

SMITH COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED SEPTEMBER 30, 2005

SMITH COUNTY, TEXAS
Annual Financial Report
For the Fiscal Year Ended September 30, 2005

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INDEPENDENT AUDITORS' REPORT

To the Honorable Commissioners' Court
Smith County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Smith County, Texas, as of and for the year ended September 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Smith County, Texas' management. Our responsibility is to express an opinion 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 opinion.

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 Smith County, Texas as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, 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 6, 2006 on our consideration of Smith County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 14 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Smith County, Texas' basic financial statements. The combining nonmajor fund financial statements and county data are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of expenditures of federal and state awards are 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 are also not a required part of the basic financial statements of Smith County, Texas. The combining nonmajor fund financial statements and the schedules of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The county data has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Henry & Peters, P.C.

Tyler, Texas
June 6, 2006

SMITH COUNTY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the County of Smith's financial performance provides an overview of the County's financial activities for the fiscal year ended September 30, 2005. The MD&A should be read in conjunction with the accompanying transmittal letter, the basic financial statements, and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior years of government-wide data.

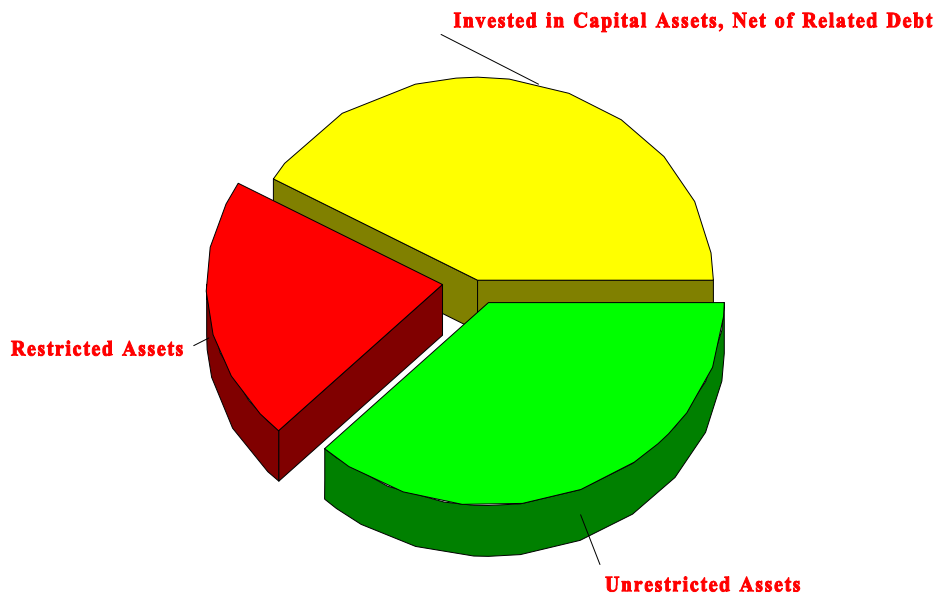
FINANCIAL HIGHLIGHTS

Government-Wide:

- ◆ The County's total net assets increased by \$4,276,329.
- ◆ The total government-wide assets of the County exceeded the liabilities at September 30, 2005 by \$45,080,750 as is reported as total net assets of the primary government. Of this amount, \$16,672,934 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors, \$9,529,857 is restricted for specific purposes (restricted net assets), and \$18,877,959 is invested in capital assets, net of related debt.

NET ASSETS BY CATEGORY

September 30, 2005



Fund Financial Statements:

- ◆ At the end of the fiscal year, the combined unreserved fund balance for the general operating funds (General, Juvenile General, and Indigent Health Care) was \$9,425,090 or 24% of the combined expenditures.

Long-Term Debt:

- ◆ In fiscal year 2005, the County did not issue any additional long-term debt.
- ◆ Smith County's total debt decreased by \$1,950,000. Total debt at the end of fiscal year 2005 is \$21,400,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to introduce the reader to the County's basic financial statements. These statements are comprised of three components 1) Government-wide financial statements; 2) Fund financial statements, and 3) Notes to the basic financial statements. Required supplementary information is included to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of county finances, in a manner similar to a private-sector business. They include a Statement of Net Assets and a Statement of Activities. Both of these statements are presented using the accrual method of accounting; therefore, revenues and expenses are taken into account regardless of when cash is received or when liabilities are paid.

The statement of net assets presents information on all County assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets will serve the reader as a useful indicator of whether the financial position of the County is improving or deteriorating. There are other non-financial factors, such as changes in the County's property tax base and the condition of the County's roads and facilities, that should be considered to assess the overall health of the County.

The Statement of Activities presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Due to a full accrual presentation, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or in part a portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, judicial, public safety/law enforcement, health and welfare, public transportation, and community and economic development. The County has no business-type activities and no component units.

Fund Financial Statements are groupings of related accounts that are 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 finance-related legal compliance. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 funds 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, Juvenile Facility Capital Project Fund, and Other Governmental Funds. The General Fund consists of the County's General Fund, Juvenile General Fund, and the Indigent Health Care Trust Fund. Data from other governmental funds is combined into a single, aggregated presentation.

Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The Internal Service Fund (a component of proprietary funds) is used to report activities that provide supplies and services for other programs and activities, such as the County's self-insurance program. Because these services predominantly benefit governmental rather than business-type functions, the Internal Service Fund is reported with governmental activities in the government-wide financial statements.

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.

Notes to the Basic Financial Statements provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information is in addition to the basic financial statements and accompanying notes and presents a budgetary comparison schedule, which includes the original and final amended budget and actual figures.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As part of the tier two group, the County initially applied GASB 34 to reports for the prior fiscal period. A comparative analysis of government-wide data is presented.

Of the County's total assets of \$73,292,534, the largest components are: (1) cash and investments of \$27,532,942 or 38% (2) receivables which largely represent the deferred taxes for FY2005 of \$4,864,053 or 7%, and (3) capital assets net of accumulated depreciation of \$40,380,963 or 55%. Capital assets are non-liquid assets and cannot be utilized to satisfy County obligations. Out of the total liabilities of \$28,211,784, approx. \$4,829,607 are current liabilities.

The County's assets exceeded liabilities by \$45,080,750 at the close of the most recent fiscal year. The County's net assets for fiscal year ended September 30, 2004 and 2005 are summarized as follows:

| | Governmental Activities FY04 | Governmental Activities FY05 |
|---|---|---|
| Current & Other Assets | \$ 32,046,253 | \$ 32,911,571 |
| Capital Assets (net of depreciation) | 38,026,686 | 40,380,963 |
| Total Assets | \$ 70,072,939 | \$ 73,292,534 |
| Current & Other Liabilities | \$ 7,687,888 | \$ 4,829,607 |
| Long-term Liabilities | 21,580,630 | 23,382,177 |
| Total Liabilities | \$ 29,268,518 | \$ 28,211,784 |
| Net Assets: | | |
| Invested in Capital Assets, Net of Related Debt | \$ 14,626,952 | \$ 18,877,959 |
| Restricted | 8,690,919 | 9,529,857 |
| Unrestricted | 17,486,550 | 16,672,934 |
| Total Net Assets | \$ 40,804,421 | \$ 45,080,750 |

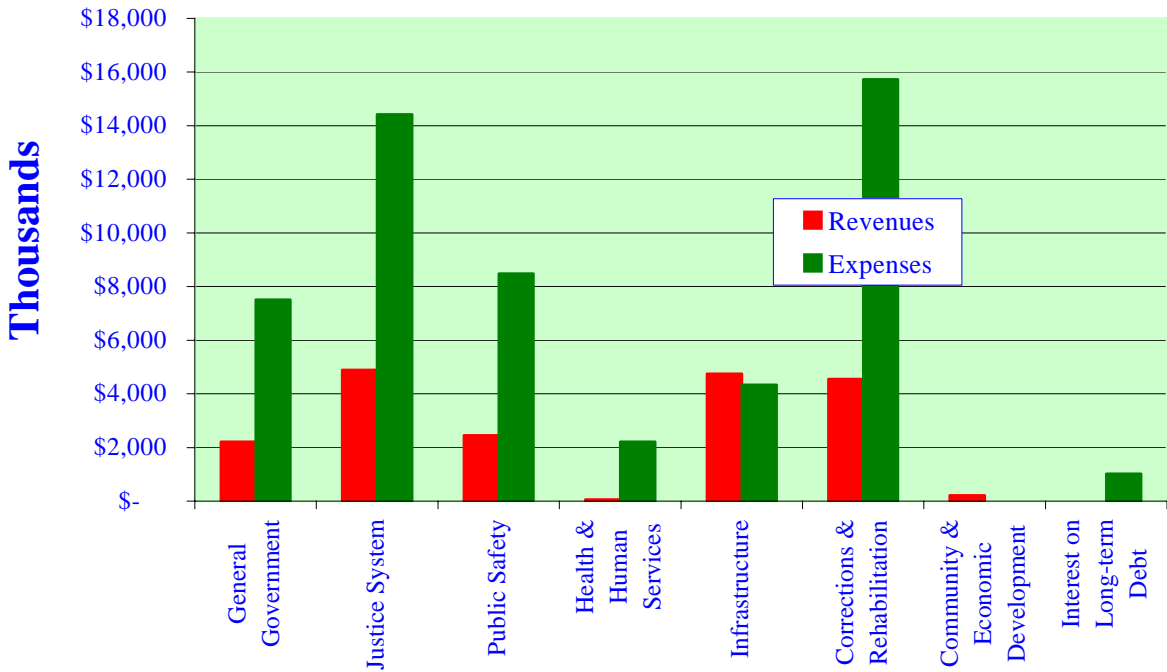
About 21% or \$9,529,857 of the County's net assets represent restricted net assets which are resources that are subject to external restrictions on how they may be used. Restrictions include statutory requirements, bond covenants, and granting conditions. The most significant portion (\$18,877,959) of the County's net assets reflects its investment in capital assets (e.g., land, buildings, machinery & equipment) net of related debt.

Governmental activities increased the County's net assets by \$4,276,329. The Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds further details the increase in net assets.

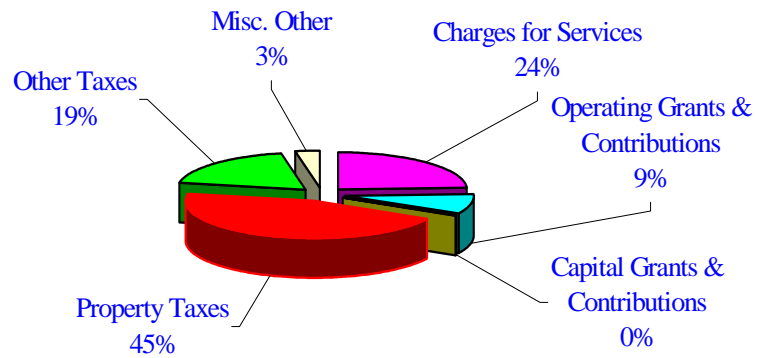
Smith County's Changes in Net Assets

| | Governmental Activities 2004 | Governmental Activities 2005 |
|-------------------------------------|---|---|
| <i>Revenues:</i> | | |
| Net Program Revenues: | | |
| Charges for Services | \$ 13,281,533 | \$ 14,059,437 |
| Operating Grants & Contributions | 5,980,885 | 4,959,734 |
| Capital Grants & Contributions | 31,880 | 112,893 |
| General Revenues: | | |
| Property Taxes | 22,498,083 | 24,486,652 |
| Sales & Other Taxes | 11,671,090 | 12,594,960 |
| Rentals & Commissions | 868,933 | 792,444 |
| Reimbursements | 59,954 | 10,144 |
| Miscellaneous | 33,280 | 162,864 |
| State Shared | 89,239 | 129,983 |
| Gain in Sale of Assets | 11,816 | 5,384 |
| Loss on donation of assets | (42,000) | - |
| Interest | 186,867 | 664,187 |
| Total Revenues | 54,671,560 | 57,978,682 |
| <i>Expenses:</i> | | |
| General Government | 7,291,686 | 7,505,881 |
| Justice System | 14,033,007 | 14,425,143 |
| Public Safety | 6,634,514 | 8,479,614 |
| Health & Human Services | 2,591,414 | 2,205,194 |
| Infrastructure | 6,367,850 | 4,332,439 |
| Corrections & Rehabilitation | 14,855,604 | 15,734,815 |
| Community & Economic Development | - | - |
| Interest on Long-term Debt | 827,558 | 1,019,267 |
| Total Expenses | 52,601,633 | 53,702,353 |
| Change in Net Assets | 2,069,927 | 4,276,329 |
| Net Assets - Beginning | 38,737,775 | 40,804,421 |
| Other Increases (Decreases) in Fund | (3,281) | - |
| Net Assets - Ending | \$ 40,804,421 | \$ 45,080,750 |

Program Expenses & Revenues - Governmental Activities



Revenues by Source - Governmental Activities



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

- ◆ Program revenues of \$19,132,064 equaled 36% of governmental expenses of \$53,702,353. As expected, general revenues of \$38,846,618 provided the additional support and coverage for expenses.
- ◆ Over 29% of the expenses are for Corrections & Rehabilitation (\$15,734,815) while this category provided about 8% of total revenues of \$57,978,682.
- ◆ The next largest category of expenses is the Justice System (\$14,425,143) at 27%. The Justice System provided about 8.5% of total revenues. Justice System expenses increased due to indigent defense legislation that resulted in changes regarding assignment of attorneys and movement of prisoners and the increased number of capital murder trials.
- ◆ Public Safety activities accounted for 16% of governmental expenses while this category provided 4% of total revenues.
- ◆ Infrastructure (Road & Bridge) accounted for 8% of governmental expenses while this category provided 8% of total revenues.
- ◆ Grant revenues and contributions comprised about 9% 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. Fund accounting and budget control have been the framework of the County's strong fiscal management and accountability. The County has a AA3/AA bond rating.

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 \$25,895,329. Approximately \$16,365,472, or 63%, of the funds balance represents unreserved fund balance which is available for spending. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: (1) to pay debt service (\$327,026); (2) to fund capital projects (\$9,202,831).

The County's General Fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance in the County's General Fund was \$6,832,854. As a measure of the general fund's liquidity, we compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance in the County's general fund (\$6,832,854) represents approx. 16% of the County's general fund expenditures. General budgetary targets for reserves are 12% of expenditures. The fund balance of the County's general fund increased by \$400,738 during the current fiscal year.

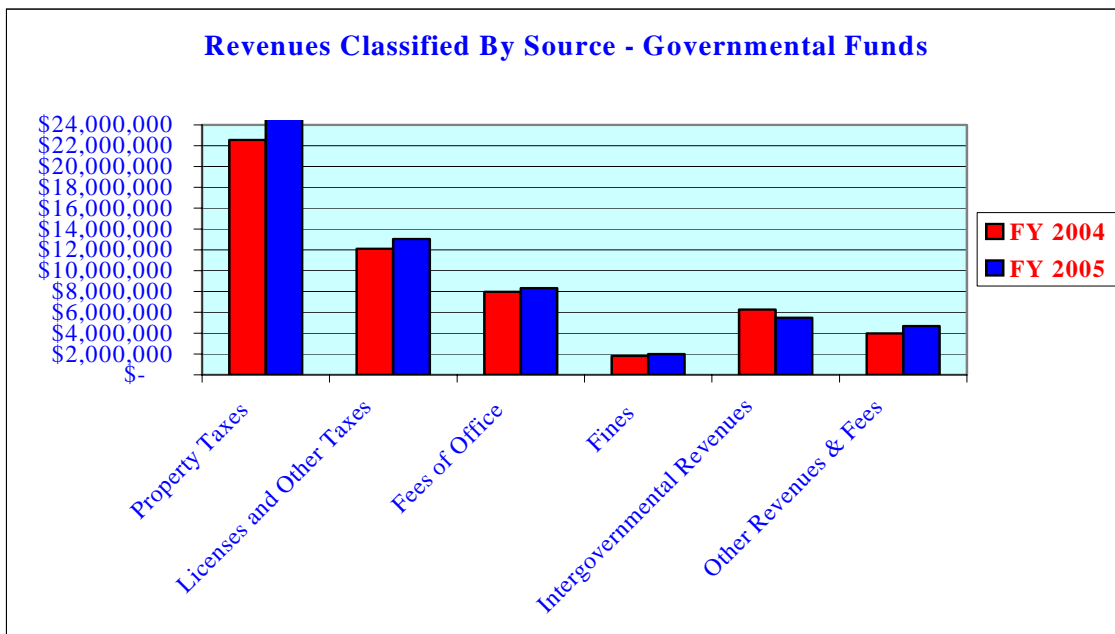
The debt service fund has a total fund balance of \$327,026, a decrease of \$68,810 as compared with the prior year.

The Juvenile Attention Center capital project fund has a fund balance of \$3,432,951. This project was completed in fiscal year 2004.

The following table presents the amount of revenues from various sources as well as increases or decreases from the prior year.

Governmental Funds - Revenues Classified by Source

| Revenues by Source | FY 2005 | FY 2004 | Increase (Decrease) | Percent of Change |
|----------------------------|---------------------|---------------------|------------------------|----------------------|
| Property Taxes | \$24,751,619 | \$22,544,199 | \$ 2,207,420 | 9.79% |
| Licenses and Other Taxes | 13,038,924 | 12,102,578 | 936,346 | 7.74% |
| Fees of Office | 8,327,311 | 7,969,582 | 357,729 | 4.49% |
| Fines | 1,992,136 | 1,806,392 | 185,744 | 10.28% |
| Intergovernmental Revenues | 5,474,492 | 6,271,055 | (796,563) | -12.70% |
| Other Revenues & Fees | 4,679,738 | 3,981,375 | 698,363 | 17.54% |
| Total Revenues | \$58,264,220 | \$54,675,181 | \$ 3,589,039 | 6.56% |



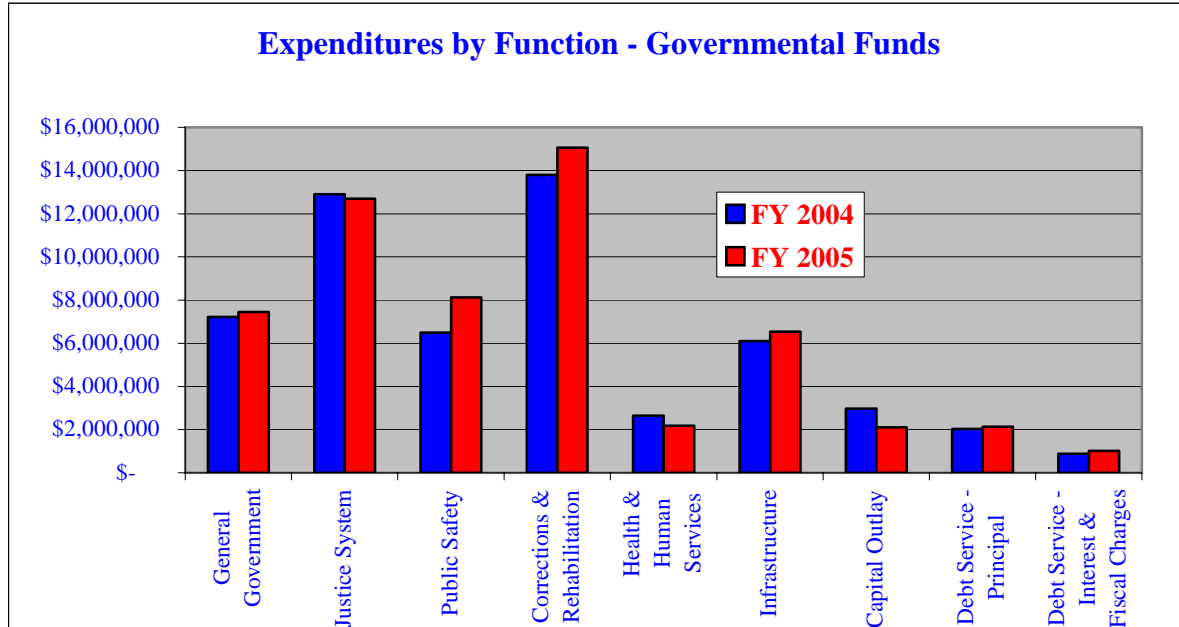
- ◆ Taxes - the increase of \$2,207,420 was primarily due to an increase from the prior year in the certified tax roll compiled by the Smith County Appraisal District. Increased tax collections resulted from an unchanged tax rate of .25447 by the increase in property values.
- ◆ The decrease in other revenues and fees is a result of tenant lease expirations in the Ferguson St. building. The building purchased in 2001 for the courthouse annex consisted of binding tenant leases until 2003 and 2004.

The following table presents expenditure by function compared to prior year amounts.

Expenditures by Function - Governmental Funds

| Expenditures by Function | FY 2005 | FY 2004 | Increase (Decrease) | Percent of Change |
|----------------------------------|---------------------|---------------------|--------------------------------|------------------------------|
| General Government | \$ 7,439,789 | \$ 7,221,999 | \$ 217,790 | 3.02% |
| Justice System | 12,698,186 | 12,901,932 | (203,746) | -1.58% |
| Public Safety | 8,123,191 | 6,494,988 | 1,628,203 | 25.07% |
| Corrections & Rehabilitation | 15,058,288 | 13,807,053 | 1,251,235 | 9.06% |
| Health & Human Services | 2,181,419 | 2,646,118 | (464,699) | -17.56% |
| Infrastructure | 6,539,127 | 6,103,245 | 435,882 | 7.14% |
| Capital Outlay | 2,110,970 | 2,975,641 | (864,671) | -29.06% |
| Debt Service - Principal | 2,138,127 | 2,035,785 | 102,342 | 5.03% |
| Debt Service - Interest & Fiscal | 1,020,116 | 879,841 | 140,275 | 15.94% |
| | \$57,309,213 | \$55,066,602 | \$2,242,611 | 4.07% |

Overall, total expenditures increased by 4.07%; however some categories experienced significant change. Public Safety expenditures increased by 25.07% primarily due to the rise in fuel prices and the outsourcing of warrant and emergency dispatch services. Health and Human Services decrease is a result of savings generated through policy changes in the Indigent Health Care services. Capital outlay decreases are due to equipment purchases in FY04 that were not necessary in FY05.



GENERAL FUND BUDGETARY HIGHLIGHTS

The budget is prepared in accordance with accounting principles generally accepted in the United States of America by the County Budget Officer and approved by the Commissioners Court following a public hearing. Appropriated budgets are approved and employed as a management control device during the year. The County maintains strict budgetary controls and sets its appropriations at the category level (i.e. salaries, benefits, operating expenses, and capital) for each department. Appropriation transfers may be made between select categories or departments only with the approval of the Commissioners Court.

The following are significant variations between the final budget and actual amounts.

- ◆ Actual revenues were higher than budgeted by \$3,173,191. Sales tax (\$1,755,436), Fee of Office (\$376,430), Intergovernmental revenues (\$212,931) and Interest Income (\$208,425) resulted in the most significant revenues increases.
- ◆ Actual expenditures were lower than budgeted in all categories. General and Administrative expenses were lower by \$96,712 mainly due to salary lag. Judicial expenses were lower by \$710,879 mainly attributable to the Juvenile Probation. Public Safety/Law Enforcement expenses were lower by \$139,647 mainly attributable to salary lag in the Sheriff's office.

DEBT ADMINISTRATION AND CAPITAL ASSETS

Long-term Debt - At September 30, 2005, the County had certificates of obligation outstanding in the amount of \$21,400,000. The County's bond rating is AA3 from Moody's and AA from Standard and Poor's.

The following represents the activity of the long-term debt of the County for FY2004.

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---------------------------------|----------------------|-------------------|--------------------|---------------------|
| Governmental Activities: | | | | |
| Limited Tax Notes | \$ - | \$ - | \$ - | \$ - |
| Certificates of Obligation | 23,350,000 | - | 1,950,000 | 21,400,000 |
| Compensated Absences | 1,547,553 | 125,369 | - | 1,672,922 |
| Capital Leases | 296,493 | 200,894 | 188,127 | 309,260 |
| Total | \$ 25,194,046 | \$ 326,263 | \$2,138,127 | \$23,382,182 |

Capital Assets - The capital assets of the County are those assets (land, buildings, improvements, roads & bridges, and machinery & equipment), which are used in the performance of the County's functions including infrastructure assets. At September 30, 2005, net capital assets of the governmental activities totaled \$40,380,963. Depreciation on capital assets is recognized in the Government-wide financial statements.

County's Capital Assets

| | Cost | Accumulate d | Net Capital Assets |
|---------------------------------|-----------------------|---------------------|-----------------------|
| Governmental Activities: | | | |
| Land | \$ 145,396 | \$ - | \$ 145,396 |
| Buildings & Improvements | 32,968,921 | 13,452,538 | 19,516,383 |
| Machinery & Equipment | 12,134,237 | 9,105,623 | 3,028,614 |
| Infrastructure | 61,009,912 | 45,480,261 | 15,529,651 |
| Construction in Progress | 2,160,919 | - | 2,160,919 |
| Total | \$ 108,419,385 | \$68,038,422 | \$ 40,380,963 |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The annual budget is developed to provide efficient 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 FY2006, the County Commissioners and management considered the following factors:

- ◆ Property tax revenues, despite the overall economy, are budgeted to increase due to the rise in certified values.
- ◆ Interest rates are planned to increase slightly.
- ◆ Structured 3% salary increases for the workforce (6% law enforcement) were approved effective January 2006.

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, County Treasurer or County Judge) at 200 E. Ferguson St., Tyler, Texas 75702 or visit the County's website at www.smith-county.com.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

EXHIBIT 1

SMITH COUNTY, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

| | <u>PRIMARY GOVERNMENT</u> <u>GOVERNMENTAL</u> <u>ACTIVITIES</u> |
|--|---|
| ASSETS | |
| Cash and cash equivalents | \$ 2,227,893 |
| Investments | 25,305,049 |
| Receivables (net of allowance for doubtful accounts) | 4,864,053 |
| Investment in joint venture | 206,250 |
| Prepays and other assets | 248,853 |
| Bond issue costs, net | 59,473 |
| Capital assets (net of accumulated depreciation): | |
| Land | 145,396 |
| Buildings | 16,378,979 |
| Improvements | 3,137,404 |
| Machinery and equipment | 3,028,614 |
| Construction in progress | 2,160,919 |
| Infrastructure | <u>15,529,651</u> |
| Total Assets | 73,292,534 |
| LIABILITIES | |
| Vouchers payable | 3,428,455 |
| Salaries payable | 1,035,170 |
| Accrued interest payable | 117,129 |
| Deferred revenues | 248,848 |
| Non-current liabilities: | |
| Due within one year | 3,757,723 |
| Due in more than one year | <u>19,624,459</u> |
| Total Liabilities | <u>28,211,784</u> |
| NET ASSETS | |
| Investment in capital assets, net of related debt | 18,877,959 |
| Restricted for: | |
| Debt service | 327,026 |
| Capital projects | 9,202,831 |
| Unrestricted: | |
| Designated | 2,592,236 |
| Undesignated | <u>14,080,698</u> |
| Total Net Assets | <u>\$ 45,080,750</u> |

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT 2

SMITH COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

| PROGRAM ACTIVITIES | PROGRAM REVENUES | | | | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS |
|---|------------------|-------------------------|--|--|--|
| | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | |
| Primary Government: | | | | | PRIMARY GOVERNMENT |
| Governmental activities: | | | | | GOVERNMENTAL ACTIVITIES |
| General government | \$ 7,505,881 | \$ 2,178,175 | \$ - | \$ 37,866 | \$ (5,289,840) |
| Justice system | 14,425,143 | 3,319,752 | 1,565,284 | - | (9,540,107) |
| Public safety | 8,479,614 | 839,555 | 1,610,075 | - | (6,029,984) |
| Health & human services | 2,205,194 | 5 | 60,579 | - | (2,144,610) |
| Infrastructure | 4,332,439 | 4,744,108 | - | - | 411,669 |
| Corrections and rehabilitation | 15,734,815 | 2,827,040 | 1,656,913 | 75,027 | (11,175,835) |
| Community and economic development | - | 150,802 | 66,883 | - | 217,685 |
| Interest on long-term debt | 1,019,267 | - | - | - | (1,019,267) |
| Total primary government | \$ 53,702,353 | \$ 14,059,437 | \$ 4,959,734 | \$ 112,893 | \$ (34,570,289) |
| General revenues: | | | | | |
| Property taxes | | | | | \$ 24,486,652 |
| Sales taxes | | | | | 12,255,436 |
| Other taxes | | | | | 339,524 |
| Rentals and commissions | | | | | 792,444 |
| Reimbursements | | | | | 10,144 |
| Miscellaneous | | | | | 162,864 |
| State Shared | | | | | 129,983 |
| Gain on sale of assets | | | | | 5,384 |
| Interest earned | | | | | 664,187 |
| Total general revenues and transfers | | | | | 38,846,618 |
| Change in net assets | | | | | 4,276,329 |
| Net assets - beginning of year | | | | | 40,804,421 |
| Other increases (decreases) in fund balance | | | | | - |
| Net assets - end of year | | | | | \$ 45,080,750 |

The notes to the basic financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

SMITH COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005

| | GENERAL | JUVENILE FACILITY FUND - CAPITAL PROJECTS | PERMANENT IMPROVEMENT FUND - CAPITAL PROJECTS | ROAD AND BRIDGE FUND - SPECIAL REVENUE | OTHER NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---------------------------|----------------------|---|---|--|-----------------------------------|--------------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 213,045 | \$ 52,778 | - | \$ 20,637 | \$ 1,865,922 | \$ 2,152,382 |
| Investments | 8,632,815 | 3,380,010 | 5,811,724 | 2,354,455 | 3,903,797 | 24,082,801 |
| Receivables: | | | | | | |
| Property taxes | 1,609,839 | - | - | - | 212,618 | 1,822,457 |
| Other | 2,992,718 | 163 | - | 74,111 | 135,848 | 3,202,840 |
| Prepaid and other assets | 210,491 | - | - | 25,053 | 13,309 | 248,853 |
| Due from other funds | 193,000 | - | - | - | 138,312 | 331,312 |
| Total assets | \$ 13,851,908 | \$ 3,432,951 | \$ 5,811,724 | \$ 2,474,256 | \$ 6,269,806 | \$ 31,840,645 |

LIABILITIES AND FUND BALANCES

| | | | | | | |
|--|----------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| Liabilities: | | | | | | |
| Vouchers payable | \$ 2,109,069 | - | \$ 38,014 | \$ 721,487 | \$ 110,211 | \$ 2,978,781 |
| Salaries payable | 782,914 | - | - | 74,855 | 177,401 | 1,035,170 |
| Bank overdraft | 5,646 | - | 3,830 | - | - | 9,476 |
| Due to other funds | 122,612 | - | - | - | 184,000 | 306,612 |
| Deferred revenues | 1,406,577 | - | - | - | 208,700 | 1,615,277 |
| Total liabilities | 4,426,818 | - | 41,844 | 796,342 | 680,312 | 5,945,316 |
| Fund Balances: | | | | | | |
| Reserved for: | | | | | | |
| Debt service | - | - | - | - | 327,026 | 327,026 |
| Capital projects | - | 3,432,951 | 5,769,880 | - | - | 9,202,831 |
| Total reserved fund balances | - | 3,432,951 | 5,769,880 | - | 327,026 | 9,529,857 |
| Unreserved: | | | | | | |
| Designated reported in: | | | | | | |
| Indigent Health Care | 1,177,692 | - | - | - | - | 1,177,692 |
| Juvenile General | 1,414,544 | - | - | - | - | 1,414,544 |
| Undesignated reported in: | | | | | | |
| General Fund | 6,832,854 | - | - | - | - | 6,832,854 |
| Special Revenue Fund | - | - | - | 1,677,914 | 5,262,468 | 6,940,382 |
| Total unreserved fund balances | 9,425,090 | - | - | 1,677,914 | 5,262,468 | 16,365,472 |
| Total fund balances | 9,425,090 | 3,432,951 | 5,769,880 | 1,677,914 | 5,589,494 | 25,895,329 |
| Total liabilities and fund balances | \$ 13,851,908 | \$ 3,432,951 | \$ 5,811,724 | \$ 2,474,256 | \$ 6,269,806 | \$ 31,840,645 |

The notes to the basic financial statements are an integral part of this statement.

SMITH COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS (EXHIBIT 1)
SEPTEMBER 30, 2005

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

| | TOTAL GOVERNMENTAL FUNDS |
|---|--------------------------------|
| Total fund balances governmental funds (Exhibit 3 page 1) | \$ 25,895,329 |
| Capital assets used in governmental activities are not current financial resources and therefore , are not reported in the governmental funds balance sheet | 40,587,213 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | 1,414,022 |
| Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in governmental funds balance sheet. | (117,129) |
| Internal service fund is used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets. | 624,019 |
| Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet. | (23,322,704) |
| Net Assets of governmental activities | \$ 45,080,750 |

SMITH COUNTY, TEXAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

| | GENERAL | JUVENILE FACILITY FUND - CAPITAL PROJECTS | PERMANENT IMPROVEMENT FUND - CAPITAL PROJECTS | ROAD AND BRIDGE FUND - SPECIAL REVENUE | OTHER NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|---------------|---|---|--|-----------------------------------|--------------------------|
| REVENUES | | | | | | |
| Property taxes | \$ 21,914,015 | - | - | - | 2,837,604 | \$ 24,751,619 |
| Licenses and other taxes | 13,038,924 | - | - | - | - | 13,038,924 |
| Fees of office | 2,401,330 | - | - | 3,610,840 | 2,315,141 | 8,327,311 |
| Fines | 876,997 | - | - | 1,115,139 | - | 1,992,136 |
| Intergovernmental revenues | 1,725,053 | - | - | - | 3,749,439 | 5,474,492 |
| Other revenues and fees | 2,680,795 | 75,414 | 157,002 | 84,979 | 1,681,548 | 4,679,738 |
| Total revenues | 42,637,114 | 75,414 | 157,002 | 4,810,958 | 10,583,732 | 58,264,220 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General government | 6,523,961 | - | 796 | - | 915,032 | 7,439,789 |
| Justice system | 11,281,542 | - | - | - | 1,416,644 | 12,698,186 |
| Public safety | 7,056,952 | - | - | - | 1,066,239 | 8,123,191 |
| Corrections & rehabilitation | 11,915,758 | - | - | - | 3,142,530 | 15,058,288 |
| Health & human services | 2,132,120 | - | - | - | 49,299 | 2,181,419 |
| Infrastructure & environmental | - | - | - | 6,539,127 | - | 6,539,127 |
| Capital outlay | 401,949 | - | 1,149,213 | - | 559,808 | 2,110,970 |
| Debt service: | | | | | | |
| Principal retirement | 172,356 | - | - | 15,775 | 1,949,996 | 2,138,127 |
| Interest and fiscal charges | 10,709 | - | - | 1,468 | 1,007,939 | 1,020,116 |
| Total expenditures | 39,495,347 | - | 1,150,009 | 6,556,370 | 10,107,487 | 57,309,213 |
| Excess (deficiency) of revenues over (under) expenditures | 3,141,767 | 75,414 | (993,007) | (1,745,412) | 476,245 | 955,007 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | - | - | - | 2,250,000 | 110,625 | 2,360,625 |
| Transfers (out) | (2,860,625) | - | - | - | - | (2,860,625) |
| Bond proceeds | - | - | (5) | - | - | (5) |
| Capital lease proceeds | 200,894 | - | - | - | - | 200,894 |
| Total other financing sources (uses) | (2,659,731) | - | (5) | 2,250,000 | 110,625 | (299,111) |
| Net change in fund balances | 482,036 | 75,414 | (993,012) | 504,588 | 586,870 | 655,896 |
| Fund balances - beginning of year | 8,943,054 | 3,357,537 | 6,762,892 | 1,173,326 | 5,002,624 | 25,239,433 |
| Other increases (decreases) to fund balance | - | - | - | - | - | - |
| Residual equity transfer | - | - | - | - | - | - |
| Fund balances - end of year | \$ 9,425,090 | \$ 3,432,951 | \$ 5,769,880 | \$ 1,677,914 | \$ 5,589,494 | \$ 25,895,329 |

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT 5

SMITH COUNTY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

| | | |
|--|----|-------------------------|
| Net change in fund balances - total governmental funds | \$ | 655,896 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays for County owned assets exceeded depreciation in the current period. | | 2,334,339 |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets. | | (20,570) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | (264,969) |
| The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | | 1,820,791 |
| Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds. | | |
| Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. | | (8,074) |
| Internal service fund is used by management to charge the costs of health insurance to individual funds. The net revenue of the internal service fund is reported with governmental activities. | | <u>(241,084)</u> |
| Change in net assets of governmental activities | \$ | <u><u>4,276,329</u></u> |

The notes to the basic financial statements are an integral part of this statement.

**SMITH COUNTY, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2005**

| | <u>Governmental Activities - Internal Service Fund</u> |
|---------------------------|--|
| ASSETS | |
| Current Assets: | |
| Cash | \$ 84,987 |
| Accounts receivable | 15,311 |
| Investments | <u>1,222,248</u> |
| Total Current Assets | <u>1,322,546</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Insurance claims payable | 449,674 |
| Deferred revenue | <u>248,853</u> |
| Total Current Liabilities | <u>698,527</u> |
| NET ASSETS | |
| Unrestricted | <u>624,019</u> |
| Total Net Assets | <u><u>\$ 624,019</u></u> |

The notes to the basic financial statements are an integral part of this statement.

SMITH COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2005

| | <u>Governmental Activities - Internal Service Fund</u> |
|--|--|
| OPERATING REVENUES | |
| Premiums and reimbursements | \$ 3,151,328 |
| Total Operating Revenues | <u>3,151,328</u> |
| OPERATING EXPENSES | |
| Insurance claims & administrative fees | <u>3,925,888</u> |
| Total Operating Expenses | <u>3,925,888</u> |
| Operating Income (Loss) | (774,560) |
| NON-OPERATING REVENUES | |
| Interest income and other | <u>33,476</u> |
| Income (loss) before transfers | (741,084) |
| Transfers in | <u>500,000</u> |
| Change in net assets | <u>(241,084)</u> |
| NET ASSETS - SEPTEMBER 30, 2004 | <u>865,103</u> |
| NET ASSETS - SEPTEMBER 30, 2005 | <u><u>\$ 624,019</u></u> |

The notes to the basic financial statements are an integral part of this statement.

**SMITH COUNTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2005**

| | Governmental Activities - Internal Service Fund |
|---|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from participants | \$ 3,441,819 |
| Cash payments for administrative fees and insurance claims | (3,987,241) |
| Other operating revenues | 23 |
| | (545,399) |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | |
| Transfers - in from other funds | 1,259,569 |
| | 1,259,569 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchase of investments | (1,222,248) |
| Interest on investments | 33,476 |
| | (1,188,772) |
| Net decrease in cash | (474,602) |
| Cash at beginning of year | 559,589 |
| CASH AT END OF YEAR | \$ 84,987 |
| Reconciliation of operating income to net cash used by operating activities: | |
| Operating income (loss) | \$ (774,560) |
| Adjustment to reconcile operating income to net cash provided by (used in) operating activities: | |
| Decrease in accounts receivable | 41,661 |
| Decrease in insurance claims payable | (39,844) |
| Decrease in other liabilities | (21,509) |
| Increase in deferred revenue | 248,853 |
| | (774,560) |
| Net Cash Used in Operating Activities | \$ (545,399) |

The notes to the basic financial statements are an integral part of this statement.

SMITH COUNTY, TEXAS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUNDS
SEPTEMBER 30, 2005

| | <u>Agency Funds</u> |
|--------------------------|----------------------------|
| ASSETS | |
| Cash | \$ 4,814,720 |
| Investments | 4,335,246 |
| Accounts receivable | <u>71,473</u> |
| Total Assets | <u><u>\$ 9,221,439</u></u> |
| LIABILITIES | |
| Vouchers payable | \$ 517,800 |
| Due to other governments | 135,483 |
| Other liabilities | <u>8,568,156</u> |
| Total Liabilities | <u><u>\$ 9,221,439</u></u> |

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Smith County (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), justice system (courts, juries, district attorney, etc.), public safety (sheriff, constables, etc.), corrections and rehab (jail and community supervision), health and human services (assistance to indigents, veteran services, etc.), conservation, and infrastructure and environmental (streets and highways).

The accompanying basic financial statements present the government unit defined according to criteria in GASB Statement No. 14, *The Financial Reporting Entity*.

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 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 are 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, Juvenile Facility Capital Projects Fund, Permanent Improvement Fund, and the Road and Bridge Fund meet criteria as **major governmental funds**. Each major fund is reported in separate columns in the fund financial statements. Non-major funds include Special Revenue and Debt Service 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 all non-major funds are presented within Combining Schedules.

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

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. This measurement focus is also used for the proprietary and fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

SMITH COUNTY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

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

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, grants not restricted to specific programs, and investments earnings.

Fund level 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. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue.

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 judgements, are recorded only when the liability has matured and payment is due.

The government 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. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, charges for services, intergovernmental revenues and investment of idle funds. Primary expenditures are for general government, justice system, public safety, corrections and rehabilitation, health and human services, and infrastructure and environmental.

The **Juvenile Facility Capital Projects Fund** accounts for the construction of a new juvenile attention facility.

The **Road and Bridge Special Revenue Fund** accounts for the activities associated with the building, maintaining or improving roads, highways, and bridges within the County, including maintenance of road and bridge facilities.

The **Permanent Improvement Capital Projects Fund** accounts for various construction projects of the County.

Other Fund types include proprietary and fiduciary funds which are considered as non-major funds. Non-major funds include special revenue funds, other capital projects funds, and debt service funds.

Proprietary fund level financial statements are used to account for activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows. The County's only Proprietary fund is the Internal Service Fund used to account for the County's group medical self-insurance program. Revenues are derived from County contributions, employee and retiree/COBRA premiums, investment of idle funds and stop loss collections. Expenses are for claims and administrative expenses.

(Continued)

SMITH COUNTY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

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

The **Proprietary fund** is accounted for using the accrual basis of accounting as follows:

1. Revenues are recognized when earned, and expenses are recognized when the liabilities are incurred.
2. Current year contributions, administrative expenses and benefit payments, which are not received or paid until the subsequent year, are accrued.

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations (e.g. insurance payments).

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.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The County's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments. State statutes and the County's official Investment Policy authorize the County to invest in repurchase agreements, certificates of deposit, direct obligations of the U. S. Government and agency securities, money market mutual funds and managed public funds investment pools.

The County records investments at fair market value in accordance with provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The reported value of the pool is the same as the fair value of the pool shares. All investment income is recognized as revenue in the appropriate fund's statement of activity and or statement of revenues, expenditures, and changes in fund balance.

2. Receivables and Payables

Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, 2005 and past due after January 31, 2006. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior year's levy are shown net of an allowance for uncollectible.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the County. Program grants are recorded as receivables and revenues at the time of eligibility requirements established by the provider have been met.

Lending or borrowing between funds is reflected as "due to or due from" (current portion) or "advances to/from other funds" (non-current). Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund activity reflected in "due to or due from" is eliminated on the government-wide statements.

(Continued)

SMITH COUNTY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

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

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and in the fund financial statements are offset by a reservation of fund balance which indicates they do not represent "available spendable resources."

4. Capital Assets

Capital assets, which include land, buildings, improvements, machinery and equipment, and infrastructure assets (e.g., roads and bridges) are reported in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$5,000 or more. Infrastructure assets include County-owned roads and bridges. Capital assets are recorded at historical costs 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 assets lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-------------------------|--------------|
| Buildings | 30 |
| Building improvements | 23 |
| Infrastructure | 20 to 45 |
| Machinery and Equipment | 3 to 15 |

5. Construction-in-Progress

Expenditures on incomplete capital projects have been capitalized as construction-in-progress. The assets resulting from these projects will be transferred from the construction-in-progress accounts to the appropriate asset account as the projects are completed.

6. Compensated Absences

A liability for unused vacation and sick time for all full time employees is calculated and reported in the government-wide statements. For financial reporting, the following criteria must be met to be considered as compensated absences:

- leave or compensation is attributable to services already rendered
- leave or compensation is not contingent on a specific event (such as illness).

Per GASB Interpretation No. 6, liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e., are due for payment). Compensated absences are accrued in the government-wide statements.

Permanent full-time employees earn vacation leave at the rate of one working day per month and may accumulate up to 18 days if years of service is less than 10 years or 24 days if years of service is 10 years or greater. Employees lose, without pay, unused vacation leave which exceeds this limit.

(Continued)

SMITH COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

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

Each permanent full-time employee earns sick leave at the rate of one working day per month and may accumulate maximum sick leave of 80 working days. After an employee accumulates the maximum number of sick days, any excess may be converted to vacation days at an exchange rate of four sick days for one day of vacation. Outstanding sick leave balances are canceled, without recompensation, upon termination, resignation, retirement or death. In accordance with the provisions of Government Accounting Standards Board Statement No. 16, "*Accounting for Compensated Absences*," no liability is recorded for nonvesting accumulated rights to receive sick pay benefits.

The regular workweek is based on 40 hours actually worked. Overtime, unless required to be paid by Federal statutes, is accumulated as compensatory (comp) time and earned at time and a half for non-exempt employees and at straight time for exempt employees. Comp time is accumulated and either taken off or paid at the employees' current rate of pay on termination, resignation, retirement or death.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under governmental activities. On new bonds issued, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

8. 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. Designations of fund balance represent tentative management plans that are subject to change.

9. Estimates

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

10. Deferred Bond Issue Costs

Deferred bond issue costs are amortized using the effective interest method over the remaining life of the bond.

SMITH COUNTY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

II. RECONCILIATION OF GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes reconciliation between fund balance for total governmental funds and net assets as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.” The details of this \$23,382,182 difference are as follows:

| | |
|--|---------------------|
| Bonds payable | \$21,340,522 |
| Capital leases obligations | 309,260 |
| Compensated absences | <u>1,672,922</u> |
| Net adjustment to reduce fund balance – total government funds to arrive at net assets – governmental activities | <u>\$23,322,704</u> |

Another element of that reconciliation states that “Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.” The details of this \$40,587,213 difference are as follows:

| | |
|--|---------------------|
| Beginning balance of capital assets, net of accumulated depreciation | \$38,026,686 |
| Capital asset additions, net of retirements | 5,133,116 |
| Depreciation of capital assets, current year | (2,778,839) |
| Investment in joint venture | <u>206,250</u> |
| | <u>\$40,587,213</u> |

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

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation indicates that “governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense” on capital outlays for County owned assets only. The details of this \$430,504 difference are as follows:

| | |
|--|--------------------|
| Capital outlay | \$3,209,343 |
| Depreciation expense | <u>(2,778,839)</u> |
| Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <u>\$ 430,504</u> |

SMITH COUNTY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

III. CASH, INVESTMENTS AND INVESTMENT POLICIES

The carrying amount of the County's cash was \$2,227,893 and total bank balances equaled \$2,654,529. The carrying amount of the County's Trust and Agency cash was \$4,814,720 and total bank balances equaled \$6,817,310. The bank deposits were entirely covered by federal depository insurance or by collateral held by the depository bank in the County's name.

All deposits are held in the County's main depository or subdepository banks except funds held in trust by the District Clerk, County Clerk, Justice of the Peace offices number 2, 3 and 4 and an auto registration account, which are not under a subdepository contracts.

The County's investment policies are governed by state statutes and county ordinance. Permissible investments include direct obligations of the U.S. Government and agency securities, certificates of deposit, and repurchase agreements. The County holds investments in Local Government Investment Cooperative (LOGIC), Investors Cash Trust (ICT), Texstar, and MBIA. Investments at LOGIC normally consist of U.S. T-bills, commercial paper, Treasury notes, collateralized certificates of deposit and repurchase agreements. ICT is a money market fund whose portfolio consists of U.S. T-bills, notes, bonds, and repurchase agreements using only U. S. Treasury obligations as collateral. Investments at MBIA consist of commercial paper, repurchase agreements, municipal bonds and agency securities. Investments at Texstar normally consist of U.S. T-bills, T-notes, collateralized certificates of deposit and repurchase agreements. The County records all interest revenue earned from investment activities in the respective funds.

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the government or its agent in the government's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

Investments are stated at cost and are held by the County's agent in the County's name. The County's investments at year end are shown below.

| | <u>Carrying Value</u> | <u>Market Value</u> | <u>Investment Category</u> |
|---|---------------------------|-------------------------|--------------------------------|
| Local Government Investment Cooperative | \$12,181,470 | \$12,181,470 | 1 |
| Investors Cash Trust | 8,231,697 | 8,231,697 | 1 |
| Texstar | 1,025,280 | 1,025,280 | 1 |
| MBIA | <u>3,866,602</u> | <u>3,866,602</u> | 1 |
| | <u>\$25,305,049</u> | <u>\$25,305,049</u> | |

IV. PROPERTY TAXES AND OTHER RECEIVABLES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied prior to September 30, become due on October 1 and are delinquent after January 31. The County bills and collects its own property taxes and those for the City of Bullard, City of Troup, City of Whitehouse, City of Winona, the Bullard Independent School District (ISD), Tyler ISD, Whitehouse ISD, Winona ISD, Tyler Junior College and the Smith County Water Control District. The County is the only entity controlled by the Commissioners Court; the County acts only as an intermediary in the collection and distribution of property taxes to the other entities.

(Continued)

SMITH COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

IV. PROPERTY TAXES AND OTHER RECEIVABLES - Continued

Collections of the property taxes and subsequent remittances to the proper entities are accounted for in the Tax Assessor/Collector's Agency Fund. Tax collections are recorded net of the entities' related collection commission paid the County in this agency fund according to the levy year for which the taxes are collected. Tax collections deposited for the County are distributed on a monthly basis to the General and Debt Service Funds of the County. This distribution is based upon the tax rate established for each fund by order of the Commissioners' Court for the tax year for which the collections are made.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

| | |
|-------------------------------------|--------------------|
| | <u>Unavailable</u> |
| Deferred Property Taxes Receivable: | |
| General fund | \$1,406,577 |
| Debt service fund | <u>184,000</u> |
| Total deferred | <u>\$1,590,577</u> |

The County is authorized by the tax laws of the State of Texas to levy taxes up to \$.277940 per \$100 of assessed valuation for general governmental services and the payment of principal and interest on certain permanent improvement long-term debt. The tax rate as of September 30, 2005 was \$.25447.

Receivables as of year end for the governmental activities, individual major governmental funds and nonmajor governmental funds, including the applicable allowances for uncollectible accounts, as required by GASB 34 are as follows:

| | Internal Service And General Fund | Juvenile Facility Capital Projects Fund | Permanent Improvement Capital Projects Fund | Road and Bridge Special Reserve Fund | Other Nonmajor Funds | Total Governmental Activities |
|-----------------------|--|--|--|---|----------------------------|-------------------------------------|
| Receivables: | | | | | | |
| Property Taxes | \$ 1,609,839 | \$ - | \$ - | \$ - | \$ 212,618 | \$ 1,822,457 |
| Other | <u>3,008,029</u> | <u>163</u> | <u>-</u> | <u>74,111</u> | <u>135,848</u> | <u>3,218,151</u> |
| Gross Receivables | 4,617,868 | 163 | - | 74,111 | 348,466 | 5,040,608 |
| Less: Allowance | | | | | | |
| for Uncollectibles | <u>155,957</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>20,598</u> | <u>176,555</u> |
| Net Total Receivables | <u>\$ 4,461,911</u> | <u>\$ 163</u> | <u>\$ -</u> | <u>\$ 74,111</u> | <u>\$ 327,868</u> | <u>\$ 4,864,053</u> |

V. CAPITAL ASSETS

Capital assets are recorded at cost or, if donated, at fair market value at the date of receipt. In accordance with GASB 34, depreciation policies were adopted to include useful lives and classification by function. Infrastructure assets are recorded at estimated acquisition costs by using indexes to discount estimated current replacement costs.

SMITH COUNTY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

V. CAPITAL ASSETS

A summary of changes in capital assets follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|--------------------|--------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 145,396 | \$ - | \$ - | \$ 145,396 |
| Construction in progress | <u>1,411,222</u> | <u>749,697</u> | - | <u>2,160,919</u> |
| Total capital assets, not being depreciated | 1,556,618 | 749,697 | - | 2,306,315 |
| Capital assets, being depreciated: | | | | |
| Infrastructure | 57,708,654 | 3,301,258 | - | 61,009,912 |
| Buildings | 28,332,709 | - | (1) | 28,332,708 |
| Improvements | 4,241,774 | 418,459 | (24,020) | 4,636,213 |
| Machinery and equipment | <u>11,836,216</u> | <u>684,273</u> | <u>(386,252)</u> | <u>12,134,237</u> |
| Total capital assets being depreciated | 102,119,353 | 4,403,990 | (410,273) | 106,113,070 |
| Less accumulated depreciation for: | | | | |
| Infrastructure | (44,661,808) | (818,453) | - | (45,480,261) |
| Buildings | (11,085,941) | (867,788) | - | (11,953,729) |
| Improvements | (1,318,940) | (185,351) | 5,482 | (1,498,809) |
| Machinery and equipment | <u>(8,582,596)</u> | <u>(907,247)</u> | <u>384,220</u> | <u>(9,105,623)</u> |
| Total accumulated depreciation | (65,649,285) | (2,778,839) | 389,702 | (68,038,422) |
| Total capital assets, being depreciated, net | <u>36,470,068</u> | <u>1,625,151</u> | <u>(20,571)</u> | <u>38,074,648</u> |
| Governmental activities capital assets, net | <u>\$38,026,686</u> | <u>\$2,374,848</u> | <u>\$ (20,571)</u> | <u>\$40,380,963</u> |

Depreciation expense for FY 2005 was charged to functions/programs of the primary government as follows:

| | |
|--|--------------------|
| Governmental activities: | |
| General Government | \$ 517,773 |
| Public Safety | 287,154 |
| Correction and Rehabilitation | 395,851 |
| Health and Human Services | 2,880 |
| Infrastructure and Environmental | 1,213,306 |
| Justice System | <u>361,875</u> |
| Total depreciation expense – governmental activities | <u>\$2,778,839</u> |

SMITH COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

VI. LONG-TERM DEBT

The County's last issuance of general obligation bonds was in 2004. The outstanding bonds were issued to provide funds for acquisition, renovation, and construction of major capital facilities. The following are general obligation bond issued outstanding at September 30, 2005:

| Description | Interest Rates (%) | Date of Issue | Date of Maturity | Bonds Outstanding |
|---|-----------------------|------------------|---------------------|----------------------|
| Certificate of Obligation – 2000 Series | 4.625 - 5.1 | 2000 | 2016 | \$ 9,700,000 |
| Certificate of Obligation – 2001 Series | 4.0 - 4.5 | 2001 | 2011 | 5,200,000 |
| Certificate of Obligation – 2004 Series | 3.0 – 4.0 | 2004 | 2018 | <u>6,500,000</u> |
| | | | | <u>\$21,400,000</u> |

Certificates of Obligation

The annual debt service requirements to maturity for general obligation bonds are as follows:

| Years Ending September 30 | Principal | Interest |
|------------------------------|---------------------|--------------------|
| 2006 | \$ 1,900,000 | \$ 937,025 |
| 2007 | 1,900,000 | 852,650 |
| 2008 | 2,000,000 | 768,275 |
| 2009 | 2,100,000 | 684,900 |
| 2010 | 2,100,000 | 595,000 |
| 2011 – 2015 | 8,400,000 | 1,741,500 |
| 2016 – 2020 | <u>3,000,000</u> | <u>211,200</u> |
| Total | <u>\$21,400,000</u> | <u>\$5,790,550</u> |

Changes in Long-Term Debt

Long-term liability for the year ended September 30, 2005 was as follows:

| Governmental Activities: | Beginning Balance 10/1/04 | Additions | Reductions | Ending Balance 9/30/05 | Due Within One Year |
|-----------------------------|---------------------------------|------------------|--------------------|------------------------------|------------------------|
| General obligation | \$23,350,000 | \$ - | \$1,950,000 | \$21,400,000 | \$1,900,000 |
| Compensated absences | 1,547,553 | 125,369 | - | 1,672,922 | 1,672,922 |
| Capital leases | 296,493 | 200,894 | 188,127 | 309,260 | 184,801 |
| Total | <u>\$25,194,046</u> | <u>\$326,263</u> | <u>\$2,138,127</u> | <u>\$23,382,182</u> | <u>\$3,757,723</u> |

VII. LEASES

Operating Leases

The County operates under numerous lease agreements classified as operating leases. The leases contain annual renewals and include leases for copy machines and postage meter. The combined annual expenditures for operating leases during the fiscal year ended September 30, 2005 were \$161,501.

SMITH COUNTY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

VII. LEASES - Continued

Capital Leases

The government has entered into a lease agreement as lessee for financing the acquisition of IBM judicial server software. The government also financed the acquisition of certain trucks for the Physical Plant department and the Road and Bridge department as well as vehicles for the Sheriff's department. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

| | <u>Governmental Activities</u> |
|--------------------------------|------------------------------------|
| Asset: | |
| Machinery and equipment | \$608,172 |
| Less: Accumulated depreciation | <u>(203,441)</u> |
| Total | <u>\$404,731</u> |

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2005, were as follows:

| <u>Year Ending September 30</u> | <u>Governmental Activities</u> |
|---|------------------------------------|
| 2006 | \$198,233 |
| 2007 | 93,665 |
| 2008 | 22,929 |
| 2009 | <u>16,945</u> |
| Total minimum lease payments | 331,772 |
| Less: amount representing interest | <u>(22,512)</u> |
| Present value of minimum lease payments | <u>\$309,260</u> |

VIII. INTERFUND RECEIVABLES, PAYABLE BALANCES AND TRANSFERS

The composition of interfund balances as of September 30, 2005 is as follows:

Due to/from Other Funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------------|------------------------------|------------------|
| General Fund | Non-major Governmental Funds | \$138,312 |
| Non-major Governmental Funds | General Fund | <u>193,000</u> |
| | Total | <u>\$331,312</u> |

(Continued)

SMITH COUNTY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

VIII. INTERFUND RECEIVABLES, PAYABLE BALANCES AND TRANSFERS - Continued

| | Transfers In | | | Internal Service Fund | Total |
|-----------------------|-----------------|--------------------|-----------------------------------|-----------------------------|-------------|
| | General Fund | Road and Bridge | Nonmajor Governmental Funds | | |
| Transfers Out: | | | | | |
| General Fund | \$ - | \$2,250,000 | \$ 110,625 | \$500,000 | \$2,860,625 |
| Nonmajor | - | - | - | - | - |
| Governmental Fund | - | - | - | - | - |
| Internal Service Fund | - | - | - | - | - |
| Totals | \$ - | \$2,250,500 | \$ 110,625 | \$500,000 | \$2,860,625 |

IX. RETIREMENT COMMITMENTS

(a) **PLAN DESCRIPTION**

The County provides retirement, disability and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees is responsible for the administration of the statewide agent multi-employer public employee retirement system consisting of 559 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employers, 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 20 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the employer.

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

(b) **FUNDING POLICY**

The employer has elected the annually determined contribution rate (Variable Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 9.52% for the months of the accounting year 2005, and 9.71% for the months of the accounting year 2004.

(Continued)

SMITH COUNTY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

IX. RETIREMENT COMMITMENTS - Continued

The deposit rate payable by the employee members for calendar year 2005 is the rate of 7% as adopted by the governing body of the employer. The employee deposit rate and the employer deposit rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

(c) **ANNUAL PENSION COST**

For the employer's accounting year ending September 30, 2005, the annual pension cost for the TCDRS plan for its employees was \$2,085,286 and the actual contributions were \$2,085,286. The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB No. 27 parameters based on the actuarial valuations as of December 31, 2002, 2003 and 2004, the basis for determining the contributions rates for calendar years 2004 and 2005. The December 31, 2004 actuarial valuation is the most recent valuation.

| <u>Actuarial valuation date</u> | <u>Actuarial Valuation Information</u> | | |
|---------------------------------|--|--|--|
| | <u>12/31/02</u> | <u>12/31/03</u> | <u>12/31/04</u> |
| Actuarial cost method | Entry age | Entry age | Entry age |
| Amortization method | Level percentage of payroll, open | Level percentage of payroll, open | Level percentage of payroll, open |
| Amortization period | 20 years | 20 years | 20 years |
| Asset valuation method | Long-term appreciation with adjustment | Long-term appreciation with adjustment | Long-term appreciation with adjustment |

Assumptions:

| | | | |
|--------------------------------|------|------|------|
| Investment return (1) | 8% | 8% | 8% |
| Projected salary increases (1) | 5.5% | 5.5% | 5.5% |
| Inflation | 3.5% | 3.5% | 3.5% |
| Cost-of-living adjustments | 0% | 0% | 0% |

(1) Includes inflation at the stated rate.

Trend Information for the Retirement Plan for the Employees of Smith County, Texas

| <u>Accounting Year</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|------------------------|----------------------------------|--------------------------------------|-------------------------------|
| 9/30/03 | \$2,037,894 | 100% | \$ -0- |
| 9/30/04 | 2,117,545 | 100% | -0- |
| 9/30/05 | 2,085,286 | 100% | -0- |

SMITH COUNTY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

IX. RETIREMENT COMMITMENTS - Continued

Schedule of Funding Progress for the Retirement Plan
For the Employees of Smith County, Texas

| 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 (1) (c) | UAAL as a Percentage of Covered Payroll (b-a)/c |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|--------------------|--------------------------------|---|
| 12/31/02 | \$35,428,427 | \$45,664,157 | \$10,235,730 | 77.58% | \$20,321,614 | 50.36% |
| 12/31/03 | 38,999,640 | 48,794,008 | 9,794,368 | 79.93% | 20,521,802 | 47.73% |
| 12/31/04 | 42,236,322 | 52,218,290 | 9,981,968 | 80.88% | 21,904,262 | 45.57% |

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

X. OTHER INFORMATION

RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employee; and natural disasters. The County maintains commercial insurance coverage for each of these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the County. Settled claims did not exceed this commercial insurance coverage during the current fiscal year.

CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. A contingent liability was not established because potential reimbursements are considered immaterial.

JOINT VENTURE

The Smith County Public Health District was established, effective October 1, 1993, by a cooperative agreement between the City of Tyler and Smith County, Texas pursuant to authority by the Texas Health and Safety Code for the purpose of providing public health services previously provided by the participating entities. The District is considered a joint venture between the City and County with each retaining an equity interest based upon the percentage each contributed to the budget.

For the year ended September 30, 2005, the County budgeted funding of \$486,000 for the Health District. The County's equity interest in the Health District was \$206,250 at September 30, 2005. Financial statements for the Health District may be obtained at the entity's Administrative Offices.

DEFERRED COMPENSATION

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan assets are not a part of the County's financial statements because a third party administrator holds these plan assets in trust.

The market value and carrying value of deferred compensation plan assets is \$1,539,945 for September 30, 2005.

(Continued)

SMITH COUNTY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

X. OTHER INFORMATION - Continued

HEALTH, DENTAL AND LIFE PLANS

The County implemented a self-insured health plan for employees, including dental and prescription benefits. The County pays the full amount of insurance premiums for their retirees except dependent coverage. The employees pay a \$30 monthly premium plus the cost of coverage for any dependents they enroll under the plan. The County maintains an Insurance Fund to track premiums and claim payments. The County has retained an insurance policy for specific and aggregate stop-loss coverage. There is an individual stop-loss of \$100,000 and aggregate protection at 125% of total health and prescription claims per year.

Changes in the estimated liability for medical claims for fiscal year 2005 are presented below:

| | Insurance Claims Payable <u>at 9/30/04</u> | Current Year Claims and Changes <u>in Estimates</u> | Actual Claim <u>Payments</u> | Insurance Claims Payable <u>at 9/30/05</u> |
|----------------|---|--|------------------------------------|---|
| Insurance Fund | \$489,518 | \$3,886,044 | \$3,925,888 | \$ 449,674 |

REQUIRED SUPPLEMENTARY INFORMATION

SMITH COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND
DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2005

| | <u>BUDGET ORIGINAL</u> | <u>BUDGET FINAL</u> | <u>ACTUAL</u> | <u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u> |
|---|----------------------------|-------------------------|-------------------|---|
| REVENUES | | | | |
| Property Taxes: | | | | |
| Taxes - current | \$ 20,490,625 | \$ 20,490,625 | \$ 19,797,692 | \$ (692,933) |
| Taxes - delinquent | 1,200,000 | 1,200,000 | 1,607,887 | 407,887 |
| Penalty and collection fees | 325,000 | 325,000 | 508,436 | 183,436 |
| Total Property Taxes | <u>22,015,625</u> | <u>22,015,625</u> | <u>21,914,015</u> | <u>(101,610)</u> |
| Licenses and Other Taxes: | | | | |
| Liquor drink tax | 270,000 | 270,000 | 308,227 | 38,227 |
| Sales tax | 10,500,000 | 10,500,000 | 12,255,436 | 1,755,436 |
| Bingo taxes | 30,000 | 30,000 | 31,297 | 1,297 |
| Auto registration | 415,000 | 415,000 | 443,964 | 28,964 |
| Total Licenses and Other Taxes | <u>11,215,000</u> | <u>11,215,000</u> | <u>13,038,924</u> | <u>1,823,924</u> |
| Fees of Office: | | | | |
| County Judge | 4,500 | 4,500 | 4,920 | 420 |
| Sheriff | 301,700 | 301,700 | 390,453 | 88,753 |
| Constables | 136,000 | 136,000 | 169,405 | 33,405 |
| County Clerk | 985,000 | 985,000 | 1,091,132 | 106,132 |
| Tax Assessor-Collector | 110,000 | 110,000 | 176,431 | 66,431 |
| Criminal District Attorney | 40,000 | 40,000 | 53,114 | 13,114 |
| District Clerk | 350,000 | 350,000 | 405,427 | 55,427 |
| Justices of the Peace | 97,500 | 97,500 | 110,025 | 12,525 |
| County Courts at Law | 200 | 200 | 423 | 223 |
| Total Fees of Office | <u>2,024,900</u> | <u>2,024,900</u> | <u>2,401,330</u> | <u>376,430</u> |
| Fines: | | | | |
| District and county courts | 902,000 | 902,000 | 876,997 | (25,003) |
| Total Fines | <u>902,000</u> | <u>902,000</u> | <u>876,997</u> | <u>(25,003)</u> |
| Intergovernmental revenues: | | | | |
| Intergovernmental revenues | 1,512,122 | 1,512,122 | 1,725,053 | 212,931 |
| Total Intergovernmental Revenues | <u>1,512,122</u> | <u>1,512,122</u> | <u>1,725,053</u> | <u>212,931</u> |
| Other Revenues and Fees: | | | | |
| Records management | 72,000 | 72,000 | 71,996 | (4) |
| Interest | 172,000 | 172,000 | 380,425 | 208,425 |
| Rentals | 240,916 | 240,916 | 248,294 | 7,378 |
| Court imposed fees | 441,100 | 441,100 | 520,633 | 79,533 |
| State imposed fees | 156,900 | 156,900 | 214,945 | 58,045 |
| Coin stations - reimbursement | 331,000 | 331,000 | 546,512 | 215,512 |
| Titles and Tax certificates | 283,000 | 283,000 | 308,483 | 25,483 |
| Sale of equipment | - | - | 25,953 | 25,953 |
| Other revenues | 88,900 | 97,360 | 363,554 | 266,194 |
| Total Other Revenues and Fees | <u>1,785,816</u> | <u>1,794,276</u> | <u>2,680,795</u> | <u>886,519</u> |
| Total Revenues | <u>39,455,463</u> | <u>39,463,923</u> | <u>42,637,114</u> | <u>3,173,191</u> |

SMITH COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND
DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2005

| | BUDGET ORIGINAL | BUDGET FINAL | ACTUAL | VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE) |
|--|----------------------------|-------------------------|-------------------|---|
| EXPENDITURES | | | | |
| General Government: | | | | |
| Commissioners' Court | \$ 449,610 | \$ 388,699 | \$ 388,712 | \$ (13) |
| Record Service Bureau | 120,194 | 111,131 | 111,134 | (3) |
| County Auditor | 589,205 | 555,993 | 555,989 | 4 |
| Election division | 261,487 | 235,196 | 235,203 | (7) |
| County Treasurer | 118,991 | 120,324 | 120,330 | (6) |
| Tax Assessor-Collector | 1,062,999 | 970,990 | 965,115 | 5,875 |
| General operations | 2,495,606 | 2,187,251 | 2,124,897 | 62,354 |
| Physical plant | 890,422 | 840,094 | 814,610 | 25,484 |
| Personnel | 123,653 | 117,828 | 117,833 | (5) |
| Budget officer | 87,445 | 36,653 | 36,660 | (7) |
| Information services | 756,562 | 839,270 | 836,274 | 2,996 |
| Collections | 113,418 | 80,562 | 80,567 | (5) |
| Purchasing agent | 146,086 | 136,682 | 136,637 | 45 |
| Total General Government | 7,215,678 | 6,620,673 | 6,523,961 | 96,712 |
| Justice System: | | | | |
| County Court | 200,750 | 199,347 | 199,355 | (8) |
| County Court at Law | 310,268 | 299,922 | 299,929 | (7) |
| County Court at Law #2 | 313,354 | 299,446 | 299,452 | (6) |
| County Court at Law #3 | 316,904 | 301,370 | 301,367 | 3 |
| County Clerk | 1,045,786 | 973,430 | 972,942 | 488 |
| District Courts | 1,394,967 | 1,331,510 | 1,340,374 | (8,864) |
| District Clerk | 840,572 | 791,258 | 791,262 | (4) |
| Justices of the Peace | 857,618 | 824,783 | 824,753 | 30 |
| Indigent Defense | 1,235,500 | 1,015,665 | 1,015,670 | (5) |
| Pre-trial release | 114,060 | 110,443 | 110,428 | 15 |
| Juvenile Probation | 3,285,080 | 3,287,208 | 2,568,303 | 718,905 |
| Criminal District Attorney | 2,768,369 | 2,558,039 | 2,557,707 | 332 |
| Total Justice System | 12,683,228 | 11,992,421 | 11,281,542 | 710,879 |
| Public Safety: | | | | |
| Civil defense and rural fire aid | 584,397 | 581,074 | 581,084 | (10) |
| Constables | 752,155 | 746,662 | 746,665 | (3) |
| Sheriff's department | 4,802,540 | 4,702,921 | 4,563,026 | 139,895 |
| 911 Communications | 1,062,356 | 1,062,356 | 1,062,585 | (229) |
| Warrant division | 100,461 | 103,586 | 103,592 | (6) |
| Total Public Safety | 7,301,909 | 7,196,599 | 7,056,952 | 139,647 |
| Health and Human Services: | | | | |
| Indigent health care | 1,209,985 | 965,352 | 970,780 | (5,428) |
| Agricultural extension | 195,961 | 190,388 | 190,392 | (4) |
| Animal control | 75,048 | 70,427 | 70,404 | 23 |
| Veterans Service Office | 127,749 | 120,652 | 120,657 | (5) |
| Litter Abatement Office | 20,000 | 20,000 | 20,000 | - |
| Public services | 718,844 | 765,544 | 759,887 | 5,657 |
| Total Health and Human Services | 2,347,587 | 2,132,363 | 2,132,120 | 243 |
| Corrections and Rehab: | | | | |
| Jail | 10,870,092 | 11,896,292 | 11,896,302 | (10) |
| Adult probation | 22,553 | 19,454 | 19,456 | (2) |
| Total Corrections and Rehab | 10,892,645 | 11,915,746 | 11,915,758 | (12) |

SMITH COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND
DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2005

| | BUDGET ORIGINAL | BUDGET FINAL | ACTUAL | VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE) |
|--|----------------------------|-------------------------|---------------------|---|
| EXPENDITURES (cont'd.) | | | | |
| Capital Outlay: | | | | |
| Equipment | \$ - | \$ - | \$ 401,949 | \$ (401,949) |
| Total Capital Outlay | - | - | 401,949 | (401,949) |
| Debt Service: | | | | |
| Principal | - | - | 172,356 | (172,356) |
| Interest | - | - | 10,709 | (10,709) |
| Total Debt Service | - | - | 183,065 | (183,065) |
| Total Expenditures | 40,441,047 | 39,857,802 | 39,495,347 | 362,455 |
| Excess of Revenues Over (Under) Expenditures | (985,584) | (393,879) | 3,141,767 | 3,535,646 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers (out) | (2,250,000) | (2,750,000) | (2,860,625) | 110,625 |
| Capital lease proceeds | - | - | 200,894 | (200,894) |
| Total Other Financing Sources (Uses) | (2,250,000) | (2,750,000) | (2,659,731) | (90,269) |
| Excess of Revenues and Other Financing Sources (Under) Over Expenditures and Other Financing Uses | (3,235,584) | (3,143,879) | 482,036 | 3,625,915 |
| FUND BALANCE, SEPTEMBER 30, 2004 | 2,848,364 | 2,848,384 | 8,943,054 | 6,094,670 |
| Other increase (decrease) in fund balance | - | - | - | - |
| FUND BALANCE, SEPTEMBER 30, 2005 | <u>\$ (387,220)</u> | <u>\$ (295,495)</u> | <u>\$ 9,425,090</u> | <u>\$ 9,720,585</u> |

SMITH COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
CAPITAL PROJECTS FUND - PERMANENT IMPROVEMENT
DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2005

| | <u>BUDGET ORIGINAL</u> | <u>BUDGET FINAL</u> | <u>ACTUAL</u> | <u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u> |
|---|----------------------------|-------------------------|---------------------|---|
| REVENUES | | | | |
| Other Revenues and Fees: | | | | |
| Interest | \$ 500 | \$ 500 | \$ 157,002 | \$ 156,502 |
| Total Revenues | <u>500</u> | <u>500</u> | <u>157,002</u> | <u>156,502</u> |
| EXPENDITURES | | | | |
| General Government: | | | | |
| Professional fees | 400,000 | 400,000 | 796 | 399,204 |
| Total General Government | 400,000 | 400,000 | 796 | 399,204 |
| Capital Outlay: | | | | |
| Courthouse renovations | 6,000,000 | 6,000,000 | 1,149,213 | 4,850,787 |
| Total Capital Outlay | 6,000,000 | 6,000,000 | 1,149,213 | 4,850,787 |
| Total Expenditures | 6,400,000 | 6,400,000 | 1,150,009 | 5,249,991 |
| Excess of Revenues Over (Under) Expenditures | (6,399,500) | (6,399,500) | (993,007) | 5,406,493 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Bond proceeds | - | - | (5) | (5) |
| Total Other Financing Sources (Uses) | - | - | (5) | (5) |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | (6,399,500) | (6,399,500) | (993,012) | 5,406,488 |
| FUND BALANCE, SEPTEMBER 30, 2004 | - | (500,000) | 6,762,892 | 7,262,892 |
| FUND BALANCE, SEPTEMBER 30, 2005 | <u>\$ (6,399,500)</u> | <u>\$ (6,899,500)</u> | <u>\$ 5,769,880</u> | <u>\$ 12,669,380</u> |