

DALLAM COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2010

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ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

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PART I

INTRODUCTORY SECTION

DALLAM COUNTY, TEXAS
PRINCIPAL COUNTY OFFICIALS
SEPTEMBER 30, 2010

David D. Field	County Judge
Glenn Reagan	Commissioner, Precinct #1
Oscar O. Przilas	Commissioner, Precinct #2
Donald J. Bowers	Commissioner, Precinct #3
Carl French	Commissioner, Precinct #4
Kay Howell	County Tax Assessor/Collector
Jon King	County Attorney
Terri Banks	County and District Clerk
Wes Ritchey	County Treasurer
Rita Little	Justice of the Peace
Bruce Scott	County Sheriff
Ron Enns	District Judge, 69th Judicial District

PART II
FINANCIAL SECTION



To The Honorable County Judge and
Commissioners Comprising the
Commissioners' Court of
Dallam County, Texas

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the general fund, and the aggregate remaining fund information of Dallam County, Texas as of and for the year ended September 30, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Dallam County, Texas. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, Dallam County, Texas, prepares its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the general fund, and the aggregate remaining fund information of Dallam County, Texas at September 30, 2010, and the respective changes in cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2010, on our consideration of Dallam County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the budgetary comparison schedule for the General Fund and the schedule of funding progress for the retirement plan for the employees of Dallam County, Texas on pages 3 through 7 and 21 through 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dallam County, Texas' financial statements as a whole. The introductory section and combining nonmajor and agency fund financial statements listed under other supplementary information in the accompanying table of contents are presented for purposes of additional analysis and is not a required part of the financial statements. The combining nonmajor and agency fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

DOSHIER, PICKENS & FRANCIS, L.L.C.

Doshier, Pickens & Francis, LLC
December 7, 2010

Dallam County, Texas
Management's Discussion and Analysis
As of September 30, 2010

As management of Dallam County, Texas, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with the financial statements and required supplementary information.

Financial Highlights

Dallam County prepares its financial statements on the cash basis of accounting which is another comprehensive basis of accounting other than Generally Accepted Accounting Principles (GAAP). In addition, the County also omits recording general fixed assets and infrastructure assets on the financial statements which is a departure from GAAP. Management budgets and records receipts and disbursements on a cash basis because it believes this comprehensive basis of accounting is more suitable to the efficient administration of a smaller government. While capital outlays are recorded each year as disbursements are made, management has not chosen to maintain an ongoing recording of general fixed assets or infrastructure assets on the financial statements. Management considers cash receipts and disbursements information for operational needs as essential to the decision process and does not believe the maintenance of historical general fixed asset or infrastructure asset cumulative amounts on financial statements are beneficial in decision making.

In recording the information that follows, the reader is asked to be aware of the use of cash basis accounting. To facilitate reading, repetitive references to the accounting basis will not be made, but all financial data and financial statements referred to are cash basis, not GAAP.

At September 30, 2010 unreserved fund balance for the general fund is \$623,913 which represents 15% of the current year's total governmental fund disbursements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of Dallam County's basic financial statements. The County's basic financial statements comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the County's cash basis of accounting.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported based on the related cash flows.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental receipts (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The

governmental activities of the County include General Administration; Public Safety; Public Health; Welfare; Judicial; Legal; Financial Administration; Public Transportation; Jail and Dispatchers; and Financial Administration.

Fund Financial Statements

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

a. Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund statement of net assets-cash basis and the governmental fund statement of cash basis, Assets and Fund Balances and Cash Receipts and Disbursements, and changes in cash basis fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains nine individual governmental funds. Information is presented separately in the governmental fund statement of net assets-cash basis and in the governmental fund statement of cash receipts and disbursements, and changes in cash basis fund balances for the general fund and the other nonmajor governmental funds.

2. Fiduciary Funds

Fiduciary funds are funds used to account for the proceeds of specific receipts (other than special assessments, expendable trust, or major capital projects) that are legally restricted to disbursements for specified purposes. The fiduciary funds for Dallam County consist principally of amounts held under various court causes or child support payments received prior to disbursement.

The basic governmental fund financial statement can be found on page 10 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on page 12 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's budgetary comparison schedules. The County adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. Required supplementary information can be found on page 21 of this report.

DALLAM COUNTY, TEXAS
STATEMENT OF NET ASSETS - CASH BASIS
SEPTEMBER 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 740,512
Total assets	<u>740,512</u>
LIABILITIES	
Due to other governmental entities	16,238
Cash bonds	<u>29,001</u>
Total liabilities	<u>45,239</u>
NET ASSETS	
Restricted by enabling legislation for:	
Special projects	71,360
Unrestricted	<u>623,913</u>
Total net assets	<u><u>\$ 695,273</u></u>

The County's investment in capital assets and infrastructure are not reflected in these financial statements. The County uses capital assets to provide services to citizens; consequently the assets are not available for future spending. The County as of September 30, 2010 has \$938,516 debt related to capital assets. It should be noted that while the capital assets owned by the County are available resources of the County there are no plans to liquidate any of these assets and therefore no anticipated cash receipts are expected to be associated with them.

DALLAM COUNTY, TEXAS
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES AND
CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
RECEIPTS			
Taxes	\$ 2,407,584	\$ -	\$ 2,407,584
Sales and miscellaneous taxes	4,405	-	4,405
Licenses and fees	646,600	32,147	678,747
Fines and forfeitures	145,141	-	145,141
Intergovernmental	1,170,382	-	1,170,382
Interest	819	-	819
Miscellaneous	58,891	-	58,891
Total receipts	<u>4,433,822</u>	<u>32,147</u>	<u>4,465,969</u>
DISBURSEMENTS			
Administrative	675,423	15,553	690,976
Judicial	392,823	9,472	402,295
Public facilities	342,883	-	342,883
Public safety	1,532,396	185	1,532,581
Road and bridge	563,330	-	563,330
Public service	226,047	-	226,047
Debt service			
Principal	250,240	-	250,240
Interest	29,760	-	29,760
Capital outlay	109,931	-	109,931
Total disbursements	<u>4,122,833</u>	<u>25,210</u>	<u>4,148,043</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	310,989	6,937	317,926
CASH BASIS FUND BALANCE - Beginning of year	<u>312,924</u>	<u>64,423</u>	<u>377,347</u>
CASH BASIS FUND BALANCE - End of year	<u>\$ 623,913</u>	<u>\$ 71,360</u>	<u>\$ 695,273</u>
CASH BASIS ASSETS - End of year			
Cash, net of liabilities	<u>\$ 623,913</u>	<u>\$ 71,360</u>	<u>\$ 695,273</u>
CASH BASIS FUND BALANCES - End of Year			
Reserved:			
Special projects	\$ -	\$ 71,360	\$ 71,360
Unreserved			
Undesignated	<u>623,913</u>	<u>-</u>	<u>623,913</u>
Total cash basis fund balances - end of year	<u>\$ 623,913</u>	<u>\$ 71,360</u>	<u>\$ 695,273</u>

Financial Analysis of the Government's Funds

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

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

The general fund is the chief operating fund of the County. As a measure of the general fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund disbursements. Unreserved fund balance represents 15% of total general fund disbursements.

The fund balance of the County's general fund increased by \$310,989 during the current fiscal year. Key factors in this were increased revenue from taxes due to levy and valuation as well as tax abatement payments.

Capital Asset and Debt Administration

Capital assets. The County's investment in capital assets for its governmental activities as of September 30, 2010, have not been determined. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and roads and bridges. The total disbursements in the County's capital outlays for the current fiscal year was \$109,931.

Major capital asset events during the current fiscal year included vehicles, machinery and equipment.

The County's capitalization policy is to treat disbursements for assets with an estimated useful life of five or more years and an initial cost in excess of \$3,000 as a capital outlay.

Dallam County's Outstanding Debt

Dallam County has \$822,937 outstanding debt to First National Bank in Dalhart. The loan is payable on demand and has a maturity date of October 30, 2010. The current interest rate is 3.93 percent. Loan proceeds were used for Jail Construction.

Dallam County has \$115,579 outstanding debt to 1st State Bank in Dalhart. The loan is payable on demand and has a maturity date of October 1, 2013. The current interest rate is 4.0 percent. The loan was for and is secured by the Tax Assessor's building.

Economic Factors and Next Year's Budgets and Rates

The economy of the County remains strong. The property values remain strong and are expected to increase.

Request for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the County Treasurer, P. O. Box 591, Dalhart, Texas 79022.

BASIC FINANCIAL STATEMENTS

**DALLAM COUNTY, TEXAS
STATEMENT OF NET ASSETS - CASH BASIS
SEPTEMBER 30, 2010**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 740,512
Total assets	740,512
LIABILITIES	
Due to other governmental entities	16,238
Cash bonds	29,001
Total liabilities	45,239
NET ASSETS	
Restricted by enabling legislation for:	
Special projects	71,360
Unrestricted	623,913
Total net assets	\$ 695,273

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

DALLAM COUNTY, TEXAS
STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Functions/Programs	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary government					
Governmental Activities:					
Administrative	\$ 690,976	\$ 200,072	\$ 27,392	\$ -	\$ (463,512)
Judicial	402,295	137,562	25,045	-	(239,688)
Public facilities	342,883	503	69,152	-	(273,228)
Public safety	1,532,581	24,191	718,269	-	(790,121)
Road and bridge	563,330	461,471	19,505	-	(82,354)
Public service	226,047	89	127,562	-	(98,396)
Principal on indebtedness	250,240	-	-	-	(250,240)
Interest on indebtedness	29,760	-	-	-	(29,760)
Capital outlay	109,931	-	-	-	(109,931)
Total	\$ 4,148,043	\$ 823,888	\$ 986,925	\$ -	(2,337,230)
General receipts:					
Property taxes					2,407,584
Mixed beverage taxes					4,405
Intergovernmental - Federal land					183,457
Interest earnings					819
Miscellaneous					58,891
Total general receipts					2,655,156
Change in net assets					317,926
Net assets - beginning					377,347
Net assets - ending					\$ 695,273

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

DALLAM COUNTY, TEXAS
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES AND
CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
RECEIPTS			
Taxes	\$ 2,407,584	\$ -	\$ 2,407,584
Sales and miscellaneous taxes	4,405	-	4,405
Licenses and fees	646,600	32,147	678,747
Fines and forfeitures	145,141	-	145,141
Intergovernmental	1,170,382	-	1,170,382
Interest	819	-	819
Miscellaneous	58,891	-	58,891
Total receipts	<u>4,433,822</u>	<u>32,147</u>	<u>4,465,969</u>
DISBURSEMENTS			
Administrative	675,423	15,553	690,976
Judicial	392,823	9,472	402,295
Public facilities	342,883	-	342,883
Public safety	1,532,396	185	1,532,581
Road and bridge	563,330	-	563,330
Public service	226,047	-	226,047
Debt service			
Principal	250,240	-	250,240
Interest	29,760	-	29,760
Capital outlay	109,931	-	109,931
Total disbursements	<u>4,122,833</u>	<u>25,210</u>	<u>4,148,043</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	310,989	6,937	317,926
CASH BASIS FUND BALANCE - Beginning of year	<u>312,924</u>	<u>64,423</u>	<u>377,347</u>
CASH BASIS FUND BALANCE - End of year	<u>\$ 623,913</u>	<u>\$ 71,360</u>	<u>\$ 695,273</u>
CASH BASIS ASSETS - End of year			
Cash, net of liabilities	<u>\$ 623,913</u>	<u>\$ 71,360</u>	<u>\$ 695,273</u>
CASH BASIS FUND BALANCES - End of Year			
Reserved:			
Special projects	\$ -	\$ 71,360	\$ 71,360
Unreserved			
Undesignated	<u>623,913</u>	<u>-</u>	<u>623,913</u>
Total cash basis fund balances - end of year	<u>\$ 623,913</u>	<u>\$ 71,360</u>	<u>\$ 695,273</u>

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

DALLAM COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
AGENCY FUNDS
SEPTEMBER 30, 2010

ASSETS

Cash and cash equivalents	\$ 43,447
	<hr/>
Total assets	\$ 43,447
	<hr/> <hr/>

LIABILITIES

Amounts held for individuals and businesses	\$ 43,447
	<hr/>
Total liabilities	\$ 43,447
	<hr/> <hr/>

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

DALLAM COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Dallam County's financial statements are prepared on a cash receipts and disbursements basis of accounting. This other comprehensive basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued before November 30, 1989, have been applied, to the extent they are applicable to the cash receipts and disbursements basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

The most significant accounting and reporting policies of the County are described in the following notes to the financial statements.

A. FINANCIAL REPORTING ENTITY

The County is a public corporation and political subdivision of the State of Texas. The Commissioners Court, which is made up of four commissioners and the County Judge, is the general governing body of the County in accordance with Article 5, Paragraph 18 of the Texas Constitution. The County provides the following services as authorized by the statutes of the State of Texas: general government (e.g., tax collection), judicial (courts, juries, district attorney, etc.), public safety (sheriff, jail, etc.), roads and bridges, and public service (e.g. juvenile services and assistance to indigents).

The accompanying basic financial statements present the government defined according to criteria in GASB Statement No. 14, *The Financial Reporting Entity*. These financial statements do not include the operations of any other organization, because none of the criteria for inclusion as set forth in GASB Statement No. 14 have been met. Component units are legally separate organizations for which the County is financially accountable. The County has no component units.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The **government-wide financial statements** include the statement of net assets and the statement of activities. Government-wide statements report, except for County fiduciary activity, information on all of the activities of the County. The effect of inter-fund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

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

Separate **fund financial statements** are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. The General Fund is the only fund meeting the criteria for a **major governmental fund**. The General Fund is reported in separate columns in the fund financial statements.

(Continued)

DALLAM COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The **government-wide financial statements** are reported using the economic resources measurement focus, within the limitations of the cash receipts and disbursements basis of accounting, as defined below.

Revenues are classified as *program revenues* and *general revenues*. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, investment earnings, and other miscellaneous revenues.

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

Governmental fund level financial statements are reported using current financial resources measurement focus and the cash receipts and disbursements basis of accounting.

Interfund eliminations have not been made in the fund financial statements.

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental activities are presented using the cash receipts and disbursements basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this cash receipts and disbursements basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the County utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use a modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

The County reports the following major governmental funds:

The **General Fund** is the general operating fund of the County and always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

Fiduciary fund level financial statements include fiduciary funds which are classified into private purpose trust and agency funds. The County has only agency funds which are used to account for assets held by the County as an agent for individuals, private organizations, other governments and other funds. Agency funds do not involve a formal trust agreement. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

(Continued)

DALLAM COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

D. USE OF RESTRICTED ASSETS

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

E. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Deposits and Investments

The County's cash and cash equivalents are considered to be cash on hand and demand deposits. Statutes authorize the County to keep funds in demand deposits, time deposits, or securities of the United States. The County's custodial banks are required to pledge for the purpose of securing County funds, securities of the following kind, in an amount equal to the amount of such County funds: bonds and notes of the United States, securities of indebtedness of the United States, bonds of the State of Texas, or of any county, city, or independent school district, and various other bonds as described in Texas Statutes. TexPool is duly chartered and administered by the Texas Treasury Safekeeping Trust Company and the portfolio normally consists of U.S. T-Bills or T-Notes, collateralized certificates of deposit, and repurchase agreements. The carrying value (cost) and market value are equal for these deposits.

2. Capital Assets

The County's cash receipts and disbursements basis of accounting reports capital assets resulting from transactions. The accounting treatment over capital assets, which include land, buildings and improvements, and equipment, depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

3. Accounts Payable

The County believes that sufficient detail of payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. Payables recorded do not reflect an accrual entry, but are amounts collected and in the process of payment primarily to other governments within 30 days. They are not treated as fiduciary in nature.

4. Long-term Obligations

Long-term debt arising from cash receipts and disbursements basis transactions of governmental funds is not reported as liabilities in either the government-wide or fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

5. 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 of use for a specific purpose.

(Continued)

DALLAM COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

F. BUDGETS AND BUDGETARY ACCOUNTING

Budgetary information

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

1. Prior to September 1, the proposed budget is submitted to the Commissioners' Court.
2. The Commissioners' Court provides for a public hearing on the County budget subsequent to August 15, and prior to the levy of taxes by the Commissioners' Court.
3. Prior to October 1, the budget is legally adopted by order of the Commissioners' Court for the General Fund and all special revenue funds.
4. The budget is prepared by fund and department with the legal level of control at the department level. Administrative control is maintained through the establishment of more detailed account or object class budgets within the departments. Emergency expenditures to meet unusual and unforeseen conditions which could not, by reasonable diligent thought and attention, have been included in the original budget, whereby total expenditures of a department have been increased must be authorized by the Court as emergency amendments to the original budget. Management may not amend the budget at any level without approval of the Commissioner's Court. Amounts shown in the financial statements represent the original budget amounts and all supplemental appropriations. Supplemental appropriations to the original adopted budget are in the Final Budget Amounts column of the Budgetary Comparison Schedule for the General Fund.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) on the modified accrual basis of accounting on an annual basis. The District Clerk Records Management, Archive Records Management, Narcotics Task Force, and the CPS Prosecutor Special Revenue Funds were not included in the annual budget because there were no projected expenditures at the time the budget was prepared.
6. Formal budgetary integration on an annual basis is employed as a management control device during the year for the General Fund, certain Special Revenue Funds, the Capital Projects Fund, and the Debt Service Fund.
7. All appropriations, except those in grant funds, lapse at the end of the County's fiscal year and may be re-budgeted the next year.

Excess of disbursements over appropriations

For the year ended September 30, 2010, disbursements exceeded appropriations in the General Fund for the administrative line item by \$12,320, the judicial line item by \$8,768, the public facilities line item by \$140 and the public service line item by \$2,854. These disbursements were funded by lower than expected disbursements in total in that fund.

**DALLAM COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 2 – CASH

Following is a reconciliation of the County's cash and deposit balances as of September 30, 2010:

Cash and deposit balances consist of:

Bank deposits	\$	782,578
Temporary investments - TexPool		1,381
		1,381
Total	\$	783,959
		783,959

Cash and deposit balances are reported in the basic financial statements as follows:

Government-wide Statement of Net Assets - Cash Basis:		
Unrestricted	\$	740,512
Fiduciary Funds Statement of Net Assets - Cash Basis		43,447
		43,447
Total	\$	783,959
		783,959

Custodial credit risk – deposits. As of September 30, 2010, the carrying amount of the County's deposits with financial institutions was \$759,065 and the bank's balance was \$916,568. Of the bank balance, \$362,678 was insured through the Federal Depository Insurance Corporation (FDIC) and \$553,890 was collateralized with securities held by the pledging institution's agent in the County's name.

As of September 30, 2010, the County had \$1,381 invested in the Texas Treasury Safekeeping Trust Company (TexPool). TexPool is a public funds investment pool created pursuant to the Interlocal Cooperation Act of the State of Texas. 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.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

Interest rate risk is the risk that adverse changes in interest rates will result in an adverse affect on the fair value of an investment. The County manages its exposure to interest rate risk by maintaining its cash in interest-bearing demand accounts, the readily available TexPool shares, or in certificates of deposit with maturities of one year or less.

Credit risk – Is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. State law and District policy limit investments in local government pools to those rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. As of September 30, 2010, the County's investment in TexPool was rated AAA by Standard and Poor's.

Concentration of credit risk – Is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of September 30, 2010, .1819% of the County's carrying value of cash was invested in TexPool. All other cash was deposited with the County's depository and was adequately secured as described above.

DALLAM COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 3 – PROPERTY TAX

The State of Texas Constitutional tax rate limit for both operations and debt service is \$.80 on each \$100 of assessed valuation. The tax rate on the 2009 tax roll was \$.470000 per \$100, which means that the County has a tax margin of \$.330000 per \$100 and could raise up to \$1,531,790 additional revenue from the 2009 assessed valuation of \$464,296,601 before the limit is reached.

Real and personal property values are assessed for the period January 1 to December 31, as of January 1 at which date property taxes attach as an enforceable lien on property. Taxes are levied by October 1 of the current year and are collected from October 1 to June 30 of the following year. Late payments are subject to penalty and interest. Taxes become delinquent on July 1 of the following year.

NOTE 4 – CAPITAL ASSETS

Capital assets are recorded at cost. Costs of these assets are reflected in the year purchased and are not capitalized and depreciated over their useful lives in accordance with accounting principles generally accepted in the United States of America. The effect of this departure from GAAP has not been determined.

NOTE 5 – RETIREMENT PLAN

Plan Description

Dallam County provides retirement 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 602 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the County (employer), within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 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 the County.

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

Funding Policy

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

(Continued)

**DALLAM COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 5 – RETIREMENT PLAN – Continuation

The County contributed using the actuarially determined rate of 10.04% and 11.32% for the months of the accounting year in 2009 and 2010, respectively. The contribution rate payable by the employee members is 7.0% for fiscal year 2010 as adopted by the governing body of the County. The County elected to contribute this amount for its employee members. The employee contribution rate and the employer contribution rate may be changed by the governing body of the County within the options available in the TCDRS Act.

Annual Pension Cost

The required contribution was determined as part of the December 31, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2009 included (a) 8.0% investment rate of return (net of administrative expenses), and (b) projected salary increases of 5.4%. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of the assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 10 year period. The unfunded actuarial liability is being amortized over a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2009 was 20 years.

Funded Status and Funding Progress

As of December 31, 2009, the most recent actuarial valuation date, the plan was 83.56% funded. The actuarial accrued liability for benefits was \$5,595,451, and the actuarial value of assets was \$4,675,688, resulting in an unfunded actuarial accrued liability (UAAL) of \$919,763. The covered payroll (annual payroll active employees covered by the plan) was \$1,839,457, and the ratio of UAAL to the covered payroll was 50.0%.

ACTUARIAL VALUATION INFORMATION

Actuarial valuation date	12/31/2007	12/31/2008	12/31/2009
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization in years	15.0	19.0	20.0
Asset valuation method	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value
Actuarial Assumptions:			
Investment return	8.00%	8.00%	8.00%
Projected salary increases	5.30%	5.30%	5.40%
Inflation	3.50%	3.50%	3.50%
Cost-of-living adjustment	0.00%	0.00%	0.00%

(Continued)

**DALLAM COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 5 – RETIREMENT PLAN – Continuation

**TREND INFORMATION FOR THE RETIREMENT PLAN FOR THE EMPLOYEES OF
DALLAM COUNTY, TEXAS**

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2008	\$ 147,850	100%	\$ -
September 30, 2009	184,429	100	-
September 30, 2010	216,481	100	-

The funded status of the plan as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll* (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/09	\$ 4,675,688	\$ 5,595,451	\$ 919,763	83.56%	\$ 1,839,457	50.00%

* The annual covered payroll is based on the employee contributions received by TCDRS for the year ending with the valuation date.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

NOTE 6 – MAJOR TAXPAYERS

As of September 30, 2010, the following taxpayers accounted for a significant portion of the County's total tax levy.

Taxpayer	Industry	Tax Amount	Percent of Total Levy
Taxpayer A	Agriculture	\$ 174,139	7.97 %

DALLAM COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 7 – LONG-TERM DEBT

Dallam County has an outstanding note payable to First National Bank in Dalhart with a principal amount due as of September 30, 2010 of \$822,937 bearing interest at 3.93% maturing October 30, 2010. The note is secured by County taxes. The County has established an Interest and Sinking Fund rate to retire the debt over an extended period of time greater than one year. The budget for the fiscal year ending 2010-2011 does not budget for full retirement of the debt. The County's increasing tax base should allow for retirement of the debt at an accelerated date but no set date can be determined as of the date of these financial statements other than the maturity date.

There is also an outstanding note payable to First State Bank in Dalhart with a principal amount due as of September 30, 2010 of \$115,579 bearing interest at 4.00% maturing October 1, 2013. The note is secured by the Tax Assessor Collector's building.

NOTE 8 – RISK MANAGEMENT

The County's major areas of risk management are: public officials' liability, automobile liability, airport liability, general comprehensive liability, and property damage, workers compensation, automobile liability and employee health insurance. The County has obtained insurance with an insurance company and a public entity risk pool in which all risk is transferred to those entities for all the above areas. The County pays a deductible per incident except on the employee health insurance in which the deductible is the responsibility of the employee. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded insurance coverage for the current or previous years.

**DALLAM COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 9 – PROBATION DEPARTMENTS

Juvenile Probation Department

The Dallam, Hartley and Sherman Counties Juvenile Probation Department (Department) is a joint venture between the Counties. Each County makes a contribution to the Department based on a predetermined percentage of budgeted expenditures. The Department is governed by the Juvenile Probation Board whose members are the District Judge, the three County Judges and one citizen member appointed by the Board.

The Department operates on a fiscal year ending August 31 and issues an audited statement of revenues, expenditures and changes in fund balance by Texas Juvenile Probation Commission (TJPC) contract – budget and actual on a regulatory basis of accounting as mandated by the TJPC. This report is solely the TJPC special revenue grant funds and not the Department as a whole.

Summarized information of the Dallam, Hartley and Sherman Counties Juvenile Probation Department for the year ended August 31, 2010 is as follows:

Department revenues:

TJPC grant revenues - audited	\$ 182,756
TJPC grant revenues - unaudited	23,182
Local funding - unaudited	83,000
Other revenues - unaudited	<u>11,220</u>
Total revenues	<u>300,158</u>
Department expenditures	
Grant expenditures - audited	182,756
Grant and local expenditures - unaudited	<u>117,393</u>
Total expenditures	<u>300,149</u>
Excess of Revenues over Expenditures	<u><u>\$ 9</u></u>
Total assets - unaudited	<u><u>\$ -</u></u>
Liabilities	
Bank overdraft - unaudited	\$ 5,389
Due to TJPC - audited	<u>14,662</u>
Total liabilities	<u><u>20,051</u></u>
Fund balance (deficit) - unaudited	<u><u>\$ (20,051)</u></u>

Community Supervision and Corrections (Adult Probation)

The 69th District CSCD is a joint venture between Dallam, Hartley, Sherman and Moore Counties. The County's local funding to this department for the year ended September 30, 2010 was \$4,339. This funding was not audited after it was sent to the CSCD by the County.

REQUIRED SUPPLEMENTARY INFORMATION

DALLAM COUNTY, TEXAS
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$ 312,924	\$ 312,924	\$ 312,924	\$ -
Resources (Inflows):				
Taxes	2,406,000	2,406,000	2,407,584	1,584
Sales and miscellaneous taxes	3,000	3,000	4,405	1,405
Licenses and fees	738,858	738,858	646,600	(92,258)
Fines and forfeitures	187,500	187,500	145,141	(42,359)
Intergovernmental	909,936	909,936	1,170,382	260,446
Interest	6,000	6,000	819	(5,181)
Miscellaneous	4,000	4,000	58,891	54,891
Amounts available for appropriation	4,568,218	4,568,218	4,746,746	178,528
Charges to Appropriations (Outflows):				
Administrative	663,103	663,103	675,423	(12,320)
Judicial	384,055	384,055	392,823	(8,768)
Public facilities	342,743	342,743	342,883	(140)
Public safety	1,593,480	1,593,480	1,532,396	61,084
Road and bridge	638,124	638,124	563,330	74,794
Public service	223,193	223,193	226,047	(2,854)
Debt service	280,000	280,000	280,000	-
Capital outlay	130,000	130,000	109,931	20,069
Total charges to appropriations	4,254,698	4,254,698	4,122,833	131,865
Ending Budgetary Fund Balance	\$ 313,520	\$ 313,520	\$ 623,913	\$ 310,393

DALLAM COUNTY, TEXAS
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREMENT PLAN
FOR THE EMPLOYEES OF DALLAM COUNTY, TEXAS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/07	\$ 3,966,151	\$ 4,493,412	\$ 527,261	88.27%	\$ 1,592,461	33.11%
12/31/08	4,009,989	4,871,046	861,057	82.32	1,764,488	48.80
12/31/09	4,675,688	5,595,451	919,763	83.56	1,839,457	50.00

OTHER SUPPLEMENTARY INFORMATION

DALLAM COUNTY, TEXAS
COMBINING STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES AND
CASH RECEIPTS , DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Archive</u>	<u>Courthouse Security</u>	<u>Jail Immigration and Naturalization</u>
RECEIPTS			
Licenses and fees	\$ 8,289	\$ 4,321	\$ -
Total receipts	<u>8,289</u>	<u>4,321</u>	<u>-</u>
DISBURSEMENTS			
Administrative	12,671	-	-
Judicial	-	3,827	-
Public safety	-	-	185
Total disbursements	<u>12,671</u>	<u>3,827</u>	<u>185</u>
NET CHANGE IN FUND BALANCE	(4,382)	494	(185)
CASH BASIS FUND BALANCE - Beginning of Year	<u>16,212</u>	<u>11,574</u>	<u>2,800</u>
CASH BASIS FUND BALANCE - End of Year	<u>\$ 11,830</u>	<u>\$ 12,068</u>	<u>\$ 2,615</u>
CASH BASIS ASSETS - End of Year			
Cash and cash equivalents	<u>\$ 11,830</u>	<u>\$ 12,068</u>	<u>\$ 2,615</u>
CASH BASIS FUND BALANCE - End of Year			
Reserved:			
Special projects	<u>\$ 11,830</u>	<u>\$ 12,068</u>	<u>\$ 2,615</u>

<u>JP Technology</u>	<u>Law Library</u>	<u>Records Preservation</u>	<u>DC Digitizing</u>	<u>District Clerk Technology</u>	<u>Total Other Governmental Funds</u>
\$ 2,705	\$ 3,850	\$ 3,321	\$ 470	\$ 767	\$ 32,147
<u>2,705</u>	<u>3,850</u>	<u>3,321</u>	<u>470</u>	<u>767</u>	<u>32,147</u>
-	-	200	-	767	15,553
1,795	3,850	-	-	-	9,472
-	-	-	-	-	185
<u>1,795</u>	<u>3,850</u>	<u>200</u>	<u>-</u>	<u>767</u>	<u>25,210</u>
910	-	3,121	470	-	6,937
<u>2,154</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,423</u>
<u>\$ 3,064</u>	<u>\$ -</u>	<u>\$ 3,121</u>	<u>\$ 470</u>	<u>\$ -</u>	<u>\$ 71,360</u>
<u>\$ 3,064</u>	<u>\$ -</u>	<u>\$ 3,121</u>	<u>\$ 470</u>	<u>\$ -</u>	<u>\$ 71,360</u>
<u>\$ 3,064</u>	<u>\$ -</u>	<u>\$ 3,121</u>	<u>\$ 470</u>	<u>\$ -</u>	<u>\$ 71,360</u>

FIDUCIARY

AGENCY FUNDS

The Agency Funds account for assets received in the capacity of trustee or agent for the County, other governmental entity or individual.

County Attorney – The County Attorney Fund accounts for money collected by the County Attorney and remitted to various entities.

County and District Clerk - The County and District Clerk's Fund accounts for money collected that is remitted to various entities and for registry funds held by the County and District Clerk.

Tax Assessor Collector – The Tax Assessor Collector Fund accounts for money collected by the Tax Assessor Collector and remitted to various taxing jurisdictions.

DALLAM COUNTY, TEXAS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
SEPTEMBER 30, 2010

ASSETS	<u>County Attorney</u>	<u>County and District Clerk</u>	<u>Tax Assessor Collector</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,283	\$ 8,403	\$ 32,761	\$ 43,447
Total assets	<u>\$ 2,283</u>	<u>\$ 8,403</u>	<u>\$ 32,761</u>	<u>\$ 43,447</u>
 LIABILITIES				
Accounts payable	\$ 2,283	\$ -	\$ -	\$ 2,283
Due to other governmental entities	-	2,823	30,262	33,085
Deposits	-	5,580	2,499	8,079
Total liabilities	<u>\$ 2,283</u>	<u>\$ 8,403</u>	<u>\$ 32,761</u>	<u>\$ 43,447</u>

PART III
COMPLIANCE



To The Honorable County Judge and
Commissioners Comprising the
Commissioners' Court of
Dallam County, Texas

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Dallam County, Texas as of and for the year ended September 30, 2010, which collectively comprise Dallam County, Texas' basic financial statements and have issued our report thereon dated December 7, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

This report is intended for the information of the Commissioners' Court and County Officials and is not intended to be and should not be used by anyone other than these specified parties.

DOSHIER, PICKENS & FRANCIS, L.L.C.

Doshier, Pickens & Francis, LLC
December 7, 2010

DALLAM COUNTY, TEXAS
SCHEDULE OF FINDINGS
SEPTEMBER 30, 2010

DEFICIENCIES IN THE DESIGN OF CONTROLS:

Inadequate segregation of duties within a significant account or accounting process is considered to be a deficiency in your financial reporting controls. Certain officials of the County, because of the small size of the offices, have not been able to adequately segregate the processes of cash receipts and deposits, cash disbursements and checks, and reconciling the bank accounts.

Because of this lack of segregation of duties within these processes of handling cash, there is a risk that a material misstatement could be present in the financial statements or that fraud could occur and would not be detected by management timely.

Though the various offices may not be able to adequately segregate these processes within the office, the official should implement compensating controls over these processes such as having the bank reconciliations reviewed by another official of the County outside of their office.

KNOWLEDGE AND APPLICATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:

Preparing financial statements in accordance with the cash receipts and disbursements method of accounting requires specialized skills and knowledge of a technical nature. Responsibility for ensuring that the County's financial statements are prepared in accordance with the cash receipts and disbursements method of accounting lies with the County's management. As a result, the County's management is responsible for designing and implementing internal controls to ensure the accuracy of the County's financial statements in accordance with the cash receipts and disbursements method of accounting. This includes ensuring that those responsible for the accounting and reporting function possesses the skills and knowledge to apply the cash receipts and disbursements method of accounting in recording the County's financial transactions or preparing its financial statements.

During the course of our audit we noted that the County's management was able to prepare the information necessary to prepare the governmental fund financial statements in accordance with the cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States. However, the financial records of the County still needed to be presented in the government-wide financial statements format per GASB Statement 34, *Basis Financial Statements – and Management's Discussion and Analysis – for State and Local Government*. We are required to notify the County's management that the County does not have an individual who possesses these specialized skills and knowledge to prepare these adjustments and the related financial statements and disclosures.

We have reviewed with the County Treasurer these adjustments, financial statements and disclosures to help him have an understanding of this financial information so that he can assume this responsibility for the accuracy and completeness of the financial statements.

COMPLIANCE:

As mandated by the Attorney General of the State of Texas, no elected official other than the Treasurer should have the ability to withdraw County funds from any bank account. During the course of our audit, we noted that the County/District Clerk still has control of a bank account into which County funds are being deposited. We recommend that in order to be in compliance with the State of Texas mandate that the Clerk turn over control of her operating bank account to the Treasurer as soon as possible.