

# **PARKER COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT FOR  
THE YEAR ENDED SEPTEMBER 30, 2011**

**PARKER COUNTY, TEXAS**  
**Annual Financial Statements**  
**For the Fiscal Year Ended September 30, 2011**

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**SNOW GARRETT WILLIAMS**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT**

Honorable Judge and Members of  
The Commissioners' Court  
Parker County, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Parker County, Texas, as of and for the year ended September 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Parker County, Texas, as of September 30, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2012, on our consideration of Parker County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress for the retirement plan 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

Page two

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 Parker County's financial statements as a whole. The combining and budget statements and the statistical and supplementary information section are presented for purposes of additional analysis and are not required parts of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and budget statements, the statistical and supplementary information section, and the schedule of expenditures of federal awards 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.

*Snow Garrett Williams*

Snow Garrett Williams  
June 20, 2012

## PARKER COUNTY, TEXAS MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A) of Parker County's financial performance provides an overview of the County's financial activities for the fiscal year ended September 30, 2011. The MD&A should be read in conjunction with the accompanying financial statements and the notes to those financial statements.

### FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at the close of the Fiscal Year 2011 by \$24,858,596 (*net assets*). Of this amount, \$9,393,545 is restricted for specific purposes and \$856,709 represents unrestricted net assets that may be used to meet the County's ongoing obligations to citizens and creditors. As required by GASB 34, net assets also reflect \$14,608,342 that is invested in capital assets net of related debt.
- In contrast to the government-wide statements, the fund statements report a combined fund balance at year-end of \$34,510,319; of which \$61,077 represents non-spendable fund balance, \$32,370,575 represents fund balance restricted for funding of debt service, capital projects, the lateral road fund, and federal and state programs, \$211,496 represents fund balance assigned to state and special programs, and \$1,867,171 or 5% represents unassigned fund balance.
- The General fund reports a fund balance of \$1,929,316; of which \$18,232 represents non-spendable fund balance, and \$1,911,084 represents unassigned fund balance. Unassigned fund balance for the General fund equals 6% of total General fund expenditures.
- The County's total debt decreased by a net amount of \$2,759,208 during the current fiscal year due to principal retirements.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's financial statements. The County's financial statements comprise four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements and 4) other required supplementary information in addition to the basic financial statements themselves. This report also contains other supplementary information in addition to the basic financial statements.

**The 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 private sector business. They present the financial picture of the County from an economic resource measurement focus using the accrual basis of accounting. These statements include all assets of the County as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by GASB Statement No. 34 in regards to interfund activity, payables, and receivables.

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 net assets changed during the most recent fiscal year using the full accrual basis of accounting. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other business 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 government; public safety; health and welfare; highways, roads and streets; law enforcement; judicial; recording; and tax assessing-collecting.

The government-wide financial statements can be found on pages 12 and 13 of this report.

**PARKER COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS -- (Continued)**

**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 can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, however, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County'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 balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The County maintains fifty-eight individual governmental funds (excluding fiduciary funds), fifty-three special revenue funds, three capital project funds, a debt service fund, and a general fund. Information is presented separately in the governmental fund balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Lateral Road Fund, Capital Projects 2009 Tax Road Bonds Fund and the Debt Service Fund, which are classified as major funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The County adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements (original versus final) have been provided for the major funds to demonstrate compliance with budget.

The governmental fund financial statements can be found on pages 14 through 16 of this report.

**Proprietary funds.** Internal service funds are an accounting device used to accumulate and allocate costs internally among a government's various functions. The County's uses an internal service fund to account for its self-insurance programs. Because these activities benefit governmental functions, they have been included with governmental activities in the government-wide financial statements.

The proprietary fund financial statements can be found on pages 17 through 19 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The County's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. These activities are excluded from the County's other financial statements since the County cannot use these assets to finance its operations. The accounting used for fiduciary funds is much like that used for proprietary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The fiduciary fund financial statement can be found on page 20 of this report.

**Notes to the basic 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 pages 22 through 38 of this report.

**PARKER COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS -- (Continued)**

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budget comparisons and pension benefits. The required supplementary information can be found on pages 40 through 42 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$24,858,596 as of September 30, 2011.

**Parker County's Net Assets**

	Governmental Activities	
	2011	2010
Current and other assets	\$ 43,615,438	\$ 60,284,329
Capital assets, net of depreciation	75,438,618	62,362,765
<b>Total assets</b>	<b>119,054,056</b>	<b>122,647,094</b>
Long-term liabilities	87,756,223	90,515,431
Other liabilities	6,439,237	5,852,999
<b>Total liabilities</b>	<b>94,195,460</b>	<b>96,368,430</b>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	14,608,342	14,372,097
Restricted	9,393,545	1,297,125
Unrestricted	856,709	10,609,442
<b>Total Net Assets</b>	<b>\$ 24,858,596</b>	<b>\$ 26,278,664</b>

Investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment, and construction in progress) less any related debt used to acquire those assets that is still outstanding is \$14,608,342. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional \$9,393,545 of the County's net assets (38%) represents resources that are subject to external restrictions on how they may be used. All restricted assets of the County are being held for purposes established by state and local laws, future construction, and debt service requirements on the County's outstanding debt. The remaining balance of unrestricted net assets (\$856,709) may be used to meet the County's ongoing obligations to citizens and creditors.



**PARKER COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS – (Continued)**

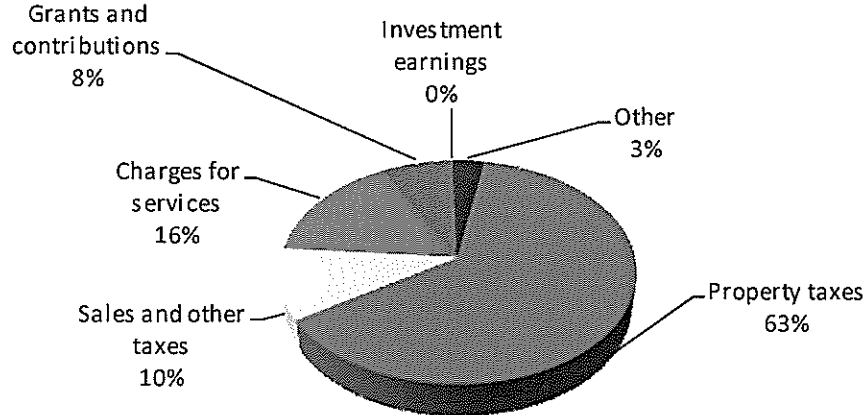
The County's governmental activities decreased net assets by \$1,420,068 during the current fiscal year. The total cost of all governmental activities this year was \$59,727,674. The amount that our taxpayers paid for these activities through property taxes was \$36,871,768 or 62%.

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

	Governmental Activities	
	2011	2010
Revenues:		
Program revenues:		
Charges for services	\$ 9,324,224	\$ 9,533,373
Operating grants and contributions	3,193,237	3,093,099
Capital grants and contributions	1,069,606	702,978
General revenues:		
Property taxes	36,871,768	34,873,763
Sales and other taxes	5,958,132	5,707,575
Investment earnings	18,532	32,463
Other	1,872,107	1,518,607
Total revenues	<u>58,307,606</u>	<u>55,461,858</u>
Expenses:		
General government	8,783,769	8,691,183
Public safety	2,906,111	2,941,916
Health and welfare	639,524	637,843
Highways, roads and streets	14,327,215	16,305,798
Law enforcement	15,131,125	15,301,309
Judicial	10,690,802	10,472,786
Recording	2,317,188	2,243,507
Tax assessing-collecting	791,131	834,776
Interest and other costs	4,140,809	4,174,962
Total expenses	<u>59,727,674</u>	<u>61,604,080</u>
Change in net assets	(1,420,068)	(6,142,222)
Net assets-beginning	26,278,664	32,069,587
Prior period adjustment		351,299
Net assets-beginning, restated	<u>26,278,664</u>	<u>32,420,886</u>
Net assets-ending	<u>\$ 24,858,596</u>	<u>\$ 26,278,664</u>

**PARKER COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS -- (Continued)**

**Revenues by Source**



Key elements of the analysis of government-wide revenues and expenses reflect the following:

- Program revenues of \$13,587,067 equaled 23% of government expenses of \$59,727,674. As expected, general revenues (\$44,720,539) provided the remaining support and coverage for expenses.
- Over one-fourth of the expenses are law enforcement (\$15,131,125) while this category provided 3% of total revenues.
- The second largest category of expenses are highway, roads and streets (\$14,327,215) at 24% while it only provided about 6% of total revenues.
- Grant revenues and contributions comprised about 8% of total revenues.

**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS**

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

**Governmental funds.** The general government functions are reported in the General, Special Revenue, Debt Service, and Capital Project Funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's annual financing and budgeting requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$34,510,319, a decrease of \$17,354,157 in comparison with the prior year. Approximately \$1,867,171 or 5% of the fund balance represents unassigned fund balance, which is available for spending at the County's discretion. The remainder of fund balance is made up of non-spendable fund balance (\$61,077), assigned fund balance (\$211,496), and restricted fund balance (\$32,370,575). Assigned fund balance is set aside for state and special programs while the restricted fund balance is set aside to pay debt service (\$1,795,771), and fund capital projects (\$24,174,427), lateral road (\$3,415,393), and federal and state programs (\$2,984,984).

The general fund is the chief operating fund of the County. At the end of the current fiscal year, fund balance of the general fund was \$1,929,316; of which \$18,232 is non-spendable fund balance, and the remainder is unassigned. As a measure of the general fund's liquidity, we compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 6%, or slightly more than 20 days of total fund expenditures.

**PARKER COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS – (Continued)**

The fund balance of the County's general fund increased by \$547,316. Key factors in this increase are as follows:

- Increase in property tax revenues; and
- decreases for expenditures in public safety, law enforcement, and capital outlays.

The debt service fund has a total fund balance of \$1,795,771, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the debt service funds was \$533,796. Total debt principal, interest and fiscal charges increased from the prior year primarily due to the payments on the 2009 Unlimited Tax Road Bonds.

The capital projects funds had a total fund balance of \$24,174,427, all of which is restricted for construction and improvements or acquisition of County-owned buildings and equipment.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The original fiscal year 2011 budget was adopted in September 2010, with the total beginning general fund expenditures amounting to \$33,798,929, a decrease of \$1,536,709 below the 2010 fiscal year final budgeted expenditures. The fiscal year 2011 budget decrease was primarily due to a decrease in buildings and grounds, emergency management, jail, courthouse security, and tax assessing-collecting expenditures.

In total, the original general fund budget for expenditures and the final general fund amended budget for expenditures were increased by \$235,931 from the original to the final budget. Most of this difference resulted from:

- A reduction of general government expenditures; and
- Increases in judicial and law enforcement expenditures.

Significant variations between the final budget and actual amounts include the following:

- Actual revenues were greater than budgeted by \$85,627 primarily due to the increase in property tax collections from what was expected; and
- Actual expenses were \$466,525 less than budgeted primarily due to lower costs of buildings and grounds, public safety, law enforcement, judicial, and non-departmental expenditures than anticipated.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital assets.** The capital assets of the County are those assets (land, buildings and improvements, roads and bridges, office furnishings, transportation, road maintenance, fire-fighting, emergency management and other equipment), which are used in the performance of the County's functions including current year expenditures for infrastructure assets. At September 30, 2011, net capital assets of the governmental activities totaled \$75,438,618. Depreciation on capital assets is recognized in the government-wide financial statements. Annual depreciation for buildings, improvements, infrastructure and machinery and equipment totaled \$6,521,747.

**PARKER COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS – (Continued)**

**Parker County's Capital Assets  
(net of depreciation)**

	Governmental Activities	
	2011	2010
Land	\$ 12,376,169	\$ 1,915,110
Work in progress	12,117,997	17,287,779
Buildings and improvements	26,572,727	27,243,316
Infrastructure	14,589,549	5,058,157
Office furniture and equipment	3,837,964	4,503,416
Transportation	1,154,762	1,437,926
Road maintenance equipment	4,636,665	4,738,864
Emergency management equipment	143,104	168,746
Other	9,681	9,451
<b>Total</b>	<b>\$ 75,438,618</b>	<b>\$ 62,362,765</b>

Additional information on the County's capital assets can be found in Note 6 on page 30 of this report.

**Long-term debt and capital leases.** As of September 30, 2011, the County had unlimited tax road bonds, general obligation refunding bonds, certificates of obligation and tax notes outstanding of \$78,959,975. Total capital leases payable were \$3,738,799.

The County's total property tax rate for 2010-11 was \$.38972 per \$100 assessed valuation, of which \$.06654 was for annual debt service.

**Parker County's Outstanding Debt**

	Governmental Activities	
	2011	2010
Unlimited tax road bonds	\$ 59,899,975	\$ 59,999,975
General obligation refunding bonds	3,030,000	3,190,000
Certificates of obligation	14,465,000	14,515,000
Tax notes	1,565,000	3,175,000
Capital leases payable	3,738,799	4,576,072
<b>Total</b>	<b>\$ 82,698,774</b>	<b>\$ 85,456,047</b>

Additional information on the County's long-term debt can be found in Note 9 on pages 31 through 35 of this report.

**PARKER COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS – (Continued)**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The annual budget is developed to provide efficient, effective and economic uses of the County's resources, as well as, a means to accomplish the highest priority objectives. Through the budget, the County Commissioners set the direction of the County, allocate its resources and establish its priorities.

In considering the County budget for fiscal year 2012, the County Commissioners and management considered the following factors:

- The County, which is located near the Dallas/Fort Worth Metroplex, is expecting an increase in population, households, and retail sales, therefore sales tax revenues for the County are expected to slightly increase or at least remain stable.
- Property tax revenues are budgeted to increase because of the continued rise in certified values of real estate in this area as well as an increase in the debt service portion of the tax rate.
- Commercial and industrial growth and development within the County continue to increase the County's workforce and population.

**REQUEST FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the appropriate financial office (County Auditor) at 1112 Santa Fe Drive, Weatherford, Texas, 76086 or (Parker County Judge) at 1 Courthouse Square, Weatherford, Texas 76086.

FINANCIAL STATEMENTS

**PARKER COUNTY, TEXAS**  
**Statement of Net Assets**  
**As of September 30, 2011**

**Exhibit A-1**

		Primary Government Activities
<b>ASSETS:</b>		
Current assets		
Cash	\$	1,052,678
Investments		10,588,355
Receivables (net of allowance for uncollectible accounts)		4,093,003
Prepaid expenses and other assets		61,077
Non-current assets		
Restricted cash		454,771
Restricted investments		26,025,812
Deferred bond issuance costs, net of amortization		1,339,742
Land and work in progress		24,494,166
Other capital assets, net of depreciation		50,944,452
Total assets		119,054,056
<b>LIABILITIES:</b>		
Current liabilities		
Accounts payable		4,170,216
Accrued salaries and benefits payable		717,835
Compensated absences payable		852,783
Accrued interest payable		649,672
Due to other governmental entities		48,731
Noncurrent liabilities		
Due within one year		2,887,335
Due in more than one year		84,868,888
Total liabilities		94,195,460
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt		14,608,342
Restricted for:		
Debt service		1,982,665
Lateral road		3,684,148
Federal and state programs		3,726,732
Unrestricted		856,709
	\$	24,858,596

PARKER COUNTY, TEXAS  
Statement of Activities  
For the Fiscal Year Ended September 30, 2011

Exhibit A-2

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
Governmental Activities					
General government	\$ 8,783,769	244,088	569,938		(7,969,743)
Public safety	2,906,111	317	136,103	492,638	(2,277,053)
Health and welfare	639,524	143,467			(496,057)
Highways, roads and streets	14,327,215	2,738,869	73,719	576,968	(10,937,659)
Law enforcement	15,131,125	755,664	1,060,684		(13,314,777)
Judicial	10,690,802	3,217,406	1,352,793		(6,120,603)
Recording	2,317,188	1,319,645			(997,543)
Tax assessing-collecting	791,131	904,768			113,637
Interest and other costs	4,140,809				(4,140,809)
Total primary government	\$ 59,727,674	9,324,224	3,193,237	1,069,606	(46,140,607)

General revenue:	
Property taxes	36,871,768
Sales and other taxes	5,958,132
Investment earnings	18,532
Other general revenue	1,872,107
Total general revenues	<u>44,720,539</u>
Change in net assets	(1,420,068)
Net assets - beginning	26,278,664
Net assets - ending	<u>\$ 24,858,596</u>



**PARKER COUNTY TEXAS**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2011**

Exhibit A-3

	<u>General</u>	<u>Lateral Road</u>	<u>Capital Projects 2009 Tax Road Bonds</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Assets:						
Cash	\$ 38,493	71,232	454,771	30,305	122,400	717,201
Investments	1,788,130	4,076,480	26,025,812	1,734,283	2,752,513	36,377,218
Receivables, net of uncollectible allowance of \$521,395						
Property taxes	754,824	298,902		209,275		1,263,001
Intergovernmental	1,411,925	12,671		9,002	446,503	1,880,101
Other	159,457	22,765			20,196	202,418
Prepaid expenses and other assets	18,232	877			41,968	61,077
<b>Total assets</b>	<b>\$ 4,171,061</b>	<b>4,482,927</b>	<b>26,480,583</b>	<b>1,982,865</b>	<b>3,383,580</b>	<b>40,501,016</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 997,076	652,619	2,306,156	200	138,333	4,094,384
Accrued salaries and benefits payable	540,797	145,283			31,755	717,835
Due to other governmental entities	29,774				18,957	48,731
Deferred revenues						
Property taxes	674,098	268,755		186,894		1,129,747
<b>Total liabilities</b>	<b>2,241,745</b>	<b>1,066,657</b>	<b>2,306,156</b>	<b>187,094</b>	<b>189,045</b>	<b>5,990,697</b>
Fund balances:						
Nonspendable	18,232	877			41,968	61,077
Restricted for:						
Debt service				1,795,771		1,795,771
Capital projects			24,174,427			24,174,427
Lateral road		3,415,393				3,415,393
Federal and state programs					2,984,984	2,984,984
Assigned to state and special programs					211,496	211,496
Unassigned	1,911,084				(43,913)	1,867,171
<b>Total fund balances</b>	<b>1,929,316</b>	<b>3,416,270</b>	<b>24,174,427</b>	<b>1,795,771</b>	<b>3,194,535</b>	<b>34,510,319</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,171,061</b>	<b>4,482,927</b>	<b>26,480,583</b>	<b>1,982,865</b>	<b>3,383,580</b>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	75,438,618
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,129,747
Additional receivables and bond issuance costs are not measurable and available in the current period and are not reported in the funds.	2,081,490
Some liabilities, including bonds, capital leases and interest payable, accumulated accretion, unamortized premiums, and compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(89,258,678)
Assets and liabilities of the internal service fund is included in governmental activities and are not reported with governmental funds.	957,100
<b>Net assets of governmental activities - statement of net assets</b>	<b>\$ 24,858,596</b>

**PARKER COUNTY, TEXAS**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Fiscal Year Ended September 30, 2011**

Exhibit A-4

	General	Lateral Road	Capital Projects 2009 Tax Road Bonds	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Property taxes	\$ 22,706,358	8,099,582		6,262,950		37,068,890
Sales taxes	5,865,381					5,865,381
Intergovernmental	1,366,141	73,719	576,968		2,416,981	4,433,809
Fees of Office	4,227,313	2,387,370			1,901,476	8,516,159
Fines and forfeitures		351,499				351,499
Interest	8,554	5,546		3,134	1,298	18,532
Royalties	228,137					228,137
Miscellaneous	575,556	109,387			170,202	855,145
Total revenues	<u>34,977,440</u>	<u>11,027,103</u>	<u>576,968</u>	<u>6,266,084</u>	<u>4,489,957</u>	<u>57,337,552</u>
<b>EXPENDITURES</b>						
Current:						
General government	5,659,241	811,549	57,161		591,532	7,119,483
Public safety	2,433,008				190,883	2,623,891
Health and welfare	609,583					609,583
Highways, roads and streets		10,065,502				10,065,502
Law enforcement	14,339,466				150,332	14,489,798
Judicial	7,132,444				3,370,747	10,503,191
Recording	2,053,504				189,624	2,243,128
Tax assessing-collecting	771,339					771,339
Capital outlays	43,896	1,211,314	17,844,773		657,598	19,757,581
Debt Service						
Principal	391,332	445,942		1,920,000		2,757,274
Interest	134,522	74,031		3,812,288		4,020,841
Total expenditures	<u>33,568,335</u>	<u>12,608,338</u>	<u>17,901,934</u>	<u>5,732,288</u>	<u>5,150,716</u>	<u>74,961,611</u>
Deficiency of revenues under expenditures	<u>1,409,105</u>	<u>(1,581,235)</u>	<u>(17,324,966)</u>	<u>533,796</u>	<u>(660,759)</u>	<u>(17,624,059)</u>
Other financing sources (uses):						
Operating transfers in		265,009			600,446	865,455
Operating transfers out	(865,455)					(865,455)
Sale of assets	3,666	266,236				269,902
Total other financing sources (uses)	<u>(861,789)</u>	<u>531,245</u>	<u>-</u>	<u>-</u>	<u>600,446</u>	<u>269,902</u>
Net changes in fund balances	547,316	(1,049,990)	(17,324,966)	533,796	(60,313)	(17,354,157)
Fund balances - October 1	<u>1,382,000</u>	<u>4,466,260</u>	<u>41,499,393</u>	<u>1,261,975</u>	<u>3,254,848</u>	<u>51,864,476</u>
Fund balances - September 30	<u>\$ 1,929,316</u>	<u>3,416,270</u>	<u>24,174,427</u>	<u>1,795,771</u>	<u>3,194,535</u>	<u>34,510,319</u>

**PARKER COUNTY, TEXAS**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of Governmental Funds to the**  
**Statement of Activities**  
**For the Fiscal Year Ended September 30, 2011**

Exhibit A-5

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

Net change in fund balances - total governmental funds \$ (17,354,157)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of some of the assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.

Capital outlay	\$ 19,757,581	
Depreciation	<u>(6,521,747)</u>	
Net capital outlay		13,235,834

The net effect of various miscellaneous transactions involving capital assets. (i.e., sales, trade-ins, disposals, donations) decreasing net assets (159,981)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (116,798)

Repayment of long-term debt principal is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 2,757,274

Some items reported in the statement of activities do not involve current financial resources and, therefore, are not reported as expenditures in the governmental funds. These activities are:

Amortization of deferred bond issuance costs	\$ (76,612)	
Amortization of premium from bond issuance	144,648	
Increase in accrued interest payable	(45,291)	
Accretion of capital appreciation bonds	(142,713)	
Increase in compensated absences payable	<u>(4,521)</u>	
Net increase in expenditures		(124,489)

Internal service funds are used by the County to account for health insurance activities. The net activity of the internal service fund is reported with governmental activities. 342,249

Change in net assets of governmental activities - statement of activities \$ (1,420,068)

**PARKER COUNTY, TEXAS**  
**Statement of Net Assets**  
**Proprietary Fund**  
**September 30, 2011**

**Exhibit A-6**

			Insurance Escrow
<b>ASSETS:</b>			
Cash	\$	790,248	
Investment		236,949	
Accounts receivable		5,735	
Total assets			1,032,932
<b>LIABILITIES:</b>			
Accounts payable			75,832
Total liabilities			75,832
<b>NET ASSETS:</b>			
Unrestricted			957,100
Total net assets	\$		957,100

The accompanying notes are an integral part of this statement.

**PARKER COUNTY, TEXAS**  
**Statement of Revenues, Expenses and**  
**Changes in Net Assets**  
**Proprietary Fund**  
**For the Fiscal Year Ended September 30, 2011**

Exhibit A-7

		Insurance Escrow
<b>OPERATING REVENUE</b>		
County contributions	\$	6,462,632
Total operating revenues		6,462,632
<b>OPERATING EXPENSES</b>		
Contractual		7,097,313
Total operating expenses		7,097,313
Operating loss		(634,681)
<b>NON OPERATING REVENUES</b>		
Miscellaneous		976,930
Total non operating revenues		976,930
Change in net assets		342,249
Net assets -October 1		614,851
Net assets -September 30	\$	957,100

**PARKER COUNTY, TEXAS**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Fiscal Year Ended September 30, 2011**

**Exhibit A-8**

	Insurance Escrow
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	
Receipts from interfund services provided	\$ 6,474,755
Payments to providers	<u>(7,041,467)</u>
Net cash used by operating activities	(566,712)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Change in investments	(212,322)
Miscellaneous revenues	<u>976,930</u>
Net cash provided by investment activities	<u>764,608</u>
Net increase in cash	197,896
Cash - October 1	<u>592,353</u>
Cash - September 30	\$ <u><u>790,248</u></u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (634,681)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Decrease in accounts receivable	12,123
Increase in accounts payable	<u>55,846</u>
Net cash used by operating activities	\$ <u><u>(566,712)</u></u>

The accompanying notes are an integral part of this statement.

**PARKER COUNTY, TEXAS**  
**Statement of Fiduciary Assets and Liabilities**  
**Agency Funds**  
**September 30, 2011**

**Exhibit A-9**

**ASSETS**

Cash	\$ 3,128,231
Investments	678,490
Accounts receivable	<u>15,590</u>

Total assets	\$ <u><u>3,822,311</u></u>
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**LIABILITIES**

Deposits held and due to others	\$ 3,820,551
Accounts payable - State	<u>1,760</u>

Total liabilities	\$ <u><u>3,822,311</u></u>
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NOTES TO FINANCIAL STATEMENTS



**PARKER COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Parker County have been prepared in accordance with accounting principles generally accepted in the United States of America. The County's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The significant accounting policies are described below.

**A. REPORTING ENTITY**

The authority of county governments and their specific functions and responsibilities are created by and dependent upon laws and legal regulations of the Texas State Constitution V.A.C.S. Parker County, Texas (the County) performs all local government functions within its jurisdiction. The County is governed by an elected County Judge and four County Commissioners elected from individual precincts. The Judge and Commissioners form the governing body as provided by state statute. Various branches of the County government are led by duly elected officials. The Commissioners' Court has governance responsibilities over all activities related to the County. The County receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. The accompanying financial statements of the County present the financial position of the governmental activities and the respective changes in financial position. The County is not included in any other governmental "reporting entity".

There are no component units over which the County exercises significant controls or has oversight responsibility. The County is a general purpose government providing the following services to its citizens: public safety, health and welfare, public transportation through roads and bridges, law enforcement, judicial, recording, tax assessing-collecting, and general and financial administrative services.

The accounting and reporting framework and the more significant accounting principles and practices are discussed below. The remainder of the Notes is organized to provide explanations, including required disclosures, of the County's financial activities for the fiscal year ended September 30, 2011.

**B. FINANCIAL STATEMENT PRESENTATION, MEASUREMENT FOCUS, BASIS OF ACCOUNTING**

The financial and reporting policies of the County conform to accounting principles generally accepted in the United States of America as applicable to state and local governments. United States generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), which includes all statements and interpretations of the National Council on Governmental Accounting unless modified by the GASB, and those principles prescribed by the American Institute of Certified Public Accountants. The following are the more significant policies used by the County.

Government-wide 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 interfund 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.

**PARKER COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

These statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Major revenue types, which have been accrued, are community supervision fees, revenue from the investments, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Governmental fund financial statements

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. The General Fund, the Lateral Road Fund, the Capital Projects 2009 Tax Road Bonds Fund, and the Debt Service Fund meet criteria as *major governmental funds*. Each major fund is reported in a separate column in the fund financial statements. Non-major funds include other Special Revenue funds and other Capital Projects funds. The combined amounts for these funds are reflected in a single column in the fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances. Detailed statements for nonmajor funds are presented within Combining and Budget Statements.

**Governmental fund financial statements** are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due. Capital asset acquisitions are reported as expenditures in governmental funds.

**Proprietary fund financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenue is recognized when earned and expenses are recognized at the time the liabilities are incurred. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary fund include the cost of contractual services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Based on the accounting and reporting standards set forth in GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*, the County has opted to apply only those accounting and reporting pronouncements issued by the GASB subsequent to November 30, 1989 as it pertains to the accounting for proprietary fund activity.

**Fiduciary fund level financial statements** include fiduciary funds which are classified into private purpose trust and agency funds and use the economic resources measurement focus and the accrual basis of accounting. 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.

The County reports the following major governmental funds:

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

**PARKER COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Lateral Road Fund** is a special revenue fund used to account for the maintenance and construction of County roads and bridges. Financing is provided primarily by an annual property tax levy. Additional revenue is provided by a charge on each auto registration and from fines levied by the County.

**Capital Projects 2009 Tax Road Bonds Fund** is used to account for the proceeds of the Unlimited Tax Road Bonds – Series 2009 which were obtained for constructing, improving, extending, expanding, upgrading and / or developing macadamized, graveled, or paved roads in the County, right-of-way acquisition, utility relocation, traffic safety and operational improvements and other transportation related improvements, and payment of costs of issuance related to the bonds.

**Debt Service Fund** is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The County also reports the following major proprietary fund:

**Internal Service Fund** is used to account for the group health insurance benefits provided to the County's departments on a cost reimbursement basis.

Additionally, the County reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources which are legally restricted to finance particular functions or activities of the County.

Capital Project Funds are used to account for proceeds obtained for the purpose of County building improvements and equipment acquisition and costs associated capital projects.

Agency Funds are used to account for assets held by the County as an agent for individuals, business, other governments and / or other funds.

**Budget and Budgetary Accounting**

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

- (A) In the event the Commissioners Court increases property taxes three percent or less, no public hearing is required. If the Court increases taxes more than three percent but less than eight percent, then a public hearing is required prior to final adoption. If the Court increases taxes more than eight percent, a public hearing is required and taxes are subject to a rollback petition and election.
- (B) Public hearings are conducted at the Parker County Courthouse and Courthouse Annex to obtain taxpayer comments.
- (C) Prior to October 1, the budget is legally enacted through adoption of an order by Commissioners Court.
- (D) Budgeted amounts may be transferred between line items of the budget within the same fund. Any amendments which alter the line items or total expenditures of any department must be approved by the Commissioners Court. There must be an emergency condition existing in order for the Court to increase the total budget.
- (E) Budgets for the various funds are adopted on a basis consistent with United States generally accepted accounting principles (GAAP), with the exception of tax revenues being reported on the cash basis.
- (F) Expenditures in excess of appropriations are required by state statutes to be reported down to the department level.

**PARKER COUNTY, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (G) The budgeted amounts presented in these statements are as originally adopted, or as amended by, the Commissioners Court during the year ended September 30, 2011.

**C. ASSETS, LIABILITIES AND EQUITIES**

Cash Equivalents

The County follows the practice of pooling cash and investments of all funds held by the County Treasurer, except when otherwise requested, in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. Balances in cash and pooled investments are available on a demand basis to each fund. Investments are shown on the balance sheet at cost, which approximate market.

For purposes of the statement of cash flows, the County considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Restricted Assets

Cash and investments of the Capital Projects 2009 Tax Road Bonds Fund are classified as restricted because these assets are limited by applicable bond covenants.

Capital Assets and Depreciation

Capital assets, which include land, buildings and improvements, office furnishings, road maintenance, transportation, firefighting and other equipment, and infrastructure assets (e.g. roads and bridges) are reported in the government-wide financial statements. Capital assets are defined as assets with a cost of \$5,000 or more. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	10 - 40 years
Infrastructure	20 years
Office furniture and equipment	3 - 20 years
Road maintenance equipment	3 - 10 years
Transportation equipment	3 - 5 years
Firefighting equipment	5 years
Emergency management equipment	5 years
Other equipment	5 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Upon new debt issuance, premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt.

In the fund financial statements, governmental fund types recognized debt premiums and discounts, as well as issuance costs during the current period. The face amount of debt issued is reported as other financing sources net of the applicable, premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**PARKER COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Balances

The County implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The County has evaluated the use of its Debt Service, Special Revenue Funds and Capital Projects Funds under the criteria set forth in GASB Statement 54 and has determined there are no changes needed.

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

**Nonspendable Fund Balance**—includes amounts that are not in spendable form, not expected to be converted into cash within the current period or at all, or legally or contractually required to be maintained intact.

**Restricted Fund Balance**—includes amounts that are restricted for specific purposes stipulated by law or external resources providers. Restrictions may effectively be changed or lifted only with the consent of resource providers.

**Committed Fund Balance**—includes amounts that can only be used for the specific purposes determined by a formal action of Commissioner's Court, which is the County's highest level of decision-making authority, and, conjunctively, require the same formal action by Commissioner's Court to remove or revise the enacted constraint limitations.

**Assigned Fund Balance**—includes amounts intended to be used for specific purposes that are neither restricted nor committed. Intent is expressed by the Commissioner's Court of Parker County, but operationally the ability to implement the intent may be delegated to one or more persons. Designees may be listed in the County's fund balance policy or, alternatively, in the County's budgetary policy.

**Unassigned Fund Balance**— represents the residual classification of all spendable amounts not contained within the other classifications and is used for all negative fund balances.

It is the County's goal to achieve and maintain an unassigned General Fund balance of approximately 25% to 50% of budgeted expenditures for the fiscal year, to be used for unanticipated needs and to maintain restricted fund balance of the Debt Service Fund of approximately 25% of the following year's debt service requirements, to be used for debt service. At the end of fiscal year 2011, the unassigned General Fund balance was 6% of budgeted expenditures and the Debt Service Fund balance was at 31% of the following year's debt service requirements.

Where appropriate, the County will use restricted, committed, and assigned fund balances, in that order, prior to using unassigned resources.

Net Assets

In the government-wide financial statements, net assets are classified in the following categories:

**Invested in capital assets, net of related debt**—This category consists of all capital assets net of accumulated depreciation and reduced by outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets.

**PARKER COUNTY, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Restricted net assets—This category consists of external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments, enabling legislation, and constitutional provisions.

Unrestricted net assets—This category represents net assets, not restricted for any project or other purpose.

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

The government-wide statement of net assets reports \$9,419,680 of restricted net assets, of which \$2,678,158 are restricted by enabling legislation.

Use of Estimates

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

Encumbrances

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at the end of the fiscal year. Encumbrances outstanding at that time are cancelled and become available for future appropriation.

**NOTE 2: DEPOSITS AND INVESTMENTS**

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the County to invest its funds under a written investment policy (the "Investment Policy") that primarily emphasizes safety of principal, availability of liquidity to meet the County's obligations and market rate of return. The Investment Policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under chapter 2256 of the Texas Government Code.

The County's deposits and investments are invested pursuant to the Investment Policy, which is approved annually by Commissioners' Court. The Investment Policy includes a list of authorized investment instruments and a maximum allowable stated maturity of any individual investment. In addition it includes an "Investment Strategy" that specifically addresses each fund's investment options and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification, yield and management of maturities.

The County is authorized to invest in the following investment instruments provided that they meet the guidelines of the Investment Policy:

1. Obligations of the United States or its instrumentalities;
2. Direct obligations of the State of Texas or its agencies and instrumentalities;
3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed or insured by the State of Texas or the United States or its instrumentalities;
4. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States or its instrumentalities;
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state that are rated A or higher by a nationally recognized investment rating firm;