



#6

July 13, 2007

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

In planning and performing our audit of the basic financial statements of Polk County, Texas (the "County"), for the year ended September 30, 2006, we considered its internal control in order to determine our audit procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Our findings and additional comments are as follows:

MATERIAL WEAKNESSES

1. Absence of Qualified Personnel

Finding

For six months during the County's fiscal year and over three months after year end, the County Auditor's office was without both a qualified County Auditor and Assistant County Auditor. Accordingly, the procedures and internal controls previously in place were no longer effectively being performed. A qualified County Auditor was appointed in January 2007, and an Assistant County Auditor hired in July 2007.

Recommendation

The County should fill critical positions with qualified personnel in a timely manner.

2. Month End Closing Procedures

Finding

The County did not have a formal process for closing the books at the end of the year or previous month(s) end.

Recommendation

The County should continue to re-develop a formal month end closing process that includes reviewing ending account balances to determine their accuracy. In addition to outlining procedures to be completed, the County should assign each step of the process to a specific individual, thereby clarifying the roles within the County in the closing and review processes.

3. District Clerk Trust Accounts

Finding

As in the prior year, the District Clerk's office has had considerable difficulty providing information on trust accounts. Much of this data was provided on July 23, 2007, almost ten months after year end. The amount of trust accounts as reported in the District Clerk's account balance report was \$2,621,558 at year end. Included within this amount is monies held in the registry of the court bank account on behalf of approximately 64 beneficiaries. Per the District Clerk's account balance report the registry of the court account balance was \$924,343 and the bank reflected a balance of \$937,938 resulting in an unidentified difference of \$13,596.

Recommendation

The District Clerk should reconcile trust accounts on a monthly basis. The County Auditor should oversee that these reconciliations are prepared and any discrepancies reported to Commissioners Court and the District Judges.

REPORTABLE CONDITIONS

4. Payroll Reconciliation

Finding

The County's accounting software provider, Net Data, updated system generated reports within the payroll module during the year. Subsequently the County has been unable to reconcile quarterly IRS 941 tax returns to the payroll general ledger accounts. The County Auditor is working with NetData to obtain the necessary reports to facilitate a timely comparison on a quarterly basis.

Recommendation

The County Auditor should review and monitor the 941 reporting process each quarter to verify that the County is properly reporting to the Internal Revenue Service.

5. Capital Assets

Finding

Due to inconsistencies in the coding of capital assets in the County's computer system, reports used for capital assets did not agree to each other. The County Auditor has manually corrected the capital asset reports and is working with NetData to correct this issue.

Recommendation

The County Auditor should review capital asset reports on a monthly basis to verify that items are input correctly and that reports are generated accurately.

6. Accounts Payable

Finding

During our audit we noted the County did not have a complete list of accounts payable and had considerable difficulty reconstructing a report. Once reconstructed this report and the general ledger did not agree, which appeared to be the result of systemic computer errors and lack of oversight as previously discussed in item 1. Subsequent to beginning field work, the County Auditor's office required a significant amount of time to reconcile accounts payable at year end. The delay and trouble in this area was directly related to the vacancy in the County Auditor's office as discussed in item 1.

Recommendation

The County Auditor should review accounts payable during the month end closing process to ensure that reports are accurate.

OTHER MATTERS

7. Timeliness of Reports

Finding

The County missed several deadlines with respect to filing its annual financial report. As discussed in item 1 as well as other comments, considerable effort was expended by County personnel to get the County's records in auditable condition as long as ten months after its fiscal year end. The County should establish a goal of having its financial records in an auditable condition by December 31st.

Recommendation

The County Auditor should continue to oversee that supporting audit documents are prepared in a timely manner.

8. Budget Variances

Finding

As noted in the financial statements, expenditures exceeded appropriations at the legal level of budgetary control in the general and debt service funds contrary to state law.

Recommendation

The County Auditor should review its budgetary controls and purchase order approval process to ensure that unbudgeted expenditures are not incurred. The County should consult with its attorney regarding possible violations of law.

OTHER MATTERS FOR FUTURE CONSIDERATION

9. Fund Balance Requirements

Finding

The County reported deficit fund balances for the County records management fund, DA collection fund, and payroll clearing fund.

Recommendation

The County should set a fund balance requirement for each fund and implement procedures to achieve this level of fund balance.

10. Road and Bridge Fund

Finding

The County carries forward excess budget monies unspent in the previous year for the four precincts in the road and bridge fund. Under the current policy, fund balance is not compared to the total carry forward to determine if monies are actually available to be spent.

Recommendation

The County should either update its policy to consider funds available or establish separate funds for each precinct.

11. Other Post Employment Benefits (OPEB)

Background

The Governmental Accounting Standards Board ("GASB") issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which provides guidance on all aspects of other postemployment benefits reported by employers. Specifically, this Statement applies to governmental entities that provide benefits to retirees and their families. The County will be required to comply

with Statement No. 45 for fiscal year ending 2009. While the Texas legislature recently passed a law exempting Texas governments, there are significant negative consequences.

Recommendation

The County should determine if any benefits provided by the County would be subject to the requirements of GASB 45. If this GASB is applicable to the County, the County would need to hire an actuary to perform calculations on behalf of the County.

12. Anti-Fraud Policy

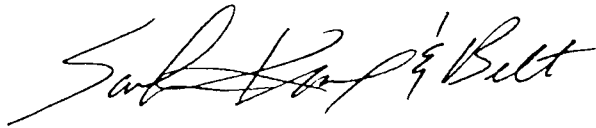
Finding

Events in recent years have increased public awareness of fraud and have resulted in a number of regulatory changes which have further focused attention on this subject matter, bringing about a shift in public policy. Consequently, many governments have or are considering adopting a formal anti-fraud policy.

Recommendation

The County should consider adopting a formal anti-fraud policy.

This report is intended solely for the information and use of Commissioner's Court, other elected officials and management of Polk County, Texas and is not intended to be and should not be used by anyone other than these specified parties. Though restricted in use, reports issued to a local government are a matter of public record and its distribution is accordingly not limited.



Sandersen Knox & Belt, L.L.P.

#6

ANNUAL FINANCIAL REPORT

POLK COUNTY, TEXAS

Fiscal Year Ended
September 30, 2006

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INTRODUCTORY SECTION

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Ray Stelly, CPA
Polk County Auditor

POLK COUNTY
LIVINGSTON, TEXAS

(936) 327-6811
Fax: (936) 327-6898

July 13, 2007

To the Honorable Board of District Judges,
Honorable County Judge,
Honorable Members of Commissioners Court, and
Citizens of Polk County, Texas:

The Annual Financial Report (AFR) of the County of Polk, Texas (the "County") for the fiscal year ended September 30, 2006, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the County. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

In 1999, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement establishes new requirements for the annual financial reports of state and local governments. It was developed to provide additional information about the fiscal health of the government and to make the annual reports more comprehensive and easier to understand and use. GASB Statement No. 34 mandates that governments comparable to the County implement the new reporting model by fiscal year 2003.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors.

The Annual Financial Report is presented in two sections: *Introductory and Financial*. The Introductory Section includes this transmittal letter, the County's organizational chart, and a list of principal officials. The Financial Section includes the Management's Discussion and Analysis (MD&A), the basic financial statements, budgetary comparison schedules, required supplementary information other than MD&A, as well as the independent auditors' report, financial statements, and schedules.

Polk County, Texas
Letter of Transmittal
September 30, 2006

The financial reporting entity (the County) includes all the funds of the primary government (i.e., Polk County as legally defined), as well as any component units. Component units are legally separate entities for which the primary government is financially accountable. Currently, the County has one component unit, IAH Public Facility Corporation.

The County provides a full range of services contemplated by statute or charter. This includes police protection, legal and judicial services, construction and maintenance of roads and bridges and waste management facilities.

POLK COUNTY HISTORY

Polk County was formed in 1846, as a political subdivision of the Republic of Texas. The County was named in honor of James K. Polk, then President of the United States. The City of Livingston is the county seat and the largest city in Polk County.

The 1,095 square miles of Polk County is located in the tall pine forests of Deep East Texas, about 70 miles north of Houston. It is bounded by the Trinity River on the southwest and the Neches River on the northwest. To the north and east lie more than 100 miles of scenic roads, four Texas Woodland Trails, and the State's largest Indian Reservation, home of the Alabama-Coushatta Tribe of Texas. In the late 1700's the Alabama-Coushatta Indians established camps on the Trinity and Neches Rivers. Through the interest and concern of Sam Houston, General of the Republic of Texas, the Alabama and Coushatta Indians were given a permanent home in the eastern portion of the County, and until 1971, this was the only Indian Reservation in Texas.

The County boasts one of the most varied and enjoyed environments in the state. Pleasant springs and falls, long warm summers, and mild winters entice vacationers year round and encourage retirement to the area. The average rainfall of 48 inches provides abundant forest vegetation and feeds major rivers in the area, making conditions favorable for principal activities such as agriculture, forestry, and ranching. A favorite recreation area is Lake Livingston, a man-made lake surrounded by some 500 miles of shoreline filled with vacation and primary homes, golf courses, marinas, campgrounds, boat launches, and fishing piers. Public access to the lake is provided by the 700 acre Lake Livingston State Park that is open year round, as well as a number of smaller parks. The 93,000-acre lake is located in the west and southwest portion of the County.

MAJOR INITIATIVES

For the Year

In 2004, the IAH Public Facility Corporation was formed by the Polk County Commissioners Court pursuant to the Public Facility Corporation Act Chapter 303 of the Texas Local Government Code for the purpose of financing eligible jail and criminal detention projects and other public facilities on behalf of the County.

In November 2004, the Corporation issued Project Revenue Bonds in the amount of \$24,215,000 to acquire real property, construct, furnish, and equip a multi-classification secure detention center. The 500 bed facility was completed in February 2006 and is operated and managed by Civigenics-Texas, Inc. The Project Revenue Bonds are repaid solely from revenues generated by the facility, using no County tax dollars and presenting no liability to either the County or the Public Facility Corporation.

Over 90% of revenues generated are from three federal agencies; Federal Bureau of Prisons, Immigration and Customs Enforcement (ICE), and United States Marshals Service. The remainder of the facility's revenue is provided by counties contracting for jail inmate housing. Polk County contracts with Civigenics for a "per diem" rate (or administrative fee) from the revenues generated and receives revenue from the inmate telephone system. Although the contract guarantees a minimum fee to Polk County of \$100,000 annually, for the seven months the facility was in operation during fiscal year 2006 the County received approximately \$200,000 in revenue.

This type of alternative revenue source for the County lessens the local tax burden. Additionally, the IAH Secure Adult Detention Facility utilizes local business and workforce for construction and operation, providing an even greater benefit to the economy.

In May 2006, Polk County contracted with Ray Associates, Inc. to perform a Compensation and Employee Benefits Study for Polk County Employees (the "Study"). This firm has performed previous studies and was responsible for developing the County's first comprehensive Personnel Management System, including Policies, Performance Evaluation, and Pay Classification. The stated objective of the Study was to ensure that Polk County jobs remained competitive in comparable markets, thereby attracting and retaining the most qualified employees.

Results of the Study, which was completed in September 2006, were considered and incorporated into the County's 2007 budget planning.

For the Future

Polk County continues to grow at a rapid pace including commercial development and continues to be one of the fastest growing Texas counties. Providing the infrastructure for this growth will be a challenge for Commissioners Court. The Court will be drafting a master plan to accommodate the future needs of the County.

In 2006 plans were being made to issue an additional \$24,820,000 in project revenue bonds to finance a 528 bed addition to the existing IAH multi-classification secure detention center. It is projected that this addition will be completed in June 2007. The county was also anticipating the need to issue certificates of obligation to finance a needed expansion of the county jail facility.

FINANCIAL INFORMATION

General Government Functions

The Commissioners Court is the governing body of the County. The Texas Constitution specified that the Court consists of a County Judge who is elected at large and serves as presiding officer, and four County Commissioners elected by the voters of their individual precinct. The court exercises the powers provided by law to conduct the varied business of the County. The Local Government Code prescribes the duties and grants authority to the Commissioners Court and other County officers relating to financial management. In compliance with state statutes, the Commissioners Court maintains budgetary control to ensure that provisions embodied within the annually appropriated budget are met for most county functions. According to the budget laws of the State of Texas, expenditures may not exceed the amount appropriated for each fund.

Polk County, Texas
Letter of Transmittal
September 30, 2006

The Budget Process

The County Judge serves as the Budget Officer, and along with the County Auditor prepares an annual budget for presentation and approval by the Commissioners Court. Departments submit budget requests for budget revisions and amendments to the County Auditor, who shall review for conformity to statutes, appropriateness within the scope of budget objectives-making recommendations to the Commissioners Court, as required. The Commissioners Court maintains sole authority for revising or amending the budget.

Notices, budget request forms, and a proposed budget planning calendar are distributed to elected officials and department heads, who are responsible for preparing a departmental budget request and submitting the same to the County Judge, along with supporting documentation.

The County Auditor estimates historical revenues and beginning balances in conjunction with information obtained from various county offices. The County Judge compiles and analyzes budget requests and estimated revenues, conducting budget review meetings with departments and the County Auditor.

A preliminary budget is submitted to Commissioners Court and budget workshops are held with individual departments, if requested. A proposed budget is filed with the County Clerk for public inspection and a tax rate is proposed to support that budget, based upon the Tax Assessor/Collector's publication of the 'Effective Tax Rate'.

Notices of the proposed tax rate are published in the local newspaper and public hearings are held to receive comments on the proposed budget and on the proposed tax rate. Changes warranted by law and required in the interest of the taxpayer are made, the budget is adopted, and a tax rate is set. The approved budget is filed with the County Clerk and the County Auditor.

The County Auditor monitors expenditures of the various departments to prevent expenditures from exceeding budget appropriations and sends a monthly financial report to Commissioners Court and the District Judges. The County Auditor provides a budget to actual expenditures report to each department on a monthly basis.

Departments may receive added incentives for efforts in cost effective measures during the budget year. Certain budget balances are carried forward (through the budget process) to allow and encourage departments to save toward larger expenditures. Road and Bridge departments are probably the most affected by the budget carry forward issue, as larger balances may occur.

Internal Control Structure

The County's accounting records for general government operations are maintained and the financial statements presented on a modified accrual basis. The financial operating controls are shared by the Commissioners Court, which is the governing body, and the County Auditor, who is appointed by the District Judges.

The County Auditor has the basic responsibility for maintaining the records of all financial transactions of the County and examining, auditing, and approving all disbursements from county funds prior to submission to Commissioners Court for payment.

Polk County, Texas
Letter of Transmittal
September 30, 2006

The Commissioners Court sets the tax rate, establishes policies for county operations, approves contracts for the County and develops and adopts the county budget within the resources as estimated by the County Auditor.

In developing the County's accounting systems, consideration was given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of the financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes the cost of a control should not exceed the benefits likely to be derived there from, and the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. The County's internal accounting controls are believed to adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Debt Administration

As of September 30, 2006, Polk County had outstanding bonded debt in the amount of \$6,278,186. Moody's Investor's Service rates the presently outstanding tax supported debt of the County BAA and Standard and Poor's Corporation rates it AAA.

The County issued \$1,120,000 in tax notes in fiscal year 2006.

Cash Management

The County Treasurer, by statute, serves as the custodian of county funds and is responsible for the receipt and disbursement of all monies owed to or by the County. The County Treasurer is required to maintain accurate records of all transactions of his/her office and to regularly report to the Commissioners Court.

The Commissioners Court selected qualified banks to serve as the county depositories, in which the County Treasurer deposits all monies received. Monies that are temporarily idle during the year are deposited in TexPool and other approved investments. The County's investment policy was revised to meet the changes in the Public Funds Investment Act. Investment strategies were identified for each group of funds.

Risk Management

The County participates in the Texas Association of Counties Workers Compensation Pool to cover job related risk. The development of a limited risk management program has resulted in significant savings in Workers Compensation Insurance premiums. These savings are passed on to all county employees in the form of cost of living and merit salary increases. Additionally, the County annually reviews with its carrier all liability coverage, making necessary amendments and/or adjustments to policy deductibles and limits.

Polk County, Texas
Letter of Transmittal
September 30, 2006

OTHER INFORMATION

Independent Audit

The County requires an annual audit of the books of accounts, financial records, and transactions of all departments of the County by an independent certified public accountant. The accounting firm of Sandersen Knox and Belt, L.L.P, CPAs was selected by Commissioners Court as the County's auditors, and their opinion letter on the general purpose financial statements is included in the Financial Section of this report.

Acknowledgements

The preparation of this report was accomplished with the efficient and dedicated services of the entire staff of the County Auditor's office. We would like to express our appreciation to all members of the departments who assisted and contributed to its preparation. We would also like to thank the County Judge, members of the Commissioners Court and the Department Heads for their interest and support in planning and conducting the financial operations of the County in a responsible and progressive manner.

Respectfully submitted,



Ray Stelly, County Auditor

POLK COUNTY, TEXAS
LIST OF ELECTED AND APPOINTED OFFICIALS
 September 30, 2006

COMMISSIONERS COURT:

| | |
|-----------------------|---------------------------|
| John P. Thompson | County Judge |
| Robert E. Willis | Commissioner, Precinct #1 |
| Ronnie L. Vincent | Commissioner, Precinct #2 |
| James J. Purvis | Commissioner, Precinct #3 |
| Charles T. Overstreet | Commissioner, Precinct #4 |

JUDICIAL:

| | |
|---------------|-------------------|
| John Holleman | District Attorney |
| Kathy Clifton | District Clerk |

COUNTY COURT AT LAW:

| | |
|-------------------|----------------------------|
| Stephen Phillips | Judge, County Court at Law |
| Barbara Middleton | County Clerk |

JUSTICE COURTS:

| | |
|--------------------|-------------------------------|
| Darrell Longino | Justice of Peace, Precinct #1 |
| David Johnson | Justice of Peace, Precinct #2 |
| Larry Whitworth | Justice of Peace, Precinct #3 |
| Steven B. McEntyre | Justice of Peace, Precinct #4 |

LAW ENFORCEMENT:

| | |
|--------------------|------------------------|
| Kenneth Hammack | County Sheriff |
| Charles Clack | Constable, Precinct #1 |
| William Cunningham | Constable, Precinct #2 |
| Ray Meyers | Constable, Precinct #3 |
| Marvin Taylor | Constable, Precinct #4 |

FINANCIAL ADMINISTRATION:

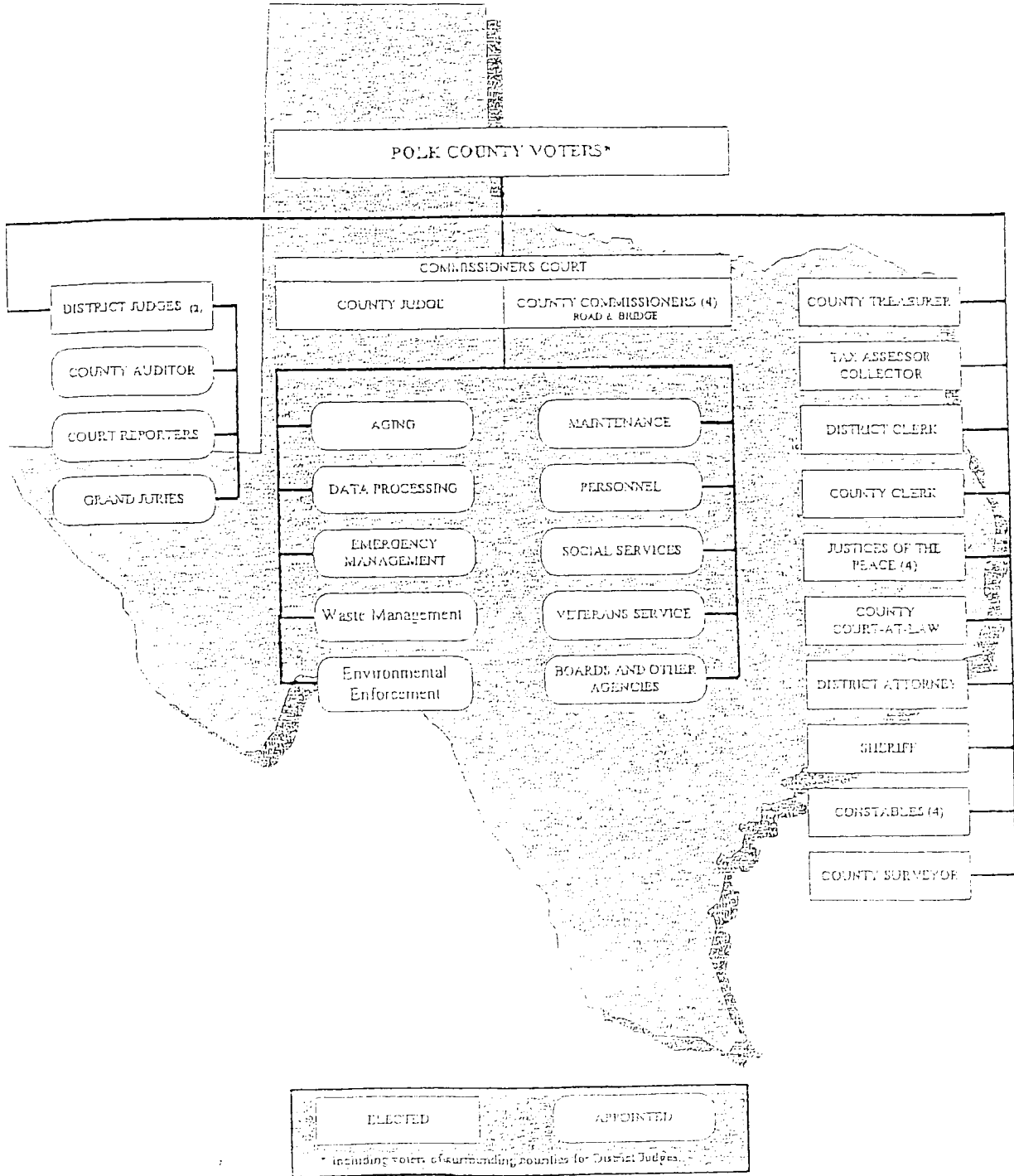
| | |
|-----------------|-------------------------|
| Marion A. Smith | Tax Assessor/Collector |
| Nola Reneau | County Treasurer |
| Vernon Loftin | Interim County Auditor* |

*Designated appointed official. All others are elected.

POLK COUNTY, TEXAS

ORGANIZATION CHART

September 30, 2006



SOURCES OF INFORMATION

September 30, 2006

The data and information used to produce this report was gathered from the websites, publications, records, and reports issued by the following government and public offices:

United States Department of Commerce

United States Census Bureau

State of Texas, Comptroller of Public Accounts

Texas Education Agency

Texas Department of Transportation

Texas Workforce Commission

Municipal Advisory Council of Texas

Deep East Texas Council of Governments

Polk County Judge

Polk County Commissioners

Polk County Tax Assessor/Collector

Polk Central Appraisal District

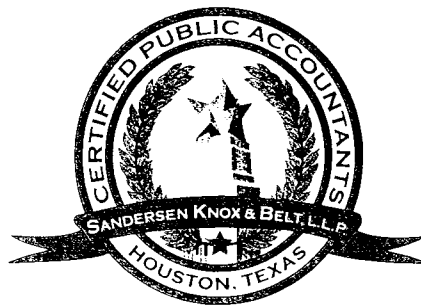
Polk County Auditor

Polk County Chamber of Commerce

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Polk County, Texas (the "County") as of and for the year ended September 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of September 30, 2006, and the respective changes in financial position thereof for the year ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2007 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 conjunction with this report in assessing the results of our audit.

The management's discussion and analysis on page 23, budgetary comparison information on pages 66 and 69, and pension information on page 71, are not a required part of the basic financial statement 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.

Polk County, Texas
Independent Auditors' Report
Page 2 of 2

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



July 13, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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POLK COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
 September 30, 2006

The following management's discussion and analysis ("MD&A") of Polk County's financial performance provides an overview of the County's financial activities for the year ended September 30, 2006. This overview is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the County's financial activity, (c) identify changes in the County's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Please consider the information presented here in conjunction with the transmittal letter on pages 7-12 and the County's financial statements, which follow this section.

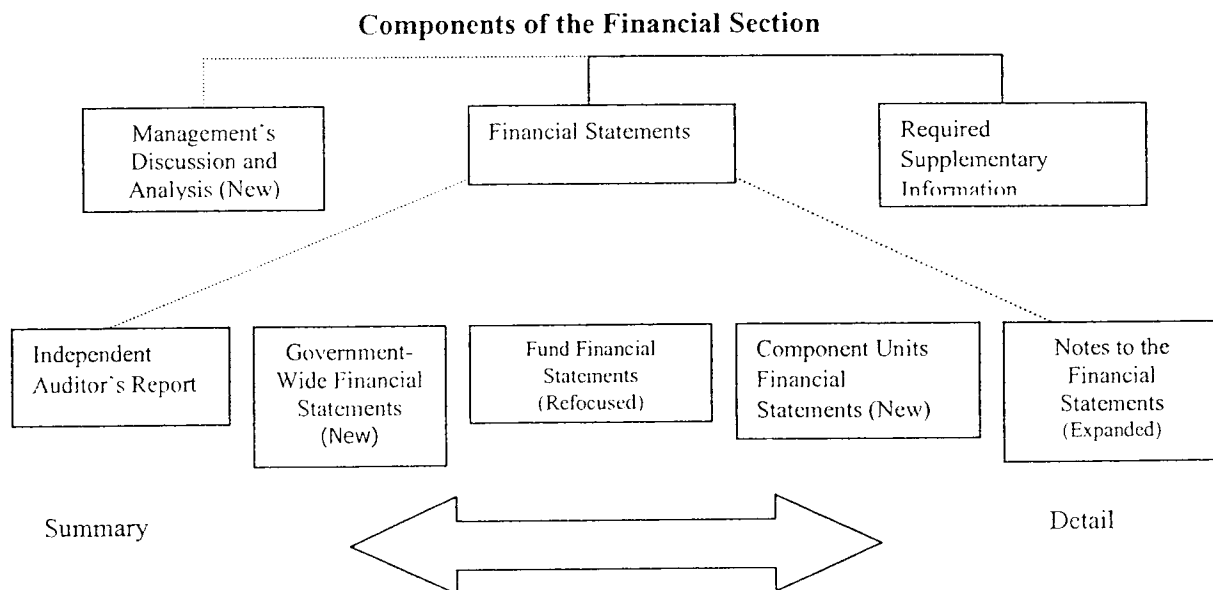
FINANCIAL HIGHLIGHTS

The general fund, on a current financial resource basis (fund level), reported revenues over expenditures and other financing sources and uses of \$272,187, as compared to a planned reduction of \$1,498,426, which results in a positive variance of \$1,770,613.

On a government-wide basis for governmental activities, the County had expenses net of program revenue of \$15,775,115. General revenues of \$18,590,823 were \$2,815,708 greater than expenses net of program revenue.

The County's total net assets, on the government-wide basis, totaled \$19,168,734 at September 30, 2006.

THE STRUCTURE OF OUR ANNUAL REPORT



The Annual Financial Report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. The new financial reporting model requires governments to present certain basic financial statements as well as a management's discussion and analysis (MD&A) and certain other required supplementary information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the County's finances is, "Is the County as a whole better or worse off as a result of this year's activity?" The Statement of Net Assets and the Statement of Activities, which are the government-wide statements, report information about the County as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities on the accrual basis of accounting, which is similar to the basis of accounting used by most private-sector entities. All current year revenues and expenses are taken into account regardless of when the cash is received or paid.

The Statement of Net Assets presents information on all the County's assets and liabilities, with the difference between the two reported as net assets. Over time, the increase or decreases in net assets provides one indicator as to whether the County's financial health is improving or deteriorating. Other non-financial factors, such as the County's property tax base and the condition of the County's infrastructure, need to be considered to assess the overall health of the County.

The Statement of Activities presents information showing how the County's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows using the accrual method rather than modified accrual that is used in the fund level statements.

In the Statement of Net Assets and the Statement of Activities, the County has only one type of activity:

Governmental Activities - Most of the County's basic services are reported here such as general government, administration of justice, roads and bridges, health and human services, tax administration and interest and fiscal agent fees on long-term debt.

The government-wide financial statements can be found on pages 33 through 35 of this report.

FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the County's most significant funds. The fund financial statements provide more information about the County's most significant funds - not the County as a whole.

The County has two types of funds:

Governmental Funds - Most of the County's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's major programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds balance sheet that explains the relationship or differences between them.

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POLK COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 September 30, 2006

Fiduciary Funds – These 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.

Notes to Financial Statements – The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 45 through 64 of this report.

Other Information – In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain required supplementary information (RSI). The RSI that GASB Statement No. 34 requires includes budgetary comparison schedules for the general fund and road and bridge fund as well as a schedule of funding progress for the Texas County and District Retirement System (TCDRS). RSI can be found on pages 66 through 71.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

In accordance with GASB Statement No. 34, the County is providing comparative information. A comparative analysis of government-wide information is presented below.

Statement of Net Assets:

The following table reflects the condensed Statement of Net Assets:

| | Governmental Activities | |
|--|--------------------------------|----------------------|
| | 2006 | 2005 |
| Current and other assets | \$ 9,371,500 | \$ 7,398,700 |
| Capital assets, net | 19,321,062 | 19,314,896 |
| Total Assets | 28,692,562 | 26,713,596 |
| Long-term liabilities | 7,814,599 | 5,914,878 |
| Other liabilities | 1,709,229 | 4,445,692 |
| Total Liabilities | 9,523,828 | 10,360,570 |
| Net assets (deficit): | | |
| Invested in capital assets, net of related debt | 13,101,783 | 12,302,831 |
| Restricted | 1,315,496 | 1,159,707 |
| Unrestricted | 4,751,455 | 2,890,488 |
| Total Net Assets | \$ 19,168,734 | \$ 16,353,026 |

The County's net assets increased to \$19,168,734 from \$16,353,026. The County's unrestricted net assets were \$4,751,455.

September 30, 2006

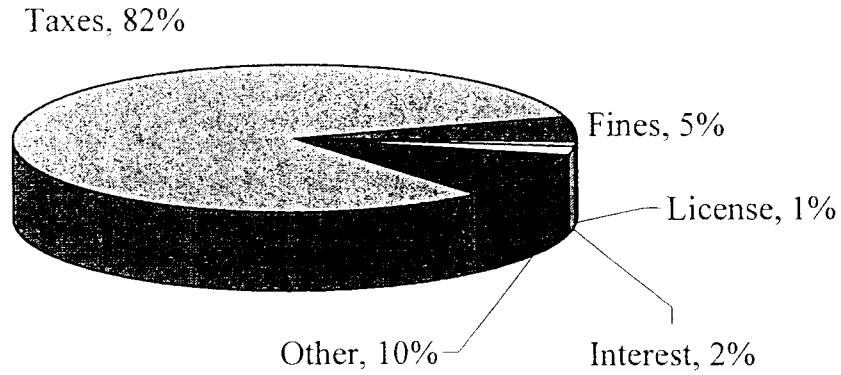
Statement of Activities

The following table provides a summary of the County's changes in net assets:

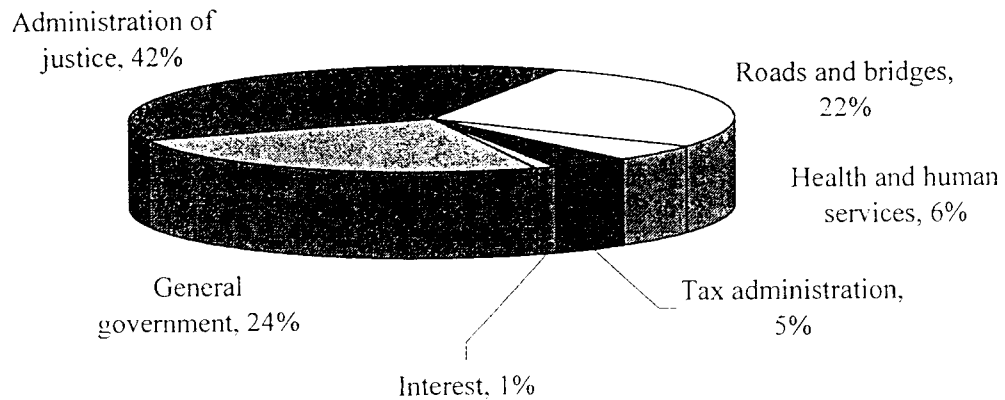
| | Governmental Activities | |
|---|--------------------------------|----------------------|
| | 2006 | 2005 |
| Revenues | | |
| Program revenues: | | |
| Charges for services | \$ 1,595,454 | \$ 1,205,916 |
| Operating grants | 1,819,107 | 840,948 |
| General revenues: | | |
| Taxes | 14,864,665 | 12,299,881 |
| Fines and forfeitures | 927,082 | 882,212 |
| License and permits | 202,912 | 138,966 |
| Investment income | 338,495 | 173,301 |
| Other revenues | 1,841,763 | 1,836,180 |
| Total Revenues | 21,589,478 | 17,377,404 |
| Expenses | | |
| General government | 4,758,365 | 3,604,151 |
| Administration of justice | 7,215,233 | 6,700,554 |
| Roads and bridges | 5,220,888 | 4,887,005 |
| Health and human services | 981,990 | 945,272 |
| Tax administration | 807,230 | 733,937 |
| Interest and fiscal agent fees on long-term debt | 205,970 | 267,913 |
| Total Expenses | 19,189,676 | 17,138,832 |
| Change in Net Assets | 2,399,802 | 238,572 |
| Beginning net assets: | 16,353,026 | 16,114,454 |
| Ending Net Assets | \$ 18,752,828 | \$ 16,353,026 |

Graphic presentations of selected data from the summary tables follow to assist in the analysis of the County's activities.

Governmental Revenues



Governmental Expenses



This graph shows the governmental functional expenses of the County in order to reflect the functional nature of the County's expenses.

Expenses per capita were \$365 in comparison to \$417 for last year.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

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

The County's governmental funds reflect a combined fund balance of \$6,211,030. Of this, \$3,829,656 is unreserved and available for day-to-day operations of the County, \$935,605 is reserved for debt service, \$379,891 is reserved for endowments/trusts, and \$1,065,878 is designated for special revenue.

There was an increase in the combined fund balance of \$2,033,629 over the prior year. Included in the increase is a increase in fund balance of \$1,377,802 in the road and bridge fund revenues over expenditures and other financing sources and uses. The County's fund balance policy for the General Fund is a 3-month reserve. With the previously noted decrease, the general fund's fund balance of \$2,975,092 is \$411,978 under policy.

There was also an increase of \$155,047 in the debt service fund balance to \$935,605. Debt service payments totaled \$2,281,533 for the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Expenditures and other financing uses were under revenue and other financing sources by \$272,187 in the general fund for the year.

Actual general fund revenues were over final budgeted revenues by \$1,030,300 during the year. This increase is attributable to property taxes, sales taxes, and charges for services exceeding the anticipated amount in the original budget projections. General fund expenditures were over the final budget by \$-91,686.

During the 2006 year, the Commissioners Court amended the budget for the following purposes:

- To re-appropriate monies to pay for commitments in the form of encumbrances established prior to September 30, 2006 but not paid by that date;
- To appropriate monies from other governmental units received in year 2006;
- To re-appropriate monies within or between departments;
- To reflect department year end projections.

CAPITAL ASSETS

At the end of the year, the County's governmental activities funds had invested \$106,694,841 in a variety of capital assets and infrastructure. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34.

More detailed information about the County's capital assets is presented in note IV. C. in the notes to the financial statements.

LONG-TERM DEBT

At the end of the year, the County reported total bonds, certificates of obligation, notes, time warrants, and capital leases of \$6,278,186.

More detailed information about the County's long-term liabilities is presented in note IV. D. in the notes to the financial statements. Current ratings on debt issues are as follows:

All of the County's bond issues have been successful in qualifying for bond insurance resulting in ratings of "BAA" and "AAA" by Moody's and Standard & Poors, respectively.

ECONOMIC FACTORS

The County continues to grow as seen in the increase in assessed property valuations for both residential and commercial entities. The County has continued the permanent road program to solidify the infrastructure of the County.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the County's finances. Questions concerning this report or requests for additional financial information should be directed to Ray Stelly, CPA, County Auditor, Polk County, 602 East Church Street, Suite 108, Livingston, TX 77351.

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BASIC FINANCIAL STATEMENTS

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POLK COUNTY, TEXAS

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STATEMENT OF NET ASSETS

September 30, 2006

| | <u>Primary Government Governmental Activities</u> | <u>Component Unit</u> |
|---|---|-----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 6,333,434 | \$ 3,361,127 |
| Cash with fiscal agent | 1,089,140 | - |
| Receivables (net of allowance for uncollectible) | 1,680,593 | 2,842,363 |
| Due from other units | 183,645 | - |
| Deferred charges | 84,688 | 1,664,435 |
| Nondepreciable capital assets | 844,352 | 330,346 |
| Capital assets (net of accumulated depreciation) | 18,476,710 | 15,938,663 |
| Total Assets | <u>28,692,562</u> | <u>24,136,934</u> |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | 1,680,927 | 2,502,585 |
| Accrued interest payable | 17,687 | 757,700 |
| Due to other units | 10,615 | - |
| Long-term liabilities due within one year | 2,874,814 | 525,000 |
| Long-term liabilities due in more than one year | 4,939,785 | 23,208,942 |
| Total Liabilities | <u>9,523,828</u> | <u>26,994,227</u> |
| NET ASSETS | | |
| Invested in capital assets, (net of related debt) | 13,101,783 | - |
| Restricted for: | | |
| Debt service | 935,605 | - |
| Endowments/trusts | 379,891 | - |
| Unrestricted | 4,751,455 | (2,857,293) |
| Total Net Assets | <u>\$ 19,168,734</u> | <u>\$ (2,857,293)</u> |

See Notes to Financial Statements.

POLK COUNTY, TEXAS

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets |
|--|----------------------|-------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| General government | \$ 4,758,365 | \$ 1,231,611 | \$ 641,384 | \$ (2,885,370) |
| Administration of justice | 7,215,233 | 176,852 | - | (7,038,381) |
| Roads and bridges | 5,220,888 | - | 1,177,723 | (4,043,165) |
| Health and human services | 981,990 | 186,991 | - | (794,999) |
| Tax administration | 807,230 | - | - | (807,230) |
| Interest and fiscal agent fees on long-term debt | 205,970 | - | - | (205,970) |
| Total Governmental Activities | <u>19,189,676</u> | <u>1,595,454</u> | <u>1,819,107</u> | <u>(15,775,115)</u> |
| Total Primary Government | <u>\$ 19,189,676</u> | <u>\$ 1,595,454</u> | <u>\$ 1,819,107</u> | <u>(15,775,115)</u> |
| IAH Public Facility Corporation | | | | |
| Operating Expenses | \$ 3,273,052 | \$ - | \$ - | - |
| Interest and fiscal agent fees on on long-term debt | 1,934,028 | - | - | - |
| Total Component Unit | <u>\$ 5,207,080</u> | <u>\$ -</u> | <u>\$ -</u> | <u>-</u> |

General Revenues:

| | |
|-------------------------------|-------------------|
| Property taxes | 11,989,686 |
| Sales taxes | 1,736,997 |
| Other taxes | 1,137,982 |
| Fines and forfeitures | 927,082 |
| License and permits | 202,912 |
| Investment income | 338,495 |
| Sale of capital assets | 415,906 |
| Other revenues | 1,841,763 |
| Total General Revenues | <u>18,590,823</u> |

Change in Net Assets 2,815,708

Beginning net assets 16,353,026**Ending Net Assets** \$ 19,168,734

See Notes to Financial Statements.

| <u>Component Unit</u> |
|------------------------------|
| \$ - |
| - |
| - |
| - |
| - |
| - |
| - |
| - |
| - |
| - |
| (3,273,052) |
| (1,934,028) |
| <u>(5,207,080)</u> |
| - |
| - |
| - |
| - |
| - |
| 260,555 |
| - |
| 3,324,855 |
| <u>3,585,410</u> |
| (1,621,670) |
| (1,235,623) |
| <u><u>\$ (2,857,293)</u></u> |

POLK COUNTY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2006

| | General | Debt Service | Road and Bridge | Nonmajor Governmental Funds |
|---|---------------------|---------------------|---------------------|-----------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 3,383,953 | \$ 970,191 | \$ 46,911 | \$ 1,932,379 |
| Cash with fiscal agent | 765,708 | - | 323,432 | - |
| Receivables (net of allowance for uncollectible) | 1,142,667 | 223,946 | 194,645 | 119,335 |
| Due from other funds | 3,402 | - | 1,041,486 | 58,987 |
| Due from other units | 183,645 | - | - | - |
| Total Assets | <u>\$ 5,479,375</u> | <u>\$ 1,194,137</u> | <u>\$ 1,606,474</u> | <u>\$ 2,110,701</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued liabilities | \$ 788,391 | \$ - | \$ 594,673 | \$ 297,863 |
| Due to other funds | 1,007,335 | 34,586 | - | 61,954 |
| Due to other units | - | - | - | 10,615 |
| Deferred revenue | 708,557 | 223,946 | 157,237 | 294,500 |
| Total Liabilities | <u>2,504,283</u> | <u>258,532</u> | <u>751,910</u> | <u>664,932</u> |
| Fund Balances: | | | | |
| Reserved for: | | | | |
| Debt service | - | 935,605 | - | - |
| Endowments/trusts | - | - | - | 379,891 |
| Designated for special revenue funds | - | - | - | 1,065,878 |
| Unreserved and undesignated | 2,975,092 | - | 854,564 | - |
| Total Fund Balances | <u>2,975,092</u> | <u>935,605</u> | <u>854,564</u> | <u>1,445,769</u> |
| Total Liabilities and Fund Balances | <u>\$ 5,479,375</u> | <u>\$ 1,194,137</u> | <u>\$ 1,606,474</u> | <u>\$ 2,110,701</u> |

Adjustments for the Statement of Net Assets:

Capital assets used in governmental activities are not current financial resources and therefore not reported in the governmental funds.

Nondepreciable capital assets

Depreciable capital assets

Accumulated depreciation

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.

Deferred revenue

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Bonds, notes, warrants payable, and capital leases

Landfill closure

Deferred charges

Other liabilities

Accrued interest payable

Net Assets of Governmental Activities

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 6,333,434
 1,089,140

 1,680,593
 1,103,875
 183,645
\$ 10,390,687

\$ 1,680,927
 1,103,875
 10,615
1,384,240
4,179,657

935,605
 379,891
 1,065,878
3,829,656
 6,211,030

844,352
 105,850,489
 (87,373,779)

1,384,240

(6,278,186)
 (1,295,519)
 84,688
 (240,894)
 (17,687)
\$ 19,168,734

POLK COUNTY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2006

| | General | Debt Service | Road and Bridge | Nonmajor Governmental Funds |
|--|---------------------|-------------------|--------------------|-----------------------------------|
| REVENUES | | | | |
| Property taxes | \$ 7,098,455 | \$ 2,373,784 | \$ 2,236,757 | \$ - |
| Sales taxes | 1,736,997 | - | - | - |
| Other taxes | 26,005 | - | 1,083,125 | 28,852 |
| Fines and forfeitures | 656,511 | - | 119,207 | 151,364 |
| Charges for services | 1,231,611 | - | - | 363,843 |
| Intergovernmental revenue | 641,367 | - | - | 1,177,740 |
| Licenses and permits | 202,912 | - | - | - |
| Investment income | 191,540 | 62,796 | 33,207 | 50,952 |
| Other revenue | 1,443,050 | - | 229,461 | 169,252 |
| Total Revenues | <u>13,228,448</u> | <u>2,436,580</u> | <u>3,701,757</u> | <u>1,942,003</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 4,179,991 | - | - | 670,518 |
| Administration of justice | 7,190,512 | - | - | 121,630 |
| Roads and bridges | - | - | 4,875,002 | 10,419 |
| Health and human services | 599,772 | - | - | 277,566 |
| Tax administration | 802,646 | - | - | - |
| Debt service: | | | | |
| Principal | - | 2,097,237 | 351,139 | - |
| Interest and fiscal charges | 30,860 | 184,296 | 13,974 | - |
| Total Expenditures | <u>12,803,781</u> | <u>2,281,533</u> | <u>5,240,115</u> | <u>1,080,133</u> |
| Excess (Deficiency) of Revenues over Expenditures | 424,667 | 155,047 | (1,538,358) | 861,870 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Debt proceeds | 796,568 | - | 917,929 | - |
| Sale of capital assets | - | - | 415,906 | - |
| Transfers in | 432,972 | - | 1,583,025 | 120,688 |
| Transfers (out) | (1,382,020) | - | (700) | (753,965) |
| Total Other Financing Sources (Uses) | <u>(152,480)</u> | <u>-</u> | <u>2,916,160</u> | <u>(633,277)</u> |
| Net Change in Fund Balances | 272,187 | 155,047 | 1,377,802 | 228,593 |
| Beginning fund balances | <u>2,702,905</u> | <u>780,558</u> | <u>(523,238)</u> | <u>1,217,176</u> |
| Ending Fund Balances | <u>\$ 2,975,092</u> | <u>\$ 935,605</u> | <u>\$ 854,564</u> | <u>\$ 1,445,769</u> |

See Notes to Financial Statements.

Total
Governmental
Funds

\$ 11,708,996
 1,736,997
 1,137,982
 927,082
 1,595,454
 1,819,107
 202,912
 338,495
 1,841,763

 21,308,788

4,850,509
 7,312,142
 4,885,421
 877,338
 802,646

2,448,376
 229,130

21,405,562

(96,774)

1,714,497
 415,906
 2,136,685
 (2,136,685)

2,130,403

2,033,629

4,177,401

\$ 6,211,030

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POLK COUNTY, TEXAS**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

September 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|---|---------------------|
| Net changes in fund balances - total government funds | \$ 2,033,629 |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p> | |
| Capital outlay | 1,190,797 |
| Depreciation expense | (1,184,631) |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> | |
| Deferred revenue | 280,690 |
| <p>Bonds and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.</p> | |
| Principal payment | 2,448,376 |
| Note proceeds | (1,120,000) |
| Capital lease proceeds | (594,497) |
| Landfill closure and post increase | (101,382) |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This adjustment reflects the net change in interest payable on the accrual basis of accounting and the net change in compensated absences.</p> | |
| Accrued interest payable | 22,313 |
| Deferred charges | 4,688 |
| Other liabilities | (164,275) |
| Change in Net Assets of Governmental Activities | \$ 2,815,708 |

See Notes to Financial Statements.

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POLK COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
September 30, 2006

| | <u>Total Agency Funds</u> |
|---------------------------|-------------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 3,670,537 |
| Total Assets | <u>\$ 3,670,537</u> |
| LIABILITIES | |
| Due to other units | \$ 3,670,537 |
| Total Liabilities | <u>\$ 3,670,537</u> |

See Notes to Financial Statements.

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POLK COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Polk County, Texas, is an independent government entity created in 1846 from Liberty County by an act of the Texas Legislature. The County is governed by Commissioners Court, composed of four County Commissioners and the County Judge, all of which are elected officials.

The County's financial statements include the accounts of all County operations. The County provides a vast array of services including administration of justice, health and human services, public improvements, and general administration.

Prior to 1994 the Juvenile Probation and Adult Probation operations of the 258th and 411th Judicial District were included in the reporting entity. Additional information regarding these related organizations is presented in footnote V. F.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the County's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the County is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the County's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Unit

IAH Public Facility Corporation

IAH Public Facility Corporation (the "Corporation") has been included in the reporting entity as a discretely presented component unit. The Corporation was created by the County in 2004 under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and development activities on behalf of the County. The Board of Directors is appointed by and serves at the discretion of the Commissioners Court of the County. Commissioners Court approval is required for annual budgets and bonded debt issuance. The operations of the Corporation are presented as a governmental fund type. Separate financial statements of the Corporation may be obtained from the County Auditor's office. Additional information regarding this component unit is presented in footnote V. G.

POLK COUNTY, TEXAS*NOTES TO FINANCIAL STATEMENTS, Continued*

September 30, 2006

B. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the County’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the County’s activities.
- A change in the fund financial statements to focus on the major funds.

Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets and a statement of activities. It requires the classification of net assets be divided into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt**—This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted**—This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted**—This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

C. Government-wide and Fund Accounting

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information about the County as a whole, excluding fiduciary activities. These statements include all activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which the County has none.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental and agency funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

In the fund financial statements, the accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, administration of justice, health and human services, and tax administration.

Special Revenue Funds

The special revenue funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes (not including permanent funds or major capital projects).

The following special revenue fund is considered a major fund for reporting purposes:

Road & Bridge Fund - This fund is used to account for revenues of property taxes levied and vehicle registration fees for the road & bridge fund. Uses of funds are restricted for the maintenance of roads, bridges, and the operations of related facilities. All precinct operations as well as permanent road monies are accounted for in this fund.

The remaining special revenue funds are considered nonmajor funds for reporting purposes.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the County. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Permanent Funds

Permanent funds are governmental funds which are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

The County has the following permanent fund which is considered a nonmajor fund for reporting purposes:

Permanent School Fund - This fund was established from proceeds received from the sale of lands granted by the State of Texas for educational purposes. Earnings from this fund, other than oil royalties, accrue directly to the available school fund. Oil royalties are deposited to the permanent school fund, which increases the principal.

Fiduciary Funds

The fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The County has the following types of fiduciary funds:

Agency Funds

The agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the County holds for others in an agency capacity. The County's agency funds include the following:

County Clerk Probate Trust Fund - Registry funds that are the custodies of the County Clerk until a court order determines the disposition of such funds are accounted for in this fund.

District Clerk Trust Fund - Registry funds that are the custodies of the District Clerk until a court order determines the disposition of such funds are accounted for in this fund.

Tax Collector's Fund - Tax collections are deposited intact in the Tax Collector's agency accounts pending distribution.

D. Measurement Focus and Basis of Accounting

The government-wide statements of net assets and statements of activities are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these activities are either included on the balance sheet or on the statement of fiduciary net assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The County utilizes the modified accrual basis of accounting in the governmental fund types. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues

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available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes and interest associated with the current period are all susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the County and are recognized as revenue at that time. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

The statements of net assets and statements of activities are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

Agency funds are unlike other types of funds, reporting only assets and liabilities. Agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

E. Assets, Liabilities, and Net Assets or Fund 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.

The County's investments are accounted for in accordance with GASB Statement No. 31, which establishes accounting and reporting standards for all of the County's investments. In accordance with Statement No. 31, the County reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The Local Government Code of Texas authorizes the County to invest in:

- (1) obligations of the United States or its agencies and instrumentalities;
- (2) direct obligations of the State of Texas or its agencies and instrumentalities;
- (3) collateral mortgage obligations although significantly limited;

- (4) other obligations, the principal and interest on which are unconditionally guaranteed or insured or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities;
- (5) obligations of state, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm of not less than A or its equivalent;
- (6) certificates of deposit issued by state and national banks or savings and loan domiciled in Texas which are:
 - (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or
 - (b) secured by obligations of paragraphs (1) to (5) above and that have a market value of not less than the principal amount of the certificates but excluding certain mortgage backed securities;
 - (c) fully collateralized repurchase agreements, banker's acceptances, commercial paper, mutual funds, guaranteed investment contracts and investment pools all of which are required to meet certain restrictive criteria.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for uncollectibles.

Property Taxes

General property taxes are recorded as revenue when levied for the current year and due, payable and collected in the current year. Uncollected amounts at year end are reported as deferred revenue. Delinquent property taxes collected within sixty days subsequent to year end were not considered material.

The property tax calendar dates are:

Levy date and Due date – October 1

Collection dates – October 1 through January 31

Lien date – February 1

The County bills and collects its own taxes and those for certain government entities within the County. Collections of the property taxes and subsequent remittances to the proper entities are accounted for in the tax assessor's agency fund. Tax collections deposited for the County are distributed on a periodic basis to the general, road and bridge, and debt service funds of the County. This distribution is based

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upon the tax rate established for each fund by order of the Commissioners Court for the tax year for which the collections are made.

The appraisal of property within the County is the responsibility of the countywide appraisal district, which is required under the Property Tax Code to assess all property within the appraisal district on the basis of 100 percent of its appraised value, and is prohibited from applying any assessment ratios. The appraisal district must review the value of the property within the County every three years unless the County, at its own expense, requires more frequent reviews. The County may challenge the appraised values through various appeals and, if necessary, legal action. Under this legislation, the County sets tax rates on County property.

3. Inventories and Prepaid Items

The costs of governmental fund-type inventories are recorded as expenditures when the related liability is incurred, i.e., the purchase method. In addition, certain payments to vendors reflect costs applicable to future accounting periods and are also recorded as expenditures when purchased.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental type activities column in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years.

| <u>Asset Description</u> | <u>Estimated Useful Life</u> |
|-----------------------------------|------------------------------|
| Infrastructure | 20 to 50 years |
| Buildings | 10-50 |
| Improvements other than buildings | 5-30 |
| Equipment | 3-30 |

The costs of a significant portion of capital assets have been estimated based on management's estimated historical cost.

5. Compensated Employee Absences

It is the County's policy to permit employees to accumulate earned but unused vacation, compensatory time, and sick pay benefits. Additionally, Sheriff Department employees are allowed to accumulate holidays. No liability is reported for unpaid accumulated sick leave since it does not vest. Vacation, compensatory time, and holiday pay that is expected to be liquidated with expendable available financial

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resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave and compensatory time that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payment of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments and compensated absences paid from governmental funds are reported as liabilities in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment, with an appropriate reduction of principal recorded in the government-wide financial statements.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of assets.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities states that “the issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The original budget is adopted by the Commissioners Court prior to the beginning of the year. The legal level of control is the department level in the general fund and road and bridge fund and fund level for all other funds. Management may not amend the budget without the approval of Commissioners Court.

Appropriations lapse at the end of the year except in the road and bridge – special revenue fund. Budgets are adopted for all funds except the grant and historical – special revenue funds, and all fiduciary funds. Budgets are adopted on a GAAP basis for all budget funds except for the capital projects fund, which adopts a project length budget. Several supplemental budget appropriations were made for the year ended.

A. Deficit Fund Equity

The special revenue funds below had deficit fund balances at September 30, 2006, as indicated.

| | |
|------------------------------|------------|
| County Records Management | \$ (2,439) |
| District Attorney Collection | (24,829) |
| Payroll Clearing | (1,238) |

B. Excess of Expenditures over Appropriations

For the year ended September 30, 2006, expenditures exceeded appropriations in the general fund:

| | |
|--|------------|
| General Government | |
| County Judge | \$ (3,982) |
| Data Processing | (253,288) |
| General Operating | (47,096) |
| Administration of Justice | |
| County Court-at-Law | (8,895) |
| Justice of the Peace Pct. 3 | (1,083) |
| Sheriff | (5,240) |
| Health and Human Services | |
| Library | (649) |
| Social Services | (4,233) |
| Environmental | (15,295) |
| Debt Service – Interest and Fiscal Charges | (30,860) |
| Transfers (out) | (99,000) |

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For the year ended September 30, 2006, expenditures exceeded appropriations in the debt service fund by \$5,163.

For the year ended September 30, 2006, expenditures exceeded appropriations in the road and bridge fund:

| | |
|--|--------------|
| Pct. 1 | \$ (74,536)* |
| Pct. 3 | (222,700)* |
| Debt Service – principal | (351,139) |
| Debt Service – Interest and fiscal charges | (13,974) |

*These items were offset by debt proceeds received during the year.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2006, the County had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Weighted Average Maturity (Years)</u> |
|------------------------|-------------------|--|
| State Pools (TexPool) | \$ 5,867,574 | 0.00 |

Interest rate risk. In accordance with its investment policy, the County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less.

Credit risk. State law and the County’s investment policy limits investments to obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent. Further, commercial paper must be rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies. As of September 30, 2006, the County’s investments in TexPool was rated AAAM by Standard & Poor’s. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuer U.S. agency.

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 to it. The County’s investment policy requires funds on deposit at the depository bank to be collateralized by securities and FDIC insurance. As of September 30, 2006, market values of pledged securities and FDIC insurance exceeded bank balances.

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poors rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as to the office of the Comptroller of Public Accounts for review.

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 September 30, 2006

B. Receivables

The following comprise receivable balances at year end:

| | General | Debt Service | Road and Bridge | Nonmajor Funds | Total |
|----------------|---------------------|-------------------|--------------------|-------------------|---------------------|
| Property taxes | \$ 708,557 | \$ 223,946 | \$ 157,237 | \$ - | \$ 1,089,740 |
| Other taxes | 402,506 | - | - | - | 402,506 |
| Other | 31,604 | - | 37,408 | 119,335 | 188,347 |
| | <u>\$ 1,142,667</u> | <u>\$ 223,946</u> | <u>\$ 194,645</u> | <u>\$ 119,335</u> | <u>\$ 1,680,593</u> |

C. Capital Assets

A summary of changes in capital assets for the year ended September 30, 2006, follows:

| | Beginning Balance | Increases | (Decreases) | Ending Balance |
|---|----------------------|--------------------|--|----------------------|
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 844,352 | \$ - | \$ - | \$ 844,352 |
| Total capital assets not being depreciated | <u>844,352</u> | <u>-</u> | <u>-</u> | <u>844,352</u> |
| Other capital assets: | | | | |
| Infrastructure | 90,218,937 | - | - | 90,218,937 |
| Buildings | 4,296,643 | - | - | 4,296,643 |
| Improvements | 1,403,387 | - | - | 1,403,387 |
| Equipment | 9,596,238 | 1,190,797 | (855,513) | 9,931,522 |
| Total other capital assets | <u>105,515,205</u> | <u>1,190,797</u> | <u>(855,513)</u> | <u>105,850,489</u> |
| Less accumulated depreciation for: | | | | |
| Infrastructure | (80,278,831) | (220,181) | - | (80,499,012) |
| Buildings | (1,108,258) | (74,503) | - | (1,182,761) |
| Improvements | (622,477) | (70,752) | - | (693,229) |
| Equipment | (5,035,095) | (819,195) | 855,513 | (4,998,777) |
| Total accumulated depreciation | <u>(87,044,661)</u> | <u>(1,184,631)</u> | <u>855,513</u> | <u>(87,373,779)</u> |
| Other capital assets, net | <u>18,470,544</u> | <u>6,166</u> | <u>-</u> | <u>18,476,710</u> |
| Totals | <u>\$ 19,314,896</u> | <u>\$ 6,166</u> | <u>\$ -</u> | <u>19,321,062</u> |
| | | | Less associated debt | <u>(6,219,279)</u> |
| | | | Invested in Capital Assets, Net of Related Debt | <u>\$ 13,101,783</u> |

Depreciation was charged to governmental functions as follows:

| | |
|---|---------------------|
| General government | \$ 207,387 |
| Administration of justice | 263,365 |
| Roads and bridges | 603,234 |
| Health and human services | 105,571 |
| Tax administration | 5,074 |
| Total Governmental Activities Depreciation Expense | <u>\$ 1,184,631</u> |

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D. Long-Term Debt

The following is a summary of changes in the County's total governmental long-term liabilities for the year ended September 30, 2006. In general, the County uses the general and debt service funds to liquidate governmental long-term liabilities.

| | Beginning Balance | Additions | Reductions | Ending Balance | Due within One Year |
|--|----------------------|---------------------|-----------------------|----------------------|------------------------|
| Governmental Activities: | | | | | |
| Bonds, notes payable, and capital leases: | | | | | |
| General obligation bonds | \$ 270,000 | \$ - | \$ (270,000) | \$ - | \$ - |
| Certificates of obligation | 1,010,000 | - | (265,000) | 745,000 * | 260,000 |
| Tax notes | 4,850,000 | 1,120,000 | (1,195,000) | 4,775,000 * | 1,905,000 |
| Obligations under capital leases | 351,139 | 594,497 | (351,139) | 594,497 * | 594,497 |
| Time warrants | 530,926 | - | (367,237) | 163,689 * | 115,317 |
| Landfill closure and post closure care costs | 1,194,137 | 101,382 | - | 1,295,519 | - |
| | <u>8,206,202</u> | <u>1,815,879</u> | <u>(2,448,376)</u> | <u>7,573,705</u> | <u>2,874,814</u> |
| Other liabilities: | | | | | |
| Premium | 34,459 | - | (8,678) | 25,781 * | - |
| Compensated absences | 202,594 | 12,519 | - | 215,113 | - |
| Total Governmental Activities | <u>\$ 8,443,255</u> | <u>\$ 1,828,398</u> | <u>\$ (2,457,054)</u> | <u>\$ 7,814,599</u> | <u>\$ 2,874,814</u> |
| Deferred charges | <u>\$ (80,000)</u> | <u>\$ (30,860)</u> | <u>\$ 26,172</u> | <u>\$ (84,688) *</u> | <u>\$ -</u> |
| Long-term liabilities due in greater than one year | | | | <u>\$ 4,939,785</u> | |
| * Debt associated with capital assets | | | | <u>\$ 6,219,279</u> | |

See footnote V. C. for additional information regarding Landfill Closure and Post Closure Care Costs. The County is not obligated in any manner for special assessment debt.

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

A summary of the County's debt service requirements, including interest, is as follows:

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| | Percentage Interest Rate | Original Amount | Balance |
|-----------------------------------|-----------------------------|--------------------|---------------------|
| CAPITAL LEASES | | | |
| First Continental Leasing | 3.75-4.15 | \$ 594,497 | \$ 594,497 |
| TIME WARRANTS | | | |
| Series 2002 | 4.50 | N/A | 89,690 |
| Series 2003 | 4.00-4.50 | N/A | 73,999 |
| | | | <u>163,689</u> |
| TAX NOTES | | | |
| Series 2003 | N/A | 3,060,000 | 2,325,000 |
| Series 2004 | 2.5-3.5 | 805,000 | 375,000 |
| Series 2005 | N/A | 1,255,000 | 955,000 |
| Series 2006A | 3.75 | 560,000 | 560,000 |
| Series 2006B | 3.75 | 560,000 | 560,000 |
| | | | <u>4,775,000</u> |
| CERTIFICATES OF OBLIGATION | | | |
| Refunding Series 2004 | 2.5-3.5 | 1,275,000 | 745,000 |
| TOTAL | | | <u>\$ 6,278,186</u> |

Long-term debt obligations of the County as of September 30, 2006, are as follows:

| Fiscal Year | Governmental Activities | | Total |
|--------------|-------------------------|-------------------|---------------------|
| | Principal | Interest | |
| 2007 | \$ 2,874,814 | \$ 179,836 | \$ 3,054,650 |
| 2008 | 2,192,686 | 90,863 | 2,283,549 |
| 2009 | 725,686 | 42,918 | 768,604 |
| 2010 | 330,000 | 17,313 | 347,313 |
| 2011 | 155,000 | 5,813 | 160,813 |
| Total | <u>\$ 6,278,186</u> | <u>\$ 336,743</u> | <u>\$ 6,614,929</u> |

Machinery and equipment acquired under current capital lease obligations was a total of \$594,497.

E. Interfund Transactions

Operating transfers between the primary government funds during the 2006 year were as follows:

| Transfer Out | Transfer In | Amounts |
|--------------------------|--------------------------|---------------------|
| Major funds: | | |
| General Fund | Road & Bridge Fund | \$ 1,283,020 |
| General Fund | Other governmental funds | 99,000 |
| Road & Bridge Fund | General Fund | 700 |
| Nonmajor funds: | | |
| Other governmental funds | General Fund | 432,272 |
| Other governmental funds | Road & Bridge Fund | 300,005 |
| Other governmental funds | Other governmental funds | 21,688 |
| | | <u>\$ 2,136,685</u> |

September 30, 2006

The composition of interfund balances as of September 30, 2006, is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amounts</u> |
|--------------------------|--------------------------|---------------------|
| Major funds: | | |
| General Fund | Other governmental funds | \$ 3,402 |
| Road and Bridge Fund | General Fund | 1,006,900 |
| Nonmajor funds: | | |
| Other governmental funds | General Fund | 435 |
| Other governmental funds | Other governmental funds | 58,552 |
| | Total | <u>\$ 1,069,289</u> |

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

F. Fund Equity

The County records fund balance reserves on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

The following is a list of fund balance reserved or designated recognized by the County:

| | |
|---------------------------------|---------------------|
| Debt Service Fund | |
| Reserved for debt service | \$ 246.801 |
| Reserved for landfill | 688.804 |
| Total reserved | <u>\$ 935.605</u> |
| Special Revenue Funds | |
| Designated for special projects | <u>\$ 1,065.878</u> |
| Permanent Fund | |
| Reserved for endowments/trusts | <u>\$ 379.891</u> |

V. 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, and natural disasters for which the County carries commercial insurance. In addition, the County participates along with 338 other entities in the Texas Association of Counties Workers' Compensation Self-Insurance Fund. The Texas Association of Counties created this pool in 1974 to insure the County for worker compensation related claims. The County also provides its employees benefits, including medical and life insurance, which the County obtains through the Texas Association of Counties Insurance Trust Fund. This pool purchases commercial insurance at group rates for participants in the pool. The County has no additional risk or responsibility to either of the pools in which it participates, outside of payment of insurance premiums. The County has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three years.

The County reports liabilities when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not

reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency, and amount of payout and other economic and social factors. The liability for claims and judgments is reported in the government-wide financial statements because it is not expected to be liquidated with expendable available financial resources. However, none are reported at September 30, 2006.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the County's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the County.

C. Landfill Closure and Post Closure Care Cost

On December 1, 2001 the County entered into an agreement with a private contractor to operate the County's landfill and solid waste collection activities. The agreement also provides for the contractor to pay for a portion of the closure and post closure care cost for capacity utilized under their management. The contractor is required to annually obtain a performance bond to provide financial assurance to the County for such costs. Upon the termination of the agreement the contractor is relieved of any financial obligation for closure and post closure care costs. Accordingly, the County is liable or contingently liable for the entire closure and post closure care costs.

Current state regulations and the U. S. Environmental Protection Agency (EPA) require the County to place a final cover on its landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the County is required to recognize a portion of the landfill closure and post closure care liability each year. Recognition of the liability is based on the landfill capacity used to date. The operations of the landfill are recorded in the environmental service fund, one of the special revenue funds used by the County.

The County revised its estimated closure and post closure care costs in an application for a permit amendment submitted to the T.C.E.Q. in 2004 to modify the existing permit for expansion of total permit capacity. The County's estimate of total cost of closure and post closure care for thirty years, under permits and regulations currently in effect, is \$8,787,094.

The \$1,295,519 reported as landfill closure and post closure care liability at September 30, 2006 is based on the use of 14.74 percent of the estimated capacity of the landfill. The estimated net decrease in capacity after the permit modification during the year was 1.44 percent related to new estimates of airspace capacity using digital terrain modeling techniques. The accrued liability increased by \$114,013. The County will recognize the remaining estimated cost of closure and post closure care of \$7,478,944 as the remaining estimated capacity is filled. Based on the current rate of materials deposited, the life of the landfill is 48.9 years.

The estimated costs are based on what it would cost to perform all closure and post closure care in 2006 and do not include provisions for inflation. Based on current projections, the present landfill site will be closed in the year 2055. Monitoring would begin on this date and would continue for the next thirty years. The County expects that future inflation costs will be paid from interest earnings on accumulated landfill earnings. However, if interest earnings are inadequate or additional post closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example) these costs may need to be covered by charges to future landfill users or from future tax revenue.

The County is not currently required to make contributions to a trust fund to finance closure and post closure costs. The County has designated \$688,804 in its debt service fund for post closure costs. The County intends to fund the deficiency in amounts currently available and the total estimated costs with contractor franchise fees.

D. Deferred Compensation Plan

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time County employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

E. Employee Retirement System

Plan Description

The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 559 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 Commissioner's Court within the options available in Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contribution to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the Commissioners Court 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.

POLK COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2006

Funding Policy

The County has elected the annually determined contribution rate (ACDR) 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 County contributed using the actuarially determined rate of 6.99% for the months of the accounting year in 2005 and 7.07% for the months of the accounting year in 2006.

The Commissioners Court adopted the rate of 7% as the contribution rate payable by the employee members for calendar year 2006. The Commissioners Court may change the employee contribution rate and the employer contribution rate within the options available in the TCDRS Act.

Annual Pension Costs

The County's schedule of funding information can be found in the Required Supplemental Information section of this report.

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, 2003 and December 31, 2004, the basis for determining the contribution rates for plan years 2005 and 2006.

| | |
|-------------------------------|---|
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level Percent of Payroll |
| Remaining Amortization Period | 30 Years - Open Period |
| Asset Valuation Method | Long-term Appreciation with Adjustment |
| Investment Rate of Return | 8% |
| Projected Salary Increases | 5.5% |
| Includes Inflation at | 3.5% |
| Cost of Living Adjustments | None |

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|----------------------------|-------------|-------------|-------------|
| Annual Req. Contrib. (ARC) | \$ 366,062 | \$ 358,961 | \$ 332,253 |
| Contributions Made | 366,062 | 358,961 | 332,253 |
| NPO at the End of Period | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

F. Jointly Governed and Related Organizations

The Adult Probation and Juvenile Probation divisions are operated as a combined department doing business as the 258th and 411th Community Supervision and Correction Department (C.S.C.D.). A different board governs each division, although the District Judges preside on both boards. The C.S.C.D. services the counties of Polk, San Jacinto, and Trinity. Each county is required to provide office space for the operations of the Department. Substantially all of the Department's funding is provided by the State. The participating counties provide approximately 10 percent of the Juvenile Probation Division's budget.

POLK COUNTY, TEXAS*NOTES TO FINANCIAL STATEMENTS, Continued*

September 30, 2006

The Juvenile Probation Board consists of the Polk County Judge and the County Court-at-Law Judge from Polk County, along with three District Judges and County Judges from San Jacinto and Trinity County. The Adult Probation Department's board consists of three District Judges and the County Court-at-Law Judge from Polk County. The Department and its divisions are considered to be legally separate from Polk County. In addition, Polk County is not able to appoint a voting majority to either of the division's boards or otherwise able to impose its will. The divisions are not fiscally dependent on Polk County since the County's approvals are ministerial in nature. While the Department's divisions are closely affiliated with Polk County, they are not considered to be part of the reporting entity, i.e., component units of Polk County.

G. Component Unit Disclosures

On August 27, 2004 Polk County sponsored the creation of IAH Public Facility Corporation (the "Corporation") under the Public Facility Corporation Act Chapter 303 (the "Act") of the Texas Local Government Code. The Corporation is legally separate from the County, but the County appoints all of the board members, thereby appointing a voting majority of the Corporation's Board of Directors, and has the ability to remove those board members at will. Currently, a voting majority of the Corporation's Board of Directors is the same as that of Commissioners Court. The Corporation provides housing for County prisoners.

1. Financing Agreements and Practical Considerations

The Corporation was formed for the initial purpose of building a detention facility (the "Facility"). The project was financed with the issuance of the Project Revenue Bonds Series 2004 (the "2004 bond issue"). The bonds are secured by the mortgage on the Facility and the Facility's revenues and are not secured by the full faith and credit of the County or tax revenues. In connection with this issuance on November 1, 2004 the Corporation and/or the County entered into a number of legal agreements for the financing of the project, many of which are designed to provide additional security to the bond holders.

The Corporation entered into the Trust Indenture with U.S. Bank National Associates (the "Trustee") to serve as the Trustee related to the 2004 bond issue. The Trust Indenture is primarily for the benefit of the owners of the bonds and calls for the creation of a number of funds and accounts, including the Construction Fund, Bond Fund, Reserve Fund, Rebate Fund, and Project Fund. In addition, the Trust Indenture specifies the amounts of pledged revenues to be placed into each of the funds established by the Trustee and the order of priority of the disposition of the pledged revenues.

The Corporation entered into the Lease Agreement (the "Lease") with the option to purchase with Polk County, Texas (the "County") whereas the Corporation purchased land and constructed and equipped the Facility which is being leased to the County. The term of the agreement is effectively concurrent with the related bonds. The County is only obligated to make rental payments to the extent that revenues from the project are available. Under the Lease the County pledges all revenues to the Trust fund established under the Trust Indenture.

The County entered into the Facility Operation and Management Agreement with Civigenics-Texas, Inc. (the "Operator") for three years, containing options for both early cancellation and renewal. The Operator's compensation is payable solely from and to the extent monies are available in the operating account, as established in the Trust account in accordance with the Trust Indenture. The Operator is paid a fixed fee per prisoner of \$34.75 from the available funds in the Trust's operating account. The Operator pays the County an administrative fee of \$2.75 per prisoner from the Operator's fee and guarantees the County a minimum aggregate administrative fee of \$100,000 annually.

POLK COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2006

In practice the Operator bills the federal agencies and other local governments for prisoners at the Facility, and all payments are made directly to the Polk County Treasurer (the "Treasurer"). The Treasurer wire transfers all payments received directly to the Trustee. The Trustee allocates the funds received among the respective accounts as required by the Indenture and Lease Agreement and disburses the funds directly to the Operator for the amount due. The Operator then disburses the administrative fee to the County. No funds change hands between the Corporation and the County related to lease payments or debt service payments. Although the County remits the gross payments received from the federal agencies and other local governments for prisoners held at the Facility the only actual revenue received by the County is disbursed by the Operator for the County's administrative fee.

The form of the legal agreements is complex to ensure compliance with the local government code and provide security for the bond holders. In substance, to the extent revenues are available they will first be used to repay the bonds, then the operator will be paid, and last the County will be paid an administrative fee. If revenue is not available there is no legal obligation for any of the parties to be paid. In that instance the bond holders' only security interest will be with any remaining trust funds and mortgage of the property. Neither the Corporation nor the County has any obligation in this instance.

This financing transaction is being accounted for as "substance over form" as the practical consideration in accounting for the transaction override the legal form of the agreements. The Corporation is responsible for the repayment of the debt based on the funds that are available and all available funds are recorded in the Trust. Accordingly, all monies held in the Trust accounts are considered assets of the Corporation and restrictions shown where applicable. Similarly all monies received by the Trust are considered revenues of the Corporation. The Corporation also records a receivable in connection with the billings to federal agencies and the local government which are unpaid. All payments made by the Trust are considered expenses of the Corporation. In addition, the Corporation accrues the amount due to the respective parties based on the accounts receivable. To the extent payment is not received, no obligation is due. Neither the County nor the Corporation accounts for the lease agreement as a lease transaction. The County only reports the administrative fee received in connection with these agreements.

2. Long-Term Debt

On November 5, 2004, the Corporation issued Project Revenue Bonds, Series 2004 in the amount of \$24,215,000. Long-term debt obligations of the Corporation as of September 30, 2006, are as follows:

POLK COUNTY, TEXAS*NOTES TO FINANCIAL STATEMENTS, Continued*

September 30, 2006

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|----------------------|----------------------|----------------------|
| 2007 | \$ 525,000 | \$ 1,818,550 | \$ 2,343,550 |
| 2008 | 560,000 | 1,784,425 | 2,344,425 |
| 2009 | 595,000 | 1,748,025 | 2,343,025 |
| 2010 | 635,000 | 1,709,350 | 2,344,350 |
| 2011 | 675,000 | 1,668,075 | 2,343,075 |
| 2012 | 725,000 | 1,620,825 | 2,345,825 |
| 2013 | 775,000 | 1,570,075 | 2,345,075 |
| 2014 | 830,000 | 1,515,825 | 2,345,825 |
| 2015 | 885,000 | 1,457,725 | 2,342,725 |
| 2016 | 950,000 | 1,395,775 | 2,345,775 |
| 2017 | 1,020,000 | 1,322,150 | 2,342,150 |
| 2018 | 1,100,000 | 1,243,100 | 2,343,100 |
| 2019 | 1,185,000 | 1,157,850 | 2,342,850 |
| 2020 | 1,280,000 | 1,066,012 | 2,346,012 |
| 2021 | 1,380,000 | 966,812 | 2,346,812 |
| 2022 | 1,485,000 | 859,863 | 2,344,863 |
| 2023 | 1,600,000 | 744,775 | 2,344,775 |
| 2024 | 1,725,000 | 620,775 | 2,345,775 |
| 2025 | 1,860,000 | 487,088 | 2,347,088 |
| 2026 | 4,425,000 | 342,938 | 4,767,938 |
| Total | <u>\$ 24,215,000</u> | <u>\$ 25,100,013</u> | <u>\$ 49,315,013</u> |

The bonds were issued to finance a project that consists of the acquisition of real property in Polk County and the construction, furnishing, and equipping of a multi-classification secure detention center. Subsequent to year end, the Corporation sold additional bonds for expansion of the detention center. Separate financial statements are available from the County Auditor's Office dated June 29, 2007.

H. Restatement

The County has restated beginning net assets for governmental activities to correct capital assets as a result of an inventory update within the computer system.

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Prior year ending net assets as reported | \$ 9,818,418 |
| Increase capital assets | <u>6,534,608</u> |
| Restated beginning net assets | <u>\$ 16,353,026</u> |

I. Subsequent Event

Subsequent to year end, on April 15, 2007, the County sold \$19 million in Certificates of Obligations, Series 2007 for the expansion of the County jail.

REQUIRED SUPPLEMENTARY INFORMATION

POLK COUNTY, TEXAS

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Page 1 of 2)**
For the Year Ended September 30, 2006

| | 2006 | | | Variance with Final Budget Positive (Negative) |
|-----------------------------------|-------------------|-------------------|-------------------|---|
| | Budgeted Amounts | | Actual Amounts | |
| | Original | Final | | |
| REVENUES | | | | |
| Property taxes | \$ 6,799,286 | \$ 6,799,286 | \$ 7,098,455 | \$ 299,169 |
| Sales taxes | 1,372,500 | 1,372,500 | 1,736,997 | 364,497 |
| Other taxes | - | - | 26,005 | 26,005 |
| Fines and forfeitures | 691,000 | 691,000 | 656,511 | (34,489) |
| Charges for services | 866,725 | 870,780 | 1,231,611 | 360,831 |
| Intergovernmental | 453,811 | 777,986 | 641,367 | (136,619) |
| License and permits | 143,875 | 169,124 | 202,912 | 33,788 |
| Investment income | 95,000 | 95,000 | 191,540 | 96,540 |
| Other revenue | 559,695 | 1,422,472 | 1,443,050 | 20,578 |
| Total Revenues | <u>10,981,892</u> | <u>12,198,148</u> | <u>13,228,448</u> | <u>1,030,300</u> |
| EXPENDITURES | | | | |
| General Government: | | | | |
| County Judge | 157,227 | 163,540 | 167,522 | (3,982) * |
| Commissioners Court | 236,259 | 248,047 | 137,784 | 110,263 |
| County Clerk | 406,120 | 739,304 | 715,022 | 24,282 |
| County Treasurer | 104,928 | 105,803 | 97,645 | 8,158 |
| County Auditor | 232,969 | 234,277 | 221,912 | 12,365 |
| Data Processing | 382,595 | 387,549 | 640,837 | (253,288) * |
| Personnel | 93,395 | 100,290 | 97,471 | 2,819 |
| Maintenance | 137,704 | 142,590 | 132,196 | 10,394 |
| Engineering | 294,434 | 499,638 | 491,838 | 7,800 |
| Fire Department Support | 134,036 | 139,515 | 109,994 | 29,521 |
| Emergency Management | 231,338 | 344,774 | 319,761 | 25,013 |
| General Operating | 802,800 | 817,355 | 864,451 | (47,096) * |
| Other Unclassified | 193,829 | 193,829 | 183,558 | 10,271 |
| | <u>3,407,634</u> | <u>4,116,511</u> | <u>4,179,991</u> | <u>(63,480)</u> |
| Administration of Justice: | | | | |
| Jury | 40,500 | 40,500 | 39,750 | 750 |
| County Court-at-Law | 339,336 | 342,348 | 351,243 | (8,895) * |
| District Clerk | 340,003 | 352,321 | 349,665 | 2,656 |
| District Judges | 717,644 | 717,989 | 603,675 | 114,314 |
| Justice of the Peace Pct. 1 | 119,306 | 121,349 | 119,755 | 1,594 |
| Justice of the Peace Pct. 2 | 104,252 | 104,658 | 103,561 | 1,097 |
| Justice of the Peace Pct. 3 | 116,566 | 117,253 | 118,336 | (1,083) * |
| Justice of the Peace Pct. 4 | 98,286 | 100,092 | 98,447 | 1,645 |
| District Attorney | 681,409 | 770,935 | 755,619 | 15,316 |
| Sheriff | 2,266,235 | 3,001,396 | 3,006,636 | (5,240) * |
| Jail | 1,336,616 | 1,506,496 | 1,472,315 | 34,181 |
| Constables | 130,703 | 130,703 | 123,675 | 7,028 |
| DPS | 46,868 | 47,898 | 47,835 | 63 |
| | <u>6,337,724</u> | <u>7,353,938</u> | <u>7,190,512</u> | <u>163,426</u> |

POLK COUNTY, TEXAS*GENERAL FUND**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Page 2 of 2)*

For the Year Ended September 30, 2006

| | 2006 | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|-------------------|-----------------------|---------------------|---|
| | Budgeted Amounts | | | |
| | Original | Final | | |
| EXPENDITURES (continued) | | | | |
| Health and Human Services: | | | | |
| Library | \$ 36,460 | \$ 36,868 | \$ 37,517 | \$ (649) * |
| Social Services | 285,049 | 317,933 | 322,166 | (4,233) * |
| Veterans Services | 71,731 | 73,309 | 64,576 | 8,733 |
| County Extension | 97,934 | 99,317 | 89,108 | 10,209 |
| Environmental | 62,658 | 71,110 | 86,405 | (15,295) * |
| | <u>553,832</u> | <u>598,537</u> | <u>599,772</u> | <u>(1,235)</u> |
| Tax Administration: | | | | |
| Appraisal District | 267,548 | 274,671 | 274,670 | 1 |
| Tax Assessor Collector | 544,469 | 551,810 | 527,976 | 23,834 |
| | <u>812,017</u> | <u>826,481</u> | <u>802,646</u> | <u>23,835</u> |
| Debt Service: | | | | |
| Interest and fiscal charges | - | - | 30,860 | (30,860) * |
| Total Expenditures | <u>11,111,207</u> | <u>12,895,467</u> | <u>12,803,781</u> | <u>91,686</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>(129,315)</u> | <u>(697,319)</u> | <u>424,667</u> | <u>1,121,986</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Debt proceeds | - | - | 796,568 | 796,568 |
| Transfers in | 230,410 | 481,913 | 432,972 | (48,941) |
| Transfers (out) | - | (1,283,020) | (1,382,020) | (99,000) * |
| Total Other Financing Sources (Uses) | <u>230,410</u> | <u>(801,107)</u> | <u>(152,480)</u> | <u>648,627</u> |
| Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses) | <u>\$ 101,095</u> | <u>\$ (1,498,426)</u> | <u>272,187</u> | <u>\$ 1,770,613</u> |
| Beginning Fund Balance | | | <u>2,702,905</u> | |
| Ending Fund Balance | | | <u>\$ 2,975,092</u> | |

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. Excess of expenditures over appropriations *

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POLK COUNTY, TEXAS
ROAD AND BRIDGE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2006
 With Comparative Totals for the Year Ended September 30, 2005

| | 2006 | | Actual Amounts | Variance with Final Budget | 2005 Actual |
|--|------------------|-------------------|-------------------|-------------------------------|-----------------------|
| | Budgeted Amounts | | | Positive (Negative) | |
| | Original | Final | | | |
| REVENUES | | | | | |
| Property taxes | \$ 2,162,841 | \$ 2,162,841 | \$ 2,236,757 | \$ 73,916 | \$ 1,648,901 |
| Other taxes | 1,175,000 | 1,175,000 | 1,083,125 | (91,875) | 1,127,751 |
| Fines and forfeitures | 110,000 | 110,000 | 119,207 | 9,207 | 103,364 |
| Interest | - | - | 33,207 | 33,207 | 15,386 |
| Other | - | 458,902 | 229,461 | (229,441) | 774,712 |
| Total Revenues | <u>3,447,841</u> | <u>3,906,743</u> | <u>3,701,757</u> | <u>(204,986)</u> | <u>3,670,114</u> |
| EXPENDITURES | | | | | |
| Roads and bridges: | | | | | |
| Administration | 518,240 | 526,532 | 423,830 | 102,702 | 425,785 |
| Permanent | 200,000 | 157,358 | 136,274 | 21,084 | 353,758 |
| Pct. 1 | 656,299 | 936,577 | 1,011,113 | (74,536) * | 708,544 |
| Pct. 2 | 667,101 | 758,012 | 691,115 | 66,897 | 789,776 |
| Pct. 3 | 665,806 | 1,301,468 | 1,524,168 | (222,700) * | 1,750,893 |
| Pct. 4 | 782,338 | 1,482,830 | 1,088,502 | 394,328 | 1,157,552 |
| Debt service: | | | | | |
| Principal | - | - | 351,139 | (351,139) * | - |
| Interest | - | - | 13,974 | (13,974) * | - |
| Total Expenditures | <u>3,489,784</u> | <u>5,162,777</u> | <u>5,240,115</u> | <u>(77,338)</u> | <u>5,186,308</u> |
| Excess (Deficiency) of Revenues over Expenditures | (41,943) | (1,256,034) | (1,538,358) | (282,324) | (1,516,194) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Debt Proceeds | - | - | 917,929 | 917,929 | 521,573 |
| Sale of capital assets | - | - | 415,906 | 415,906 | - |
| Transfers in | 43,200 | 1,373,288 | 1,583,025 | 209,737 | 3,835 |
| Transfers (out) | - | (700) | (700) | - | (290,328) |
| Total Other Financing Sources (Uses) | <u>43,200</u> | <u>1,372,588</u> | <u>2,916,160</u> | <u>1,543,572</u> | <u>235,080</u> |
| Net Change in Fund Balance | <u>\$ 1,257</u> | <u>\$ 116,554</u> | 1,377,802 | <u>\$ 1,261,248</u> | <u>\$ (1,281,114)</u> |
| Beginning Fund Balance | | | (523,238) | | |
| Ending Fund Balance | | | <u>\$ 854,564</u> | | |

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. Excess of expenditures over appropriations offset by debt proceeds*

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POLK COUNTY, TEXAS
SCHEDULE OF FUNDING PROGRESS
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM

The County's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the County makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the County's Schedule of Funding Progress.

| Fiscal Year | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--------------------------------------|---------------|---------------|---------------|---------------|
| Actuarial Valuation Date | 12/31/2005 | 12/31/2004 * | 12/31/2003 | 12/31/2002 |
| Actuarial Value of Assets | \$ 18,696,224 | \$ 17,341,515 | \$ 16,034,570 | \$ 14,645,943 |
| Actuarial Accrued Liability | \$ 18,540,932 | \$ 17,381,741 | \$ 15,785,936 | \$ 14,348,557 |
| Percentage Funded | 100.8% | 99.8% | 101.6% | 102.1% |
| Unfunded Actuarial | | | | |
| Accrued Liability | \$ (155,292) | \$ 40,226 | \$ (248,634) | \$ (297,386) |
| Annual Covered Payroll | \$ 7,719,890 | \$ 7,548,847 | \$ 7,333,559 | \$ 6,889,311 |
| Unfunded Actuarial Accrued Liability | | | | |
| (UAAL) % of Covered Payroll | -2.01% | 0.53% | -3.39% | -4.32% |
| Net Pension Obligation (NPO) | | | | |
| at the Beginning of Period | \$ - | \$ - | \$ - | \$ - |
| Annual Req. Contrib. (ARC) | \$ 366,062 | \$ 358,961 | \$ 332,253 | \$ 396,764 |
| Contributions Made | 366,062 | 358,961 | 332,253 | 396,764 |
| NPO at the End of Period | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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*COMBINING STATEMENTS
AND SCHEDULES*

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Lateral Road Fund - Funds received from the State of Texas for the County's portion of the State's Lateral Road Fund are recorded in this fund, as well as the expenditure of such funds as restricted by the State.

Courthouse Security Fund - This fund is used to account for special fees collected by the District Clerk and County Clerk for the purpose of defraying expenses related to providing security in the County's court rooms.

Law Library Fund - This fund accounts for revenues and expenditures to maintain a county law library at the County seat. Commissioners Court has established a fee for each civil case filed in the County or District Court.

Aging Fund - This fund is used to account for a program created by the County and is funded in part by the Deep East Texas Council of Governments. This program provides senior citizens nutrition and activity centers, home delivered meal programs, and counsel.

County Records Management Fund - Fees collected by the District Clerk and County Clerk at Law, as approved by the Texas Legislature are accounted for in this fund. The requests to expend funds collected are addressed to Commissioners Court.

County Clerk Records Preservation Fund - Fees collected by the County Clerk for filing official documents, such as birth and death certificates, are deposited in this fund and are expended for the purpose of preservation of documents within the County Clerk's office.

Grants Fund - Various grants received by the County which are not reported in a separate fund are included in the grant fund.

Hotel/Motel Tax Fund - This fund is used to account for revenues generated from a hotel occupancy tax and expenditures for improvements that serve the purpose of attracting visitors and tourists.

Webster Museum Fund - This fund is used to account for the operation of the county museum.

Available School Fund - This fund is used to accumulate investment earnings from the permanent school fund including lease payments received on properties owned by the County in Throckmorton and Baylor counties.

Historical Commission Fund - Revenues received by the Historical Commission are recorded in this fund. The purpose of the fund is to preserve the heritage of the Polk County area and to promote its history.

District Attorney Collection Fund - Fees collected in connection with processing checks issued or passed in violation of the Texas Penal Code are deposited in this fund and used for the purposes of defraying the salaries and expenses of the District Attorney.

District Attorney Special Fund - Fees collected in connection with processing checks issued or passed in violation of the Texas Penal Code are deposited in this fund and used for the purposes of defraying costs related to special issues within the District Attorney's office.

NONMAJOR GOVERNMENTAL FUNDS (Continued)**Special Revenue Funds (continued)**

Forfeiture Fund - Funds collected in connection with gambling and drug seizures and forfeitures for the use of the District Attorney and Sheriff are deposited into this fund. Depending on the nature of funds obtained, these monies can be used for either.

District Clerk TDCJ Fund - Monies contributed by the Texas Department of Criminal Justice to help offset the additional costs of the Districts Clerk's office. for having a prison located within the County, are recorded within this fund.

Judiciary Fund - Fees collected by the County and District Clerk for various agencies are accumulated in this fund until payment is made.

Officials' Fee Account Fund - This fund is used to account for monies held in official fee bank accounts. County officials ((2) Justices of the Peace and County Clerk) have bank accounts into which they deposit their collections.

Payroll Clearing Fund - This fund is used as a clearing account for County payrolls.

District Attorney's Check Restitution - This fund is used to collect and remit restitution for insufficient checks. Fees collected are remitted to the District Attorney Collection Fund.

District Clerk Bond & Fees - This fund is used to account for security bonds held by the District Clerk and fees collected.

District Clerk Records Preservation - This fund is used to account for records preserved by the District Clerk and fees collected.

Environmental Services Fund- This fund is used to account for all revenues generated from the County's environmental related services.

Jail Commissary Fund- This fund is used to account for all revenues generated from the County's jails.

Permanent Funds

Permanent funds are governmental funds which are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Permanent School Fund - This fund was established from proceeds received from the sale of lands granted by the State of Texas for educational purposes. Earnings from this fund, other than oil royalties, accrue directly to the available school fund. Oil royalties are deposited to the permanent school fund, which increases the principal.

POLK COUNTY, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS (page 1 of 3)

September 30, 2006

| | Special Revenue Funds | | | |
|---|-----------------------|-----------------------------|------------------|------------------|
| | Lateral Road | Court- house Security | Law Library | Aging |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 172,942 | \$ 2,412 | \$ 38,000 | \$ 47,519 |
| Receivables (net of allowance for uncollectible) | - | - | - | - |
| Due from other funds | - | - | - | - |
| Total Assets | <u>\$ 172,942</u> | <u>\$ 2,412</u> | <u>\$ 38,000</u> | <u>\$ 47,519</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 10,419 | \$ 1,993 | \$ 571 | \$ 16,520 |
| Due to other funds | - | - | - | - |
| Due to other units | - | - | - | - |
| Deferred revenue | - | - | - | - |
| Total Liabilities | <u>10,419</u> | <u>1,993</u> | <u>571</u> | <u>16,520</u> |
| Fund Balances: | | | | |
| Reserved for endowments/trusts | - | - | - | - |
| Unreserved and designated | 162,523 | 419 | 37,429 | 30,999 |
| Total Fund Balances | <u>162,523</u> | <u>419</u> | <u>37,429</u> | <u>30,999</u> |
| Total Liabilities and Fund Balances | <u>\$ 172,942</u> | <u>\$ 2,412</u> | <u>\$ 38,000</u> | <u>\$ 47,519</u> |

Special Revenue Funds

| County Records Mgmt. | County Clerk Records Preserv. | Grants | Hotel/Motel Tax | Webster Museum | Historical Commission |
|----------------------------|--|------------------|--------------------|-------------------|--------------------------|
| \$ 4,637 | \$ 80,610 | \$ 98,536 | \$ 5,049 | \$ 1,048 | \$ 360,385 |
| - | - | - | - | - | - |
| 350 | - | - | - | - | - |
| <u>\$ 4,987</u> | <u>\$ 80,610</u> | <u>\$ 98,536</u> | <u>\$ 5,049</u> | <u>\$ 1,048</u> | <u>\$ 360,385</u> |
| \$ 7,426 | \$ - | \$ 1,964 | \$ 143 | \$ 578 | \$ - |
| - | - | 3,374 | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| <u>7,426</u> | <u>-</u> | <u>5,338</u> | <u>143</u> | <u>578</u> | <u>-</u> |
| - | - | - | - | - | - |
| (2,439) | 80,610 | 93,198 | 4,906 | 470 | 360,385 |
| <u>(2,439)</u> | <u>80,610</u> | <u>93,198</u> | <u>4,906</u> | <u>470</u> | <u>360,385</u> |
| <u>\$ 4,987</u> | <u>\$ 80,610</u> | <u>\$ 98,536</u> | <u>\$ 5,049</u> | <u>\$ 1,048</u> | <u>\$ 360,385</u> |

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS (page 2 of 3)

September 30, 2006

| | Special Revenue Funds | | | |
|---|-----------------------|------------------------------------|--|-------------------|
| | Available School | District Attorney Collection | District Clerk Records Preserv. | Forfeiture |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 97,921 | \$ - | \$ 4,993 | \$ 357,587 |
| Receivables (net of allowance for uncollectible) | - | - | - | 200 |
| Due from other funds | 2,552 | 56,000 | - | - |
| Total Assets | <u>\$ 100,473</u> | <u>\$ 56,000</u> | <u>\$ 4,993</u> | <u>\$ 357,787</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | \$ 80,829 | \$ - | \$ 6,110 |
| Due to other funds | - | - | 5 | 56,000 |
| Due to other units | - | - | - | - |
| Deferred revenue | - | - | - | 175,601 |
| Total Liabilities | <u>-</u> | <u>80,829</u> | <u>5</u> | <u>237,711</u> |
| Fund Balances: | | | | |
| Reserved for endowments/trusts | - | - | - | - |
| Unreserved and designated | 100,473 | (24,829) | 4,988 | 120,076 |
| Total Fund Balances | <u>100,473</u> | <u>(24,829)</u> | <u>4,988</u> | <u>120,076</u> |
| Total Liabilities and Fund Balances | <u>\$ 100,473</u> | <u>\$ 56,000</u> | <u>\$ 4,993</u> | <u>\$ 357,787</u> |

Special Revenue Funds

| District Clerk TDCJ | Judiciary | Officials Fee Account | Payroll Clearing | District Attorney's Check Restitution | District Clerk Bonds and Fees |
|---------------------|-------------------|-----------------------|------------------|---------------------------------------|-------------------------------|
| \$ 21,509 | \$ 167,674 | \$ 9,915 | \$ 116 | \$ 809 | \$ - |
| - | - | 236 | - | - | - |
| - | 85 | - | - | - | - |
| <u>\$ 21,509</u> | <u>\$ 167,759</u> | <u>\$ 10,151</u> | <u>\$ 116</u> | <u>\$ 809</u> | <u>\$ -</u> |
| \$ - | \$ 167,759 | \$ 64 | \$ 1,331 | \$ 494 | \$ - |
| - | - | - | 23 | - | - |
| 213 | - | 10,087 | - | 315 | - |
| - | - | - | - | - | - |
| <u>213</u> | <u>167,759</u> | <u>10,151</u> | <u>1,354</u> | <u>809</u> | <u>-</u> |
| - | - | - | - | - | - |
| 21,296 | - | - | (1,238) | - | - |
| <u>21,296</u> | <u>-</u> | <u>-</u> | <u>(1,238)</u> | <u>-</u> | <u>-</u> |
| <u>\$ 21,509</u> | <u>\$ 167,759</u> | <u>\$ 10,151</u> | <u>\$ 116</u> | <u>\$ 809</u> | <u>\$ -</u> |

POLK COUNTY, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS (page 3 of 3)

September 30, 2006

| | Special Revenue Funds | | | Permanent Fund |
|--|------------------------|----------------------|--------------------------------|-------------------|
| | Environmental Services | Jail Commissary Fund | District Attorney Special Fund | Permanent School |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 58,958 | \$ 16,566 | \$ 2,750 | \$ 382,443 |
| Receivables (net of allowance for uncollectible) | 118,899 | - | - | - |
| Due from other funds | - | - | - | - |
| Total Assets | <u>\$ 177,857</u> | <u>\$ 16,566</u> | <u>\$ 2,750</u> | <u>\$ 382,443</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 1,081 | \$ - | \$ 581 | \$ - |
| Due to other funds | - | - | - | 2,552 |
| Due to other units | - | - | - | - |
| Deferred revenue | 118,899 | - | - | - |
| Total Liabilities | <u>119,980</u> | <u>-</u> | <u>581</u> | <u>2,552</u> |
| Fund Balances: | | | | |
| Reserved for endowments/trusts | - | - | - | 379,891 |
| Unreserved and designated | 57,877 | 16,566 | 2,169 | - |
| Total Fund Balances | <u>57,877</u> | <u>16,566</u> | <u>2,169</u> | <u>379,891</u> |
| Total Liabilities and Fund Balances | <u>\$ 177,857</u> | <u>\$ 16,566</u> | <u>\$ 2,750</u> | <u>\$ 382,443</u> |

Total
Nonmajor
Governmental
Funds

\$ 1,932,379

119,335

58,987

\$ 2,110,701

\$ 297,863

61,954

10,615

294,500

664,932

379,891

1,065,878

1,445,769

\$ 2,110,701

POLK COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,

AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS (page 1 of 3)

For the Year Ended September 30, 2006

| | Special Revenue Funds | | | |
|--|-----------------------|-----------------------------|------------------|------------------|
| | Lateral Road | Court- house Security | Law Library | Aging |
| REVENUES | | | | |
| Other taxes | \$ - | \$ - | \$ - | \$ - |
| Fines and forfeitures | - | 44,372 | - | - |
| Charge for services | - | - | 15,014 | - |
| Investment income | 6,816 | 179 | 1,343 | - |
| Intergovernmental | 48,378 | - | - | 219,966 |
| Other revenue | - | 60 | - | 1,781 |
| Total Revenues | <u>55,194</u> | <u>44,611</u> | <u>16,357</u> | <u>221,747</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | - | - | - | - |
| Administration of justice | - | 59,892 | 11,216 | - |
| Roads and bridges | 10,419 | - | - | - |
| Health and human services | - | - | - | 277,566 |
| Total Expenditures | <u>10,419</u> | <u>59,892</u> | <u>11,216</u> | <u>277,566</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>44,775</u> | <u>(15,281)</u> | <u>5,141</u> | <u>(55,819)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | 1,200 | - | 85,000 |
| Transfers (out) | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>1,200</u> | <u>-</u> | <u>85,000</u> |
| Net Change in Fund Balances | 44,775 | (14,081) | 5,141 | 29,181 |
| Beginning Fund Balances | <u>117,748</u> | <u>14,500</u> | <u>32,288</u> | <u>1,818</u> |
| Ending Fund Balances | <u>\$ 162,523</u> | <u>\$ 419</u> | <u>\$ 37,429</u> | <u>\$ 30,999</u> |

Special Revenue Funds

| County Records Mgmt. | County Clerk Records Preserv. | Grants | Hotel/Motel Tax | Webster Museum | Historical Commission |
|----------------------------|--|------------------|--------------------|-------------------|--------------------------|
| \$ - | \$ - | \$ - | \$ 28,852 | \$ - | \$ - |
| - | - | 24,120 | - | - | - |
| 15,332 | 142,453 | - | - | - | - |
| - | - | - | - | 301 | 16,211 |
| - | - | 909,379 | - | 17 | - |
| - | - | - | - | - | 6,598 |
| <u>15,332</u> | <u>142,453</u> | <u>933,499</u> | <u>28,852</u> | <u>318</u> | <u>22,809</u> |
| 35,318 | 52,140 | 400,373 | 31,860 | 13,910 | 7,344 |
| - | - | 4,434 | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| <u>35,318</u> | <u>52,140</u> | <u>404,807</u> | <u>31,860</u> | <u>13,910</u> | <u>7,344</u> |
| (19,986) | 90,313 | 528,692 | (3,008) | (13,592) | 15,465 |
| 17,500 | - | - | - | - | - |
| - | (64,810) | (509,654) | - | - | - |
| <u>17,500</u> | <u>(64,810)</u> | <u>(509,654)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| (2,486) | 25,503 | 19,038 | (3,008) | (13,592) | 15,465 |
| 47 | 55,107 | 74,160 | 7,914 | 14,062 | 344,920 |
| <u>\$ (2,439)</u> | <u>\$ 80,610</u> | <u>\$ 93,198</u> | <u>\$ 4,906</u> | <u>\$ 470</u> | <u>\$ 360,385</u> |

VOL. 53 PAGE 1094 POLK COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE

NONMAJOR GOVERNMENTAL FUNDS (page 2 of 3)

For the Year Ended September 30, 2006

| | Special Revenue Funds | | | |
|---|-----------------------|------------------------------------|--|-------------------|
| | Available School | District Attorney Collection | District Clerk Records Preserv. | Forfeiture |
| REVENUES | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - |
| Fines and forfeitures | - | 41,960 | - | 40,912 |
| Charge for services | - | - | 4,053 | - |
| Investment income | 5,257 | - | - | 3,330 |
| Intergovernmental | - | - | - | - |
| Other revenue | 113,743 | - | - | - |
| Total Revenues | <u>119,000</u> | <u>41,960</u> | <u>4,053</u> | <u>44,242</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 129,573 | - | - | - |
| Administration of justice | - | 7,844 | - | 12,806 |
| Roads and bridges | - | - | - | - |
| Health and human services | - | - | - | - |
| Total Expenditures | <u>129,573</u> | <u>7,844</u> | <u>-</u> | <u>12,806</u> |
| Excess (Deficiency) of | | | | |
| Revenues over Expenditures | <u>(10,573)</u> | <u>34,116</u> | <u>4,053</u> | <u>31,436</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 16,988 | - | - | - |
| Transfers (out) | - | - | (3,500) | - |
| Total Other Financing Sources (Uses) | <u>16,988</u> | <u>-</u> | <u>(3,500)</u> | <u>-</u> |
| Net Change in Fund Balances | 6,415 | 34,116 | 553 | 31,436 |
| Beginning Fund Balances | 94,058 | (58,945) | 4,435 | 88,640 |
| Ending Fund Balances | <u>\$ 100,473</u> | <u>\$ (24,829)</u> | <u>\$ 4,988</u> | <u>\$ 120,076</u> |

Special Revenue Funds

| District Clerk TDCJ | Judiciary | Officials Fee Account | Payroll Clearing | District Attorney's Check Restitution | District Clerk Bonds and Fees |
|---------------------|-----------|-----------------------|------------------|---------------------------------------|-------------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 679 | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 679 | - | - | - | - | - |
| (679) | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| (679) | - | - | - | - | - |
| 21,975 | - | - | (1,238) | - | - |
| \$ 21,296 | \$ - | \$ - | \$ (1,238) | \$ - | \$ - |

POLK COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE

NONMAJOR GOVERNMENTAL FUNDS (page 3 of 3)

For the Year Ended September 30, 2006

| | Special Revenue Funds | | | Permanent Fund |
|--|------------------------|----------------------|--------------------------------|-------------------|
| | Environmental Services | Jail Commissary Fund | District Attorney Special Fund | Permanent School |
| REVENUES | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - |
| Fines and forfeitures | - | - | - | - |
| Charge for services | 186,991 | - | - | - |
| Investment income | - | - | - | 17,515 |
| Intergovernmental | - | - | - | - |
| Other revenue | - | 23,897 | 22,958 | 215 |
| Total Revenues | <u>186,991</u> | <u>23,897</u> | <u>22,958</u> | <u>17,730</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | - | - | - | - |
| Administration of justice | - | 3,970 | 20,789 | - |
| Roads and bridges | - | - | - | - |
| Health and human services | - | - | - | - |
| Total Expenditures | <u>-</u> | <u>3,970</u> | <u>20,789</u> | <u>-</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>186,991</u> | <u>19,927</u> | <u>2,169</u> | <u>17,730</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | - | - |
| Transfers (out) | (155,652) | (3,361) | - | (16,988) |
| Total Other Financing Sources (Uses) | <u>(155,652)</u> | <u>(3,361)</u> | <u>-</u> | <u>(16,988)</u> |
| Net Change in Fund Balances | 31,339 | 16,566 | 2,169 | 742 |
| Beginning Fund Balances | <u>26,538</u> | <u>-</u> | <u>-</u> | <u>379,149</u> |
| Ending Fund Balances | <u>\$ 57,877</u> | <u>\$ 16,566</u> | <u>\$ 2,169</u> | <u>\$ 379,891</u> |

**Total
Nonmajor
Governmental
Funds**

\$ 28,852
 151,364
 363,843
 50,952
 1,177,740
 169,252
1,942,003

670,518
 121,630
 10,419
 277,566
1,080,133

861,870

120,688
(753,965)

(633,277)

228,593

1,217,176

\$ 1,445,769

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POLK COUNTY, TEXAS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2006
 With Comparative Totals for the Year Ended September 30, 2005

| | 2006 | | Variance with Final Budget Positive (Negative) | 2005 Actual |
|--|--|-------------------|---|-------------------|
| | Original and Final Budgeted Amounts | Actual Amounts | | |
| REVENUES | | | | |
| Taxes | \$ 2,248,569 | \$ 2,373,784 | \$ 125,215 | \$ 1,958,770 |
| Investment income | 28,500 | 62,797 | 34,297 | 29,817 |
| Other | - | 0 | - | 320 |
| Total Revenues | <u>2,277,069</u> | <u>2,436,581</u> | <u>159,512</u> | <u>1,988,907</u> |
| EXPENDITURES | | | | |
| Principal | 2,097,238 | 2,097,238 | - | 1,715,749 |
| Interest and fiscal charges | 179,133 | 184,296 | (5,163) | 211,800 |
| Total Expenditures | <u>2,276,371</u> | <u>2,281,534</u> | <u>(5,163) *</u> | <u>1,927,549</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>698</u> | <u>155,047</u> | <u>154,349</u> | <u>61,358</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | - | 61,125 |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>61,125</u> |
| Net Change in Fund Balance | <u>\$ 698</u> | <u>155,047</u> | <u>\$ 154,349</u> | <u>\$ 122,483</u> |
| Fund Balance, Beginning of Year | | <u>780,558</u> | | |
| Fund Balance, End of Year | | <u>\$ 935,605</u> | | |

1. Excess of expenditures over appropriations *

POLK COUNTY, TEXAS
COMBINING STATEMENT OF NET ASSETS
AGENCY FUNDS
 September 30, 2006

| | County Clerk's Probate Trust | District Clerk's Trust | Tax Collector | Total Agency Funds |
|---------------------------|---------------------------------|---------------------------|---------------|-----------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 129,513 | \$ 2,621,558 | \$ 919,466 | \$ 3,670,537 |
| Total Assets | \$ 129,513 | \$ 2,621,558 | \$ 919,466 | \$ 3,670,537 |
| LIABILITIES | | | | |
| Due to other units | \$ 129,513 | \$ 2,621,558 | \$ 919,466 | \$ 3,670,537 |
| Total Liabilities | \$ 129,513 | \$ 2,621,558 | \$ 919,466 | \$ 3,670,537 |

See Notes to Financial Statements.

POLK COUNTY, TEXAS**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS**

Year ended September 30, 2006

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Ending Balance</u> |
|---------------------------------------|------------------------------|------------------|-------------------|---------------------------|
| County Clerk's Probate Trust | | | | |
| <u>Assets</u> | | | | |
| Equity in pooled cash and investments | \$ 109,495 | \$ 20,018 | \$ - | \$ 129,513 |
| <u>Liabilities</u> | | | | |
| Other liabilities | \$ 109,495 | \$ 20,018 | \$ - | \$ 129,513 |
| District Clerk's Trust | | | | |
| <u>Assets</u> | | | | |
| Equity in pooled cash and investments | \$ 1,919,935 | \$ 701,623 | \$ - | \$ 2,621,558 |
| <u>Liabilities</u> | | | | |
| Other liabilities | \$ 1,919,935 | \$ 701,623 | \$ - | \$ 2,621,558 |
| Tax Collector | | | | |
| <u>Assets</u> | | | | |
| Equity in pooled cash and investments | \$ 549,238 | \$ - | \$ 370,228 | \$ 919,466 |
| <u>Liabilities</u> | | | | |
| Other liabilities | \$ 549,238 | \$ - | \$ 370,228 | \$ 919,466 |
| Total All Agency Funds | | | | |
| <u>Assets</u> | | | | |
| Equity in pooled cash and investments | \$ 2,578,668 | \$ 721,641 | \$ 370,228 | \$ 3,670,537 |
| <u>Liabilities</u> | | | | |
| Other liabilities | \$ 2,578,668 | \$ 721,641 | \$ 370,228 | \$ 3,670,537 |

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POLK COUNTY, TEXAS

*ROAD AND BRIDGE FUND - ADMINISTRATION
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL*

For the Year Ended September 30, 2006

With Comparative Totals for the Year Ended September 30, 2005

| | 2006 | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| | Budgeted Amounts | | | |
| | Original | Final | | |
| REVENUES | | | | |
| Property taxes | \$ 2,162,841 | \$ 2,162,841 | \$ 2,236,757 | \$ 73,916 |
| Other taxes | 1,175,000 | 1,175,000 | 1,083,125 | (91,875) |
| Fines and forfeitures | 110,000 | 110,000 | 119,207 | 9,207 |
| Interest | - | - | 33,207 | 33,207 |
| Other | - | 458,902 | 229,461 | (229,441) |
| Total Revenues | <u>3,447,841</u> | <u>3,906,743</u> | <u>3,701,757</u> | <u>(204,986)</u> |
| EXPENDITURES | | | | |
| Roads and bridges: | | | | |
| Administration | 518,240 | 526,532 | 423,830 | 102,702 |
| Total Expenditures | <u>518,240</u> | <u>526,532</u> | <u>423,830</u> | <u>102,702</u> |
| Excess (Deficiency) of Revenues over Expenditures | 2,929,601 | 3,380,211 | 3,277,927 | (102,284) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Debt Proceeds | - | - | 323,432 | 323,432 |
| Transfers in | 43,200 | 1,373,288 | 1,583,025 | 209,737 |
| Transfers (out) | - | (700) | (700) | - |
| Total Other Financing Sources (Uses) | <u>43,200</u> | <u>1,372,588</u> | <u>1,905,757</u> | <u>533,169</u> |
| Net Change in Fund Balance | <u>\$ 2,972,801</u> | <u>\$ 4,752,799</u> | <u>\$ 5,183,684</u> | <u>\$ 430,885</u> |

ROAD AND BRIDGE FUND - PRECINCT ONE
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 For the Year Ended September 30, 2006
 With Comparative Totals for the Year Ended September 30, 2005

| | 2006 | | | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| | Budgeted Amounts | | Actual Amounts | |
| | Original | Final | | |
| EXPENDITURES | | | | |
| Roads and bridges: | | | | |
| Permanent | \$ 50,000 | \$ 17,624 | \$ 17,624 | \$ - |
| Pct. 1 | 656,299 | 936,577 | 1,011,113 | (74,536) |
| Debt service: | | | | |
| Principal | - | - | 105,349 | (105,349) |
| Interest | - | - | 4,065 | (4,065) |
| Total Expenditures | <u>706,299</u> | <u>954,201</u> | <u>1,138,151</u> | <u>(183,950)</u> |
| | | | | |
| Excess (Deficiency) of Revenues over Expenditures | (706,299) | (954,201) | (1,138,151) | (183,950) |
| | | | | |
| OTHER FINANCING SOURCES | | | | |
| (USES) | | | | |
| Debt Proceeds | - | - | 167,322 | 167,322 |
| Sale of capital assets | - | - | 148,906 | 148,906 |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>316,228</u> | <u>316,228</u> |
| | | | | |
| Net Change in Fund Balance | <u>\$ (706,299)</u> | <u>\$ (954,201)</u> | <u>\$ (821,923)</u> | <u>\$ 132,278</u> |

POLK COUNTY, TEXAS

ROAD AND BRIDGE FUND - PRECINCT TWO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2006

With Comparative Totals for the Year Ended September 30, 2005

| | 2006 | | | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| | Budgeted Amounts | | Actual Amounts | |
| | Original | Final | | |
| EXPENDITURES | | | | |
| Roads and bridges: | | | | |
| Permanent | \$ 50,000 | \$ 118,650 | \$ 118,650 | \$ - |
| Pct. 2 | 667,101 | 758,012 | 691,115 | 66,897 |
| Total Expenditures | <u>717,101</u> | <u>876,662</u> | <u>809,765</u> | <u>66,897</u> |
| | | | | |
| Excess (Deficiency) of Revenues over Expenditures | (717,101) | (876,662) | (809,765) | 66,897 |
| | | | | |
| OTHER FINANCING SOURCES | | | | |
| (USES) | | | | |
| Debt Proceeds | - | - | 104,365 | 104,365 |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>104,365</u> | <u>104,365</u> |
| | | | | |
| Net Change in Fund Balance | <u>\$ (717,101)</u> | <u>\$ (876,662)</u> | <u>\$ (705,400)</u> | <u>\$ 171,262</u> |

POLK COUNTY, TEXAS

*ROAD AND BRIDGE FUND - PRECINCT THREE
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL*

For the Year Ended September 30, 2006

With Comparative Totals for the Year Ended September 30, 2005

| | 2006 | | | Variance with Final Budget Positive (Negative) |
|--|---------------------|-----------------------|-----------------------|---|
| | Budgeted Amounts | | Actual Amounts | |
| | Original | Final | | |
| EXPENDITURES | | | | |
| Roads and bridges: | | | | |
| Permanent | \$ 50,000 | \$ 21,084 | \$ - | \$ 21,084 |
| Pct. 3 | 665,806 | 1,301,468 | 1,524,168 | (222,700) |
| Debt service: | | | | |
| Principal | - | - | 163,860 | (163,860) |
| Interest | - | - | 6,783 | (6,783) |
| Total Expenditures | <u>715,806</u> | <u>1,322,552</u> | <u>1,694,811</u> | <u>(372,259)</u> |
| | | | | |
| Excess (Deficiency) of Revenues over Expenditures | (715,806) | (1,322,552) | (1,694,811) | (372,259) |
| | | | | |
| OTHER FINANCING SOURCES | | | | |
| (USES) | | | | |
| Debt Proceeds | - | - | 238,205 | 238,205 |
| Sale of capital assets | - | - | 191,000 | 191,000 |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>429,205</u> | <u>429,205</u> |
| | | | | |
| Net Change in Fund Balance | <u>\$ (715,806)</u> | <u>\$ (1,322,552)</u> | <u>\$ (1,265,606)</u> | <u>\$ 56,946</u> |

POLK COUNTY, TEXAS
ROAD AND BRIDGE FUND - PRECINCT FOUR
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2006
With Comparative Totals for the Year Ended September 30, 2005

| | 2006 | | | Variance with Final Budget Positive (Negative) |
|--|---------------------|-----------------------|-----------------------|---|
| | Budgeted Amounts | | Actual Amounts | |
| | Original | Final | | |
| EXPENDITURES | | | | |
| Roads and bridges: | | | | |
| Permanent | \$ 50,000 | \$ - | \$ - | \$ - |
| Pct. 4 | 782,338 | 1,482,830 | 1,088,502 | 394,328 |
| Debt service: | | | | |
| Principal | - | - | 81,930 | (81,930) |
| Interest | - | - | 3,126 | (3,126) |
| Total Expenditures | <u>832,338</u> | <u>1,482,830</u> | <u>1,173,558</u> | <u>309,272</u> |
| | | | | |
| Excess (Deficiency) of Revenues over Expenditures | (832,338) | (1,482,830) | (1,173,558) | 309,272 |
| | | | | |
| OTHER FINANCING SOURCES | | | | |
| (USES) | | | | |
| Debt Proceeds | - | - | 84,605 | 84,605 |
| Sale of capital assets | - | - | 76,000 | 76,000 |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>160,605</u> | <u>160,605</u> |
| | | | | |
| Net Change in Fund Balance | <u>\$ (832,338)</u> | <u>\$ (1,482,830)</u> | <u>\$ (1,012,953)</u> | <u>\$ 469,877</u> |

SINGLE AUDIT REPORTS
POLK COUNTY, TEXAS

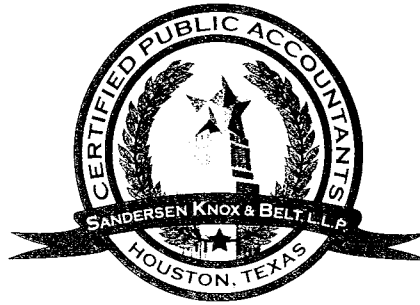
**For the Year Ended
September 30, 2006**

POLK COUNTY, TEXAS*SINGLE AUDIT REPORTS*

For the year ended September 30, 2006

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

July 13, 2007

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

We have audited the financial statements of the governmental activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of Polk County, Texas (the "County") as of and for the year ended September 30, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon dated July 13, 2007. 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.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the County in a separate letter dated July 13, 2007.

County Judge and Commissioners Court
Polk County, Texas

July 13, 2007
Page 2 of 2

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-1 through 2006-6.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions, and accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2006-1 through 2006-3 to be material weaknesses.

This report is intended for the information and use of members of management and any appropriate legislative or regulatory body. However, this report is a matter of public record and its distribution is not limited.





**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM, INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133,
AND SCHEDULE OF FEDERAL AWARDS**

July 13, 2007

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

Compliance

We have audited the compliance of the Polk County, Texas (the "County"), with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

County Judge and Commissioners Court
Polk County, Texas County of Texas

July 13, 2007
Page 2 of 2

Internal Control Over Compliance

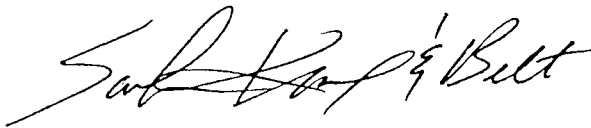
The County's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditure of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of Polk County, Texas as of and for the year ended September 30, 2006, and have issued our report thereon dated July 13, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and grantor agencies and is not a required part of the basic financial statements. Such information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the members of management and any appropriate legislative or regulatory body. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



POLK COUNTY, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended September 30, 2006

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

None

POLK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the year ended September 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Polk County, Texas.
2. Reportable conditions in internal control were disclosed by the audit of the financial statements of which some were considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. Reportable conditions in internal control over major federal award programs were not disclosed by the audit.
5. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs for the County are reported.
7. The program included as a major program is:
 - a. Disaster Grants – Public Assistance (Presidentially Declared Disasters) 97.036
 - b. 2004 State Homeland Security Program 97.004
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The County did not qualify as a low-risk auditee.

B. FINDINGS-FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

2006-1. Absence of Qualified Personnel

Finding

For six months during the County's fiscal year and over three months after year end, the County Auditor's office was without both a qualified County Auditor and Assistant County Auditor. Accordingly, the procedures and internal controls previously in place were no longer effectively being performed. A qualified County Auditor was appointed in January 2007, and an Assistant County Auditor hired in July 2007.

Recommendation

The County should fill critical positions with qualified personnel in a timely manner.

Management's Response

We concur with the recommendation and will take steps to ensure qualified personnel are hired in a

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued

For the year ended September 30, 2006

timely manner.

2006-2. Month End Closing Procedures

Finding

The County did not have a formal process for closing the books at the end of the year or previous month(s) end.

Recommendation

The County should continue to re-develop a formal month end closing process that includes reviewing ending account balances to determine their accuracy. In addition to outlining procedures to be completed, the County should assign each step of the process to a specific individual, thereby clarifying the roles within the County in the closing and review processes.

Management's Response

We concur with the recommendation and will take steps to implement month end closing procedures.

2006-3. District Clerk Trust Accounts

Finding

As in the prior year, the District Clerk's office has had considerable difficulty providing information on trust accounts. Much of this data was provided on July 23, 2007, almost ten months after year end. The amount of trust accounts as reported in the District Clerk's account balance report was \$2,621,558 at year end. Included within this amount is monies held in the registry of the court bank account on behalf of approximately 64 beneficiaries. Per the District Clerk's account balance report the registry of the court account balance was \$924,343 and the bank reflected a balance of \$937,938 resulting in an unidentified difference of \$13,596.

Recommendation

The District Clerk should reconcile trust accounts on a monthly basis. The County Auditor should oversee that these reconciliations are prepared and any discrepancies reported to Commissioners Court and the District Judges.

Management's Response

We concur with the recommendation and will take steps to reconcile these accounts.

REPORTABLE CONDITIONS

2006-4. Payroll Reconciliation

Finding

The County's accounting software provider, Net Data, updated system generated reports within the payroll module during the year. Subsequently the County has been unable to reconcile quarterly IRS 941 tax returns to the payroll general ledger accounts. The County Auditor is working with NetData to obtain

POLK COUNTY, TEXAS***SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued***

For the year ended September 30, 2006

the necessary reports to facilitate a timely comparison on a quarterly basis.

Recommendation

The County Auditor should review and monitor the 941 reporting process each quarter to verify that the County is properly reporting to the Internal Revenue Service.

Management's Response

We concur with the recommendation and will take steps to review and monitor the 941 reporting process.

2006-5. Capital Assets**Finding**

Due to inconsistencies in the coding of capital assets in the County's computer system, reports used for capital assets did not agree to each other. The County Auditor has manually corrected the capital asset reports and is working with NetData to correct this issue.

Recommendation

The County Auditor should review capital asset reports on a monthly basis to verify that items are input correctly and that reports are generated accurately.

Management's Response

We concur with the recommendation and will take steps to review capital asset reports.

2006-6. Accounts Payable**Finding**

During our audit we noted the County did not have a complete list of accounts payable and had considerable difficulty reconstructing a report. Once reconstructed this report and the general ledger did not agree, which appeared to be the result of systemic computer errors and lack of oversight as previously discussed in item 1. Subsequent to beginning field work, the County Auditor's office required a significant amount of time to reconcile accounts payable at year end. The delay and trouble in this area was directly related to the vacancy in the County Auditor's office as discussed in item 1.

Recommendation

The County Auditor should review accounts payable during the month end closing process to ensure that reports are accurate.

Management's Response

We concur with the recommendation and will take steps to reconcile these accounts payables.

OTHER MATTERS**2006-7. Timeliness of Reports****Finding**

The County missed several deadlines with respect to filing its annual financial report. As discussed in item 1 as well as other comments, considerable effort was expended by County personnel to get the County's records in auditable condition as long as ten months after its fiscal year end. The County should establish a goal of having its financial records in an auditable condition by December 31st.

Recommendation

The County Auditor should continue to oversee that supporting audit documents are prepared in a timely manner.

Management's Response

We concur with the recommendation and will take steps to prepare timely reports.

2006-8. Budget Variances**Finding**

As noted in the financial statements, expenditures exceeded appropriations at the legal level of budgetary control in the general and debt service funds contrary to state law.

Recommendation

The County Auditor should review its budgetary controls and purchase order approval process to ensure that unbudgeted expenditures are not incurred. The County should consult with its attorney regarding possible violations of law.

Management's Response

We concur with the recommendation and will take steps to prevent expenditures in excess of appropriations in the future.

C. FINDINGS – FEDERAL AWARDS

None

POLK COUNTY, TEXAS***NOTES TO SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS***

For the year ended September 30, 2006

NOTE 1: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Polk County, Texas and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

