fund Balances:</u>					
Reserved for Inventory					
Reserved for Debt Service					
Reserved for Capital Projects					
Unreserved - Undesignated		1,494.31	\$ 15,979.46	38,267.43	\$ 40,866.20
<u>Total Fund Balances</u>		<u>1,494.31</u>	<u>15,979.46</u>	<u>38,267.43</u>	<u>40,866.20</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$ 0.00</u>	<u>\$ 1,741.65</u>	<u>\$ 15,979.46</u>	<u>\$ 38,656.78</u>	<u>\$ 40,866.20</u>

Palo Pinto County
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2007

Schedule 4
Continued

	<u>Special Revenue Funds</u>			<u>Debt Service Funds</u>	
	Tax Assessor- Collector	Law Library Fund	Justice Court Security Fee	2001 Series Tax Notes \$515,000	2003 Series Tax Notes \$1.45 Million
<u>Assets</u>					
Cash	\$ 3,178.98	\$ 30,399.90	\$ 8,069.24	\$ 21,694.67	\$ 22,861.55
Taxes Receivable, Net				1,938.56	5,815.68
Receivables - Other			25.00		
Due from Other Funds	40.07	350.00	59.00	183.54	600.97
Inventory					
<u>Total Assets</u>	\$ 3,219.05	\$ 30,749.90	\$ 8,153.24	\$ 23,816.77	\$ 29,278.20
<u>Liabilities and Fund Balances</u>					
<u>Liabilities:</u>					
Accounts Payable		\$ 3,014.15			
Due to Other Funds					
Due to Others					
Deferred Revenue				\$ 1,938.56	\$ 5,815.68
<u>Total Liabilities</u>		3,014.15		1,938.56	5,815.68
<u>Fund Balances:</u>					
Reserved for Inventory					
Reserved for Debt Service				21,878.21	23,462.52
Reserved for Capital Projects					
Unreserved - Undesignated	\$ 3,219.05	27,735.75	\$ 8,153.24		
<u>Total Fund Balances</u>	3,219.05	27,735.75	8,153.24	21,878.21	23,462.52
<u>Total Liabilities and Fund Balances</u>	\$ 3,219.05	\$ 30,749.90	\$ 8,153.24	\$ 23,816.77	\$ 29,278.20

Palo Pinto County
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2007

Schedule 4
Concluded

Capital Project Funds

	Capital Projects	2004 Series Tax Notes \$320,000	Dempsey Facility	Capital Improvement Fund	Total Nonmajor Governmental Funds
<u>Assets</u>					
Cash		\$ 103,865.44	\$ 126,461.49	\$ 201,472.69	\$ 1,149,612.62
Taxes Receivable, Net					7,754.24
Receivables - Other					214.00
Due from Other Funds					6,629.01
Inventory					715.00
<u>Total Assets</u>	<u>\$ 0.00</u>	<u>\$ 103,865.44</u>	<u>\$ 126,461.49</u>	<u>\$ 201,472.69</u>	<u>\$ 1,164,924.87</u>
<u>Liabilities and Fund Balances</u>					
<u>Liabilities:</u>					
Accounts Payable					\$ 8,647.77
Due to Other Funds					200.00
Due to Others					5,470.00
Deferred Revenue					7,754.24
<u>Total Liabilities</u>					<u>22,072.01</u>
<u>Fund Balances:</u>					
Reserved for Inventory					715.00
Reserved for Debt Service					45,340.73
Reserved for Capital Projects		\$ 103,865.44	\$ 126,461.49	\$ 201,472.69	431,799.62
Unreserved - Undesignated					664,997.51
<u>Total Fund Balances</u>		<u>103,865.44</u>	<u>126,461.49</u>	<u>201,472.69</u>	<u>1,142,852.86</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$ 0.00</u>	<u>\$ 103,865.44</u>	<u>\$ 126,461.49</u>	<u>\$ 201,472.69</u>	<u>\$ 1,164,924.87</u>

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Palo Pinto County
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended September 30, 2007

Schedule 5

Special Revenue Funds

	District Clerk PRF	Commissary	County Attorney	County Clerk PRF	Preservation of Records
<u>Revenues</u>					
Ad Valorem Taxes					
Licenses, Fees and Fines	\$ 3,077.50		\$ 12,996.62	\$ 130,295.84	\$ 12,884.75
Interest Earned	88.53			2,613.62	294.55
Occupancy Tax					
Commissary Revenue		\$ 32,895.19			
Vending Revenue					
Forfeiture Revenue					
Federal and State Grants					
Lease Income					
Other Revenue					
<u>Total Revenues</u>	<u>3,166.03</u>	<u>32,895.19</u>	<u>12,996.62</u>	<u>132,909.46</u>	<u>13,179.30</u>
<u>Expenditures</u>					
Capital Projects					
Debt Service - Principal					
Debt Service - Interest and Fiscal Charges					
Commissary		26,099.81			
County Attorney			16,184.32		
County Clerk				102,455.07	
Courthouse Security					
District Attorney					
Forfeiture Expenditures					
Hotel/Motel Tax					
Sheriff					
Law Library					
Justice Technology					
Election Expense					
Vending Expenditures					
<u>Total Expenditures</u>		<u>26,099.81</u>	<u>16,184.32</u>	<u>102,455.07</u>	
Excess (Deficiency) of Revenues over Expenditures	<u>3,166.03</u>	<u>6,795.38</u>	<u>(3,187.70)</u>	<u>30,454.39</u>	<u>13,179.30</u>
<u>Other Financing Sources and (Uses)</u>					
Transfers In (Out)					
<u>Total Other Financing Sources and (Uses)</u>					
Net Change in Fund Balances	<u>3,166.03</u>	<u>6,795.38</u>	<u>(3,187.70)</u>	<u>30,454.39</u>	<u>13,179.30</u>
Fund Balances - Beginning	<u>6,473.82</u>	<u>15,730.82</u>	<u>4,106.71</u>	<u>229,444.88</u>	<u>20,339.43</u>
Fund Balances - Ending	<u>\$ 9,639.85</u>	<u>\$ 22,526.20</u>	<u>\$ 919.01</u>	<u>\$ 259,899.27</u>	<u>\$ 33,518.73</u>

Palo Pinto County
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended September 30, 2007

Schedule 5
Continued

Special Revenue Funds

	<u>Courthouse Security Fund</u>	<u>District Attorney Fees</u>	<u>District Attorney Forfeited</u>	<u>District Attorney State</u>
<u>Revenues</u>				
Ad Valorem Taxes				
Licenses, Fees and Fines	\$ 36,356.34	\$ 94.17		
Interest Earned	1,615.99		\$ 567.96	
Occupancy Tax				
Commissary Revenue				
Vending Revenue				
Forfeiture Revenue			36,642.05	\$ 33,630.00
Federal and State Grants				
Lease Income				
Other Revenue				
<u>Total Revenues</u>	<u>37,972.33</u>	<u>94.17</u>	<u>37,210.01</u>	<u>33,630.00</u>
<u>Expenditures</u>				
Capital Projects				
Debt Service - Principal				
Debt Service - Interest and Fiscal Charges				
Commissary				
County Attorney				
County Clerk				
Courthouse Security	1,346.00			
District Attorney				68,376.02
Forfeiture Expenditures			9,150.92	
Hotel/Motel Tax				
Sheriff				
Law Library				
Justice Technology				
Election Expense				
Vending Expenditures				
<u>Total Expenditures</u>	<u>1,346.00</u>		<u>9,150.92</u>	<u>68,376.02</u>
Excess (Deficiency) of Revenues over Expenditures	36,626.33	94.17	28,059.09	(34,746.02)
<u>Other Financing Sources and (Uses)</u>				
Transfers In (Out)			(34,350.00)	34,350.00
<u>Total Other Financing Sources and (Uses)</u>			<u>(34,350.00)</u>	<u>34,350.00</u>
Net Change in Fund Balances	36,626.33	94.17	(6,290.91)	(396.02)
Fund Balances - Beginning	129,803.67	1,270.13	33,195.24	9,191.40
Fund Balances - Ending	<u>\$ 166,430.00</u>	<u>\$ 1,364.30</u>	<u>\$ 26,904.33</u>	<u>\$ 8,795.38</u>

Palo Pinto County
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended September 30, 2007

Schedule 5
Continued

Special Revenue Funds

	HAVA Grant	Employee Fund	Hotel/ Motel Fund	Justice Technology Fund	Sheriff Forfeited
<u>Revenues</u>					
Ad Valorem Taxes					
Licenses, Fees and Fines				\$ 22,958.13	
Interest Earned		\$ 16.08	\$ 413.92	299.12	\$ 377.41
Occupancy Tax			137,814.78		
Commissary Revenue					
Vending Revenue		4,250.70			
Forfeiture Revenue					9,591.85
Federal and State Grants	\$ 7,035.90				
Lease Income					
Other Revenue					25,496.14
<u>Total Revenues</u>	<u>7,035.90</u>	<u>4,266.78</u>	<u>138,228.70</u>	<u>23,257.25</u>	<u>35,465.40</u>
<u>Expenditures</u>					
Capital Projects					
Debt Service - Principal					
Debt Service - Interest and Fiscal Charges					
Commissary					
County Attorney					
County Clerk					
Courthouse Security					
District Attorney					
Forfeiture Expenditures					3,073.70
Hotel/Motel Tax			136,124.03		
Sheriff					
Law Library					
Justice Technology				4,636.26	
Election Expense	7,035.90				
Vending Expenditures		3,840.33			
<u>Total Expenditures</u>	<u>7,035.90</u>	<u>3,840.33</u>	<u>136,124.03</u>	<u>4,636.26</u>	<u>3,073.70</u>
Excess (Deficiency) of Revenues over Expenditures		426.45	2,104.67	18,620.99	32,391.70
<u>Other Financing Sources and (Uses)</u>					
Transfers In (Out)					
<u>Total Other Financing Sources and (Uses)</u>					
Net Change in Fund Balances		426.45	2,104.67	18,620.99	32,391.70
Fund Balances - Beginning		1,067.86	13,874.79	19,646.44	8,474.50
Fund Balances - Ending	\$ 0.00	\$ 1,494.31	\$ 15,979.46	\$ 38,267.43	\$ 40,866.20

Palo Pinto County
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended September 30, 2007

Schedule 5
Continued

	<u>Special Revenue Funds</u>			<u>Debt Service Funds</u>	
	<u>Tax Assessor- Collector</u>	<u>Law Library Fund</u>	<u>Justice Court Security Fee</u>	<u>2001 Series Tax Notes \$515,000</u>	<u>2003 Series Tax Notes \$1.45 Million</u>
<u>Revenues</u>					
Ad Valorem Taxes				\$ 71,978.64	\$ 238,827.49
Licenses, Fees and Fines	\$ 357.86	\$ 21,620.00	\$ 5,219.59		
Interest Earned	33.21	287.71	55.47	310.25	408.11
Occupancy Tax					
Commissary Revenue					
Vending Revenue					
Forfeiture Revenue					
Federal and State Grants					
Lease Income					
Other Revenue					
<u>Total Revenues</u>	<u>391.07</u>	<u>21,907.71</u>	<u>5,275.06</u>	<u>72,288.89</u>	<u>239,235.60</u>
<u>Expenditures</u>					
Capital Projects					
Debt Service - Principal				65,000.00	210,000.00
Debt Service - Interest and Fiscal Charges				6,506.25	27,426.69
Commissary					
County Attorney					
County Clerk					
Courthouse Security					
District Attorney					
Forfeiture Expenditures					
Hotel/Motel Tax					
Sheriff					
Law Library		16,880.77			
Justice Technology					
Election Expense					
Vending Expenditures					
<u>Total Expenditures</u>	<u></u>	<u>16,880.77</u>	<u></u>	<u>71,506.25</u>	<u>237,426.69</u>
Excess (Deficiency) of Revenues over Expenditures	<u>391.07</u>	<u>5,026.94</u>	<u>5,275.06</u>	<u>782.64</u>	<u>1,808.91</u>
<u>Other Financing Sources and (Uses)</u>					
Transfers In (Out)					
<u>Total Other Financing Sources and (Uses)</u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>
Net Change in Fund Balances	<u>391.07</u>	<u>5,026.94</u>	<u>5,275.06</u>	<u>782.64</u>	<u>1,808.91</u>
Fund Balances - Beginning	<u>2,827.98</u>	<u>22,708.81</u>	<u>2,878.18</u>	<u>21,095.57</u>	<u>21,653.61</u>
Fund Balances - Ending	<u>\$ 3,219.05</u>	<u>\$ 27,735.75</u>	<u>\$ 8,153.24</u>	<u>\$ 21,878.21</u>	<u>\$ 23,462.52</u>

Palo Pinto County
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended September 30, 2007

Schedule 5
Concluded

Capital Project Funds

	Capital Projects	2004 Series Tax Notes \$320,000	Dempsey Facility	Capital Improvement Fund	Total Nonmajor Governmental Funds
<u>Revenues</u>					
Ad Valorem Taxes					\$ 310,806.13
Licenses, Fees and Fines					245,860.80
Interest Earned	\$ 184.12	\$ 1,213.28	\$ 966.07	\$ 1,472.69	11,218.09
Occupancy Tax					137,814.78
Commissary Revenue					32,895.19
Vending Revenue					4,250.70
Forfeiture Revenue					79,863.90
Federal and State Grants					7,035.90
Lease Income			87,500.00		87,500.00
Other Revenue					25,496.14
<u>Total Revenues</u>	<u>184.12</u>	<u>1,213.28</u>	<u>88,466.07</u>	<u>1,472.69</u>	<u>942,741.63</u>
<u>Expenditures</u>					
Capital Projects	50,232.25				50,232.25
Debt Service - Principal					275,000.00
Debt Service - Interest and Fiscal Charges					33,932.94
Commissary					26,099.81
County Attorney					16,184.32
County Clerk					102,455.07
Courthouse Security					1,346.00
District Attorney					68,376.02
Forfeiture Expenditures					12,224.62
Hotel/Motel Tax					136,124.03
Sheriff		15,000.00			15,000.00
Law Library					16,880.77
Justice Technology					4,636.26
Election Expense					7,035.90
Vending Expenditures					3,840.33
<u>Total Expenditures</u>	<u>50,232.25</u>	<u>15,000.00</u>			<u>769,368.32</u>
Excess (Deficiency) of Revenues over Expenditures	(50,048.13)	(13,786.72)	88,466.07	1,472.69	173,373.31
<u>Other Financing Sources and (Uses)</u>					
Transfers In (Out)				200,000.00	200,000.00
<u>Total Other Financing Sources and (Uses)</u>				<u>200,000.00</u>	<u>200,000.00</u>
Net Change in Fund Balances	(50,048.13)	(13,786.72)	88,466.07	201,472.69	373,373.31
Fund Balances - Beginning	50,048.13	117,652.16	37,995.42		769,479.55
Fund Balances - Ending	\$ 0.00	\$ 103,865.44	\$ 126,461.49	\$ 201,472.69	\$ 1,142,852.86

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Palo Pinto County
Combining Statement of Fiduciary Net Assets
September 30, 2007

Schedule 6

Agency Funds

	<u>Auto Registration</u>	<u>County Attorney</u>	<u>County Clerk</u>	<u>County Treasurer (Special)</u>	<u>District Attorney</u>
<u>Assets</u>					
Cash	\$ 369,381.95	\$ 4,740.79	\$ 236,329.84	\$ 121,409.98	\$ 5,996.93
Investments					
Accounts Receivable	1,297.83				
Due from Other Funds				54,608.04	
<u>Total Assets</u>	<u>\$ 370,679.78</u>	<u>\$ 4,740.79</u>	<u>\$ 236,329.84</u>	<u>\$ 176,018.02</u>	<u>\$ 5,996.93</u>
<u>Liabilities</u>					
Due to:					
Other Funds	\$ 35,260.88	\$ 788.53	\$ 15,143.06	\$ 1,073.79	
Other Jurisdictions	334,807.82			168,847.10	
Others	611.08	3,952.26	221,186.78	6,097.13	\$ 5,996.93
<u>Total Liabilities</u>	<u>\$ 370,679.78</u>	<u>\$ 4,740.79</u>	<u>\$ 236,329.84</u>	<u>\$ 176,018.02</u>	<u>\$ 5,996.93</u>

Palo Pinto County
Combining Statement of Fiduciary Net Assets
September 30, 2007

Schedule 6
Continued

	<u>Agency Funds</u>				
	District Attorney Seized Funds	District Clerk	Inmate Trust	Public Works	Sheriff's Dept. Civil Process
Assets					
Cash	\$ 38,413.05	\$ 554,106.99	\$ 6,934.57	\$ 2,340.00	\$ 2,778.95
Investments					
Accounts Receivable					
Due from Other Funds		100.00			
<u>Total Assets</u>	\$ 38,413.05	\$ 554,206.99	\$ 6,934.57	\$ 2,340.00	\$ 2,778.95
Liabilities					
Due to:					
Other Funds		\$ 3,466.49		\$ 2,150.00	\$ 1,778.95
Other Jurisdictions				190.00	
Others	\$ 38,413.05	550,740.50	\$ 6,934.57		1,000.00
<u>Total Liabilities</u>	\$ 38,413.05	\$ 554,206.99	\$ 6,934.57	\$ 2,340.00	\$ 2,778.95

Palo Pinto County
Combining Statement of Fiduciary Net Assets
September 30, 2007

Schedule 6
Concluded

Agency Funds

	<u>Tax Collection</u>	<u>Sheriff's Dept. Seizures</u>	<u>Deferred Compensation</u>	<u>Total</u>
<u>Assets</u>				
Cash	\$ 176,470.59			\$ 1,518,903.64
Investments			\$ 186,934.07	186,934.07
Accounts Receivable				1,297.83
Due from Other Funds				54,708.04
<u>Total Assets</u>	<u>\$ 176,470.59</u>	<u>\$ 0.00</u>	<u>\$ 186,934.07</u>	<u>\$ 1,761,843.58</u>
<u>Liabilities</u>				
Due to:				
Other Funds	\$ 19,059.73			\$ 78,721.43
Other Jurisdictions	85,684.81			589,529.73
Others	71,726.05		\$ 186,934.07	1,093,592.42
<u>Total Liabilities</u>	<u>\$ 176,470.59</u>	<u>\$ 0.00</u>	<u>\$ 186,934.07</u>	<u>\$ 1,761,843.58</u>

Palo Pinto County
Commissary Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended September 30, 2007

Schedule 7

Revenues

Commissary Revenue	\$ 21,182.61
Phone Card Revenue	11,050.00
Over the Counter Revenue	543.71
Other Income	118.87

<u>Total Revenues</u>	32,895.19
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Expenditures

Commissary - Operation and Mgmt	1,200.00
Commissary - Phone Card Expense	7,579.44
Commissary - Commissary Supplies	436.94
Commissary - Over the Counter Supplies	2,750.35
Commissary - Indigent Supplies	6,135.65
Commissary - Cable TV	811.94
Commissary - Misc Dept Expenses	4,993.56
Commissary - Capital Expense	2,191.93

<u>Total Expenditures</u>	26,099.81
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Excess (Deficiency) of Revenues over Expenditures	6,795.38
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Fund Balance - October 1, 2006	15,730.82
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Fund Balance - September 30, 2007	\$ 22,526.20
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CRAWFORD, CARTER & THOMPSON, L.L.P.

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AICPA DIVISION FOR CPA FIRMS

January 22, 2008

**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**

Honorable Judge and County Commissioners
Palo Pinto County
Palo Pinto, Texas 76484

Honorable Judge and County Commissioners:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Pinto County (the "County"), as of and for the year ended September 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated January 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the County, in a separate letter dated January 28, 2008.

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

Crawford, Carter & Thompson, L.L.P.

Palo Pinto County
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2007

Status of Prior Year Findings

None

Current Year Findings

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
None	None	None