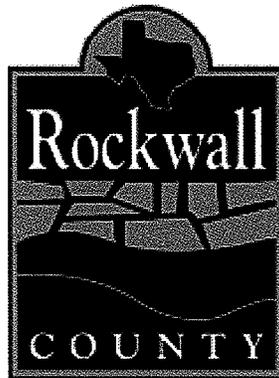


ROCKWALL COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

**For Fiscal Year
September 30, 2010**



ROCKWALL COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

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ROCKWALL COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

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INTRODUCTORY SECTION

ROCKWALL COUNTY, TEXAS

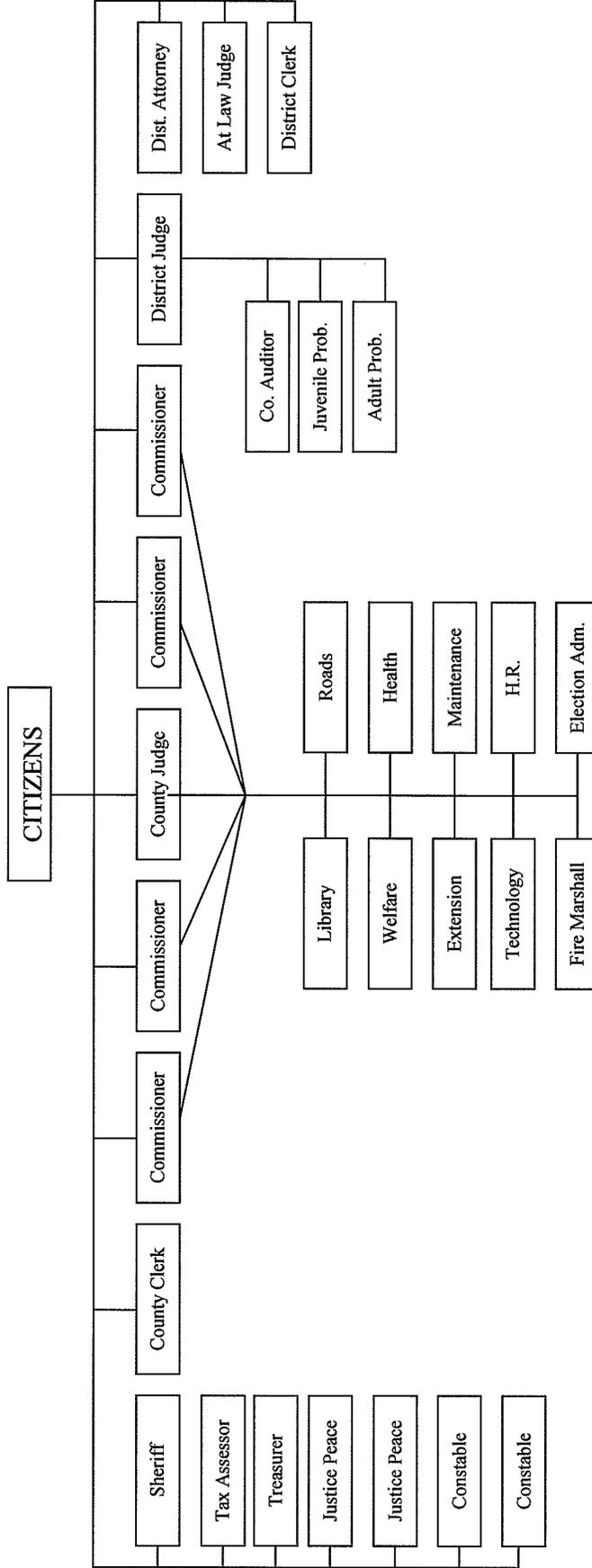
PRINCIPAL OFFICIALS

SEPTEMBER 30, 2010

<u>Name</u>	<u>Title</u>
<u>Commissioners' Court:</u>	
Chris Florance	County Judge
Jerry Wimpee	Commissioner, Precinct 1
Lorie Grinnan	Commissioner, Precinct 2
Bruce Beaty	Commissioner, Precinct 3
David Magness	Commissioner, Precinct 4
<u>Board of District Judges:</u>	
Brett Hall	District Court
<u>County Judges:</u>	
David Rakow	County Court at Law
David Karr	Justice of the Peace, Precinct 1
Larry Holloway	Justice of the Peace, Precinct 2
<u>Law Enforcement:</u>	
Harold Eavenson	Sheriff
Kenda Culpepper	District Attorney
Angie Scaff	Director, Juvenile Probation
Brett Gilbert	Director, Adult Probation
Randy Parks	Constable, Precinct 1
John Cullins	Constable, Precinct 2
<u>Administrative Officials:</u>	
Lisa Constant	County Auditor
Barbara Barber	Tax Assessor-Collector
Brian Crenshaw	Information Systems
William Sinclair	Treasurer
Randy Jennings	Director, Human Resources
Ron Meritt	Health Coordinator
Donna Mussotter	Director, Indigent Health
Pat Nesmith	Road and Bridge Administrator
Luis Guzman	Maintenance Administrator
<u>Recording Officials:</u>	
Lea Carlson, Interim	County Clerk
Kay McDaniel	District Clerk



ROCKWALL COUNTY – 2010



FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Honorable County Judge
and Honorable Commissioners' Court
Rockwall County, Texas

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Rockwall County, Texas as of September 30, 2010, 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 May 20, 2011, on our consideration of Rockwall County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 50 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Pattillo, Brown & Hill, L.L.P.

May 20, 2011

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

ROCKWALL COUNTY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Management's Discussion and Analysis* of the County of Rockwall, Texas' (the "County") Annual Financial Report presents a discussion and analysis of the County's financial performance during the fiscal year that ended September 30, 2010. Readers should consider the information in this section when reading the overall report, including the transmittal letter, financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

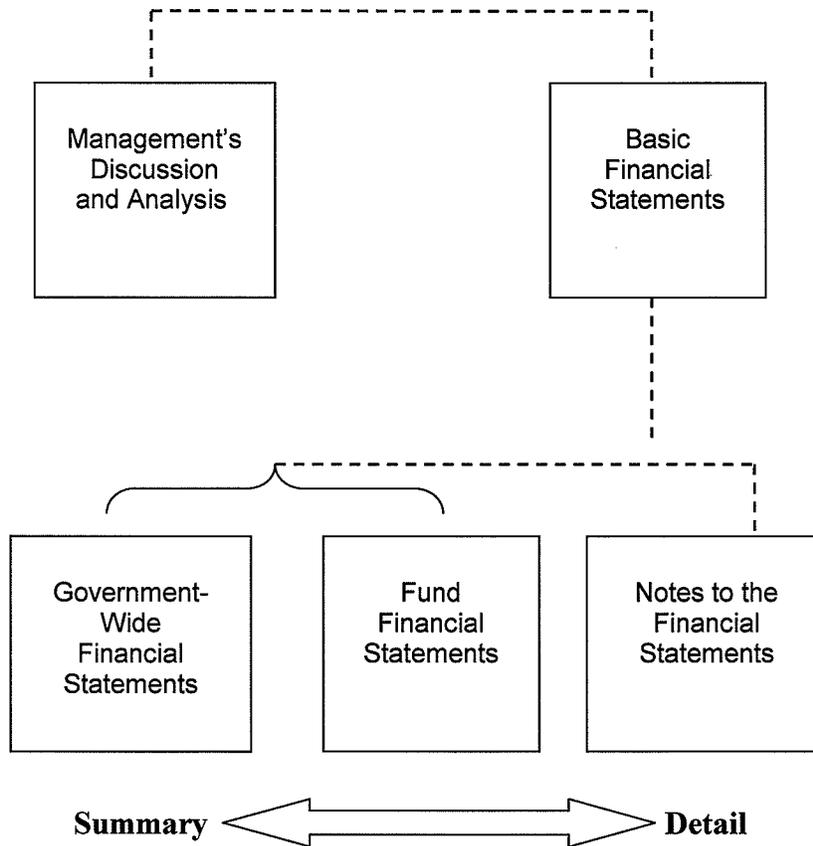
As illustrated in Figure A-1, the government-wide financial statements provide information about the County as a whole using the economic resources measurement focus and accrual basis of accounting.

- The assets of Rockwall County exceeded its liabilities at the close of the fiscal year by \$49,972,967 (net assets).
- The County's total net assets increased by \$4,611,018, not including prior period adjustments, due to increases in the government-type activities net assets.
- As of the close of the current fiscal year, Rockwall County's governmental funds reported combined ending fund balances of \$58,747,325, a decrease of \$4,106,085, in comparison with the prior year. Of this amount, \$27,548,339 is available for spending at the County's discretion (unreserved fund balance) of which \$6,681,159 must be spent for the purposes specified for special purpose funds. Included in this amount is \$2,784,502 for the Road and Bridge Fund and \$1,516,795 for the County Clerk's Record Management and Preservation Fund.
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$20,867,180, or 87% of total General Fund expenditures.
- The County issued \$8,815,000 in refunding debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. The basic financial statements present two different views of the County through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Rockwall County.

**Figure A-1
Required Components of
Rockwall County's Annual Financial Report**



Basic Financial Statements

The first two statements (pages 13 and 14) in the basic financial statements are the *government-wide financial statements*. They provide both short and long-term information about the County's financial status.

The next statements (pages 15 through 23) are *fund financial statements*. These statements focus on the activities of the individual parts of the County's government. These statements provide more detail than the government-wide statements. After the notes, *supplemental information* is provided to show details about the County's individual funds. Budgetary information required by the general statutes also can be found in this part of the statements.

Government-wide Financial Statements – The government-wide financial statements, which begin on page 13 of this report, are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. The government-wide statements provide short and long-term information about the County's financial status as a whole.

The two government-wide statements report the County's net assets and how they have changed. Net assets are the difference between the County's total assets and total liabilities. Measuring net assets is one way to gauge the County's financial condition.

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

The Statement of Activities presents information showing how the County's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both the government-wide financial statements distinguish functions of Rockwall County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business activities). The governmental activities of the County include general government, public safety, judicial, and community services.

Fund Financial Statements – The fund financial statements provide a more detailed look at the County's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County of Rockwall, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the general statutes or the County's budget ordinance. All of the funds of the County of Rockwall, Texas can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the County's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the County's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The County of Rockwall, Texas adopts an annual budget for its General Fund, as required by the general statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County, and the decisions of the Commissioners' Court about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows three columns: (1) the final budget as amended by the Commissioners; 2) the actual resources, variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – are used to report the same functions presented as business-type activities in the government-wide financial statements. Rockwall County uses proprietary funds to account for its internal service activity. These funds are the same as those functions shown in the business-type activities in the in the Statement of Net Assets and the Statement of Activities.

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

The basic fiduciary fund financial statements can be found on pages 22 and 23 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 to 49 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to its employees and budget to actual schedule for the General Fund. Required supplementary information can be found beginning on page 50 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 53 to 66 of this report.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

The government-wide financial statements for the fiscal year ended September 30, 2010, continue the implementation of a new standard of financial reporting for Rockwall County, and many other units of government across the United States.

Figure A-2
ROCKWALL COUNTY'S NET ASSETS

	Governmental Activities	
	2010	2009
Current and other assets	\$ 70,948,036	\$ 70,543,156
Capital assets	43,988,822	38,006,781
Total assets	<u>114,936,858</u>	<u>108,549,937</u>
Long-term liabilities	60,243,827	60,587,137
Other liabilities	4,720,064	2,859,306
Total liabilities	<u>64,963,891</u>	<u>63,446,443</u>
Net assets:		
Invested in capital assets, net of related debt	15,496,008	13,714,108
Restricted	6,781,326	6,712,964
Unrestricted	<u>27,695,633</u>	<u>24,676,422</u>
Total net assets	<u>\$ 49,972,967</u>	<u>\$ 45,103,494</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition; Figure A-2 provides a one-year comparison. The total assets of Rockwall County exceeded liabilities by \$49,972,967 as of September 30, 2010. The County's net assets increased by \$4,611,018, excluding prior period adjustments of \$258,455, for the fiscal year ended September 30, 2010, [see Section IV.J in the notes for an explanation of these adjustments.] However, a large portion, 31.0% reflects the County's investment in capital assets (e.g. land, buildings, machinery and equipment) less any related debt still outstanding that was issued to acquire those items. Rockwall County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Rockwall County's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

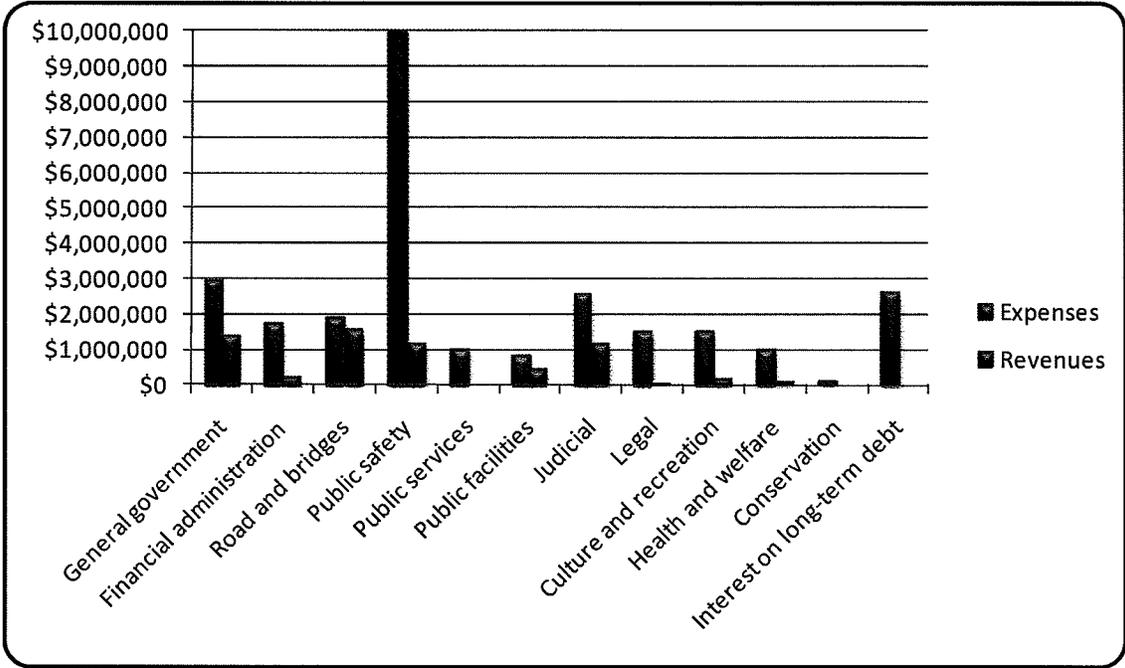
Analysis of the County's Operations – Figure A-3 provides a summary of the County's operations for the year ended September 30, 2010, and comparative data from 2009.

**Figure A-3
ROCKWALL COUNTY'S NET ASSETS**

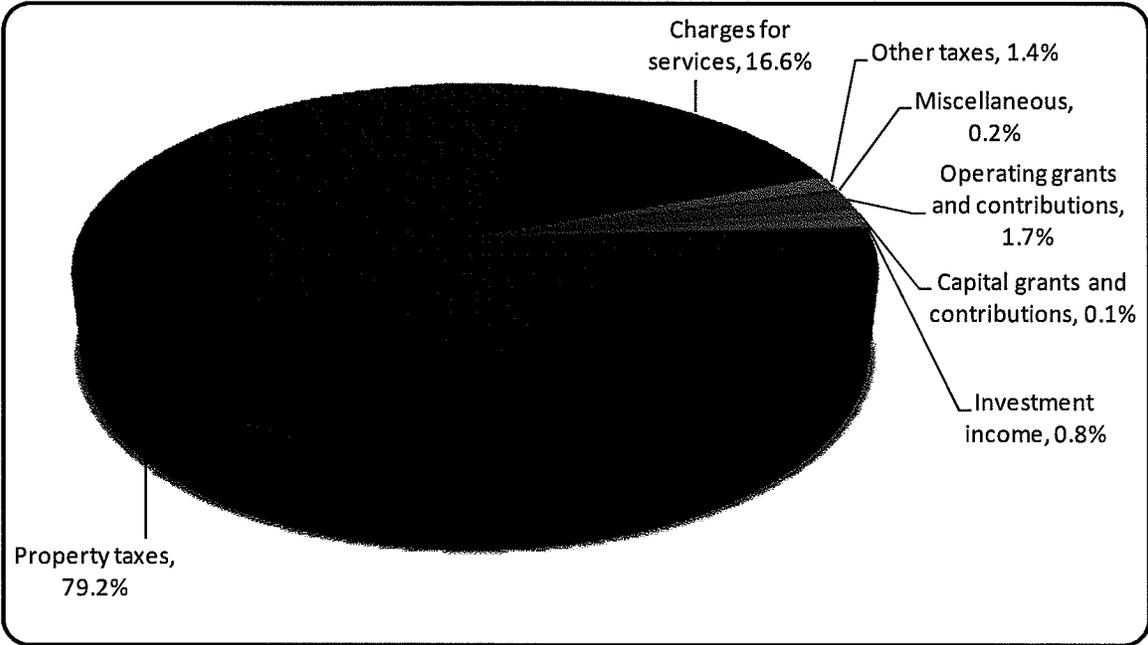
	Governmental Activities	
	2010	2009
REVENUES		
Program revenues:		
Charges for services	\$ 5,502,718	\$ 5,772,058
Operating grants and contributions	580,869	592,280
Capital grants and contributions	280,025	174,944
General revenues:		
Property taxes	26,080,238	25,376,377
Mixed drink taxes	221,537	207,816
Sales tax	246,190	234,794
Investment earnings	257,275	544,417
Miscellaneous	56,982	65,812
Total revenues	33,225,834	32,968,498
EXPENSES		
General government	2,996,862	3,430,482
Financial administration	1,762,344	1,712,324
Roads and bridges	1,901,293	1,647,367
Public safety	10,732,615	10,226,058
Public services	994,641	949,547
Public facilities	832,497	768,406
Judicial	2,564,139	2,481,227
Legal	1,507,743	1,406,330
Culture and recreation	1,520,001	1,498,637
Health and welfare	1,013,718	1,043,861
Conservation	133,711	143,294
Interest on long-term debt	2,655,252	1,859,758
Total expenditures	28,614,816	27,167,291
INCREASE IN NET ASSETS	4,611,018	5,801,207
NET ASSETS, BEGINNING	45,103,494	37,302,287
PRIOR PERIOD ADJUSTMENT	258,455	2,000,000
NET ASSETS, ENDING	\$ 49,972,967	\$ 45,103,494

Governmental-type Activities – Governmental-type activities increased the County's net assets \$4,611,018, thereby accounting for 100% of the total growth in the net assets of the County of Rockwall. Key elements of this increase are property tax revenues, which increased by \$703,861, or 2.8%.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

The General Fund is the chief operating fund of Rockwall County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$20,867,180. As a measure of the General Fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved fund balance represents 87% of total General Fund expenditures.

The County maintains individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the:

- General Fund
- Courthouse Construction Fund
- Road Improvement Bond 2008 Fund
- Debt Service Fund

Each of these funds is considered to be a major fund. Financial results from the other government funds are combined into a single, aggregated presentation and included in the total. Individual fund data for each of these nonmajor governmental funds are provided in the combining and individual fund statements and schedules.

The County adopts an annual appropriated budget for most of its governmental funds. A budgetary comparison statement is provided for County governmental funds, where a budget is adopted, to demonstrate compliance with the approved budget. Budgetary comparison statements for major governmental funds are presented as required supplementary information in the basic financial statements.

General Fund Budgetary Highlights – During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as federal and state grants; and (3) increases in appropriations that become necessary to maintain services.

Revenues were slightly more than the budgeted amounts mainly in the areas of fees and sales taxes. However, expenditures were generally in line with budgeted amounts.

Proprietary Funds – Currently, the County has only one type of proprietary fund – Internal Service. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County’s various functions. The services provided benefit the various government functions they support, which is why they have been included within governmental activities in the government-wide financial statements. The County uses Internal Service funds to account for the following activities:

- Insurance Claims
- Employee Benefits Paid

Proprietary funds provide the same type of information as the government-wide financial statements, but with more detail. Internal Service Funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the Internal Service Funds are provided in the combining and individual fund statements and schedules.

Fiduciary Funds – The County’s fiduciary fund consists of one trust fund and several agency funds. Agency funds are separate accounts and transactions related to money received that is collected for and remitted to another entity. For example, the County collects traffic fines; a portion of the fines belong to the state. After collection, the monies owed to the other entities are remitted to those entities on a periodic basis.

Notes to the Financial Statements – The notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes disclose other pertinent information that, when taken in whole with the financial statements, provide a more detailed picture of the state of the finances of the County.

Other Information – In addition to the basic financial statements accompanying notes to those financial statements, also presented in this report are certain required supplementary information schedules with additional information regarding the results of the County’s financial activities.

The combining statements and individual fund schedules are presented immediately following the required supplementary information.

CAPITAL ASSETS

Rockwall County’s investment in capital assets for its governmental activities as of September 30, 2010, totals \$43,988,822 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- The County continued work on road improvements;
- The County initiated design efforts on its new Courthouse and budgeted for the Veteran’s Memorial to be constructed adjacent to the Courthouse.

ROCKWALL COUNTY'S CAPITAL ASSETS AT YEAR-END

	Governmental Activities	
	2010	2009
Land and improvements	\$ 6,371,813	\$ 6,371,813
Machinery and equipment	6,892,931	6,842,732
Buildings	12,159,743	11,976,438
Infrastructure	5,232,656	5,289,180
Construction in progress	24,553,295	17,236,296
Less: accumulated depreciation	(11,221,616)	(9,709,678)
Total	\$ 43,988,822	\$ 38,006,781

Additional information on the County's capital assets can be found in Note C on pages 36 – 37.

DEBT ADMINISTRATION

Long-term Debt – As of September 30, 2010, Rockwall County had total bonded debt outstanding of \$59,075,000.

ROCKWALL COUNTY'S OUTSTANDING BONDS AS OF SEPTEMBER 30, 2010

	Beginning Balance	Additions	Reductions	Ending Balance
Certificates of obligation and tax notes	\$ <u>60,060,000</u>	\$ <u>11,275,000</u>	\$ <u>12,260,000</u>	\$ <u>59,075,000</u>

Rockwall County's bonded debt decreased by \$985,000 (2%) during the current fiscal year, reflecting issuance of \$8,815,000 in Limited Tax Refund Series 2010.

GENERAL FUND BUDGET HIGHLIGHTS FOR FISCAL YEAR ENDING SEPTEMBER 30, 2011

Governmental Activities – In preparation for the fiscal year 2011 budget, the County raised the ad valorem tax rate to \$0.3864 per \$100 assessed value. The total forecasted revenue for the year is \$25,027,423. This is an increase of 2.57% from the 2010 projected revenue of \$24,399,754. Budgeted expenditures of \$28,302,105 reflect a 4.06% increase from fiscal year 2010.

REQUESTS FOR INFORMATION

This report is designed to provide an overview of the County's finances for those with an interest in this area. Questions concerning the information found in this report or requests for additional information should be directed to the Treasurer, or County Auditor, in Rockwall County, Texas.

**BASIC
FINANCIAL STATEMENTS**

ROCKWALL COUNTY, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2010

ASSETS

Cash and investments	\$ 50,198,664
Receivables (net of allowance for uncollectibles)	1,869,033
Restricted assets:	
Cash and cash equivalents	13,570,789
Prepaid expense	73,779
Interest receivable	14,156
Deferred charges	902,392
Net pension asset	4,319,223
Capital assets:	
Non-depreciable	30,925,108
Depreciable (net)	<u>13,063,714</u>
Total assets	<u>114,936,858</u>

LIABILITIES

Accounts payable	3,522,847
Claims payable	152,206
Accrued liabilities	460,057
Due to others	15,731
Interest payable	569,223
Noncurrent liabilities:	
Due within one year:	
Tax notes	2,585,780
Compensated absences	116,260
Due in more than one year:	
Tax notes	56,731,332
Compensated absences	465,038
Net OPEB obligation	<u>345,417</u>
Total liabilities	<u>64,963,891</u>

NET ASSETS

Invested in capital assets, net of related debt	15,496,008
Restricted for:	
Roads and bridges	2,789,095
Debt service	95,574
Other purposes	3,896,657
Unrestricted	<u>27,695,633</u>
Total net assets	<u>\$ 49,972,967</u>

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

ROCKWALL COUNTY, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2010

Functions/Programs	Expenses	Program Revenue			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Assets
					Governmental Activities
Primary government					
Governmental activities:					
General government	\$ 2,996,862	\$ 1,238,398	\$ 116,705	\$ 37,803	\$(1,603,956)
Financial administration	1,762,344	235,856	-	-	(1,526,488)
Roads and bridges	1,901,293	1,332,031	-	236,722	(332,540)
Public safety	10,732,615	1,176,261	11,119	-	(9,545,235)
Public services	994,641	-	-	-	(994,641)
Public facilities	832,497	138,819	313,990	-	(379,688)
Judicial	2,564,139	1,121,827	39,352	-	(1,402,960)
Legal	1,507,743	20,480	41,991	-	(1,445,272)
Culture and recreation	1,520,001	164,997	19,529	5,500	(1,329,975)
Health and welfare	1,013,718	74,049	38,183	-	(901,486)
Conservation	133,711	-	-	-	(133,711)
Interest on long-term debt	2,655,252	-	-	-	(2,655,252)
Total governmental activities	<u>28,614,816</u>	<u>5,502,718</u>	<u>580,869</u>	<u>280,025</u>	<u>(22,251,204)</u>
Total primary government	<u>\$ 28,614,816</u>	<u>\$ 5,502,718</u>	<u>\$ 580,869</u>	<u>\$ 280,025</u>	<u>(22,251,204)</u>
General revenues:					
Taxes:					
Property					26,080,238
Beverage					221,537
Other					246,190
Investment earnings					257,275
Miscellaneous					<u>56,982</u>
Total general revenues					<u>26,862,222</u>
Change in net assets					4,611,018
Net assets - beginning					45,103,494
Prior period adjustment					<u>258,455</u>
Net assets - ending					<u>\$ 49,972,967</u>

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

ROCKWALL COUNTY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

AS OF SEPTEMBER 30, 2010

	<u>General</u>	<u>Courthouse Construction</u>	<u>Road Improvements Bond 2008</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS						
Cash and investments						
Unrestricted	\$ 21,315,820	\$ 21,743,473	\$ 6,526,176	\$ -	\$ 613,195	\$ 50,198,664
Restricted	577,104	4,007,152	-	512,288	6,892,850	11,989,394
Receivables (net of allowances for uncollectibles)						
Taxes	613,161	-	-	142,148	45,232	800,541
Accounts	489,494	-	-	-	355,399	844,893
Interest	10,227	-	-	-	1,519	11,746
Due from other funds	9,707	-	-	932	-	10,639
Prepaid expenditures	<u>73,779</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,779</u>
Total assets	<u>\$ 23,089,292</u>	<u>\$ 25,750,625</u>	<u>\$ 6,526,176</u>	<u>\$ 655,368</u>	<u>\$ 7,908,195</u>	<u>\$ 63,929,656</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 965,516	\$ 1,992,373	\$ 471,074	\$ 501	\$ 41,825	\$ 3,471,289
Accrued liabilities	401,616	-	-	-	33,482	435,098
Accrued interest payable	-	-	9,930	36,664	-	46,594
Due to others	15,731	-	-	-	-	15,731
Deferred revenue	838,317	-	-	123,348	241,315	1,202,980
Due to other funds	<u>932</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,707</u>	<u>10,639</u>
Total liabilities	<u>2,222,112</u>	<u>1,992,373</u>	<u>481,004</u>	<u>160,513</u>	<u>326,329</u>	<u>5,182,331</u>
Fund balances:						
Reserved for:						
Debt service	-	-	-	494,855	-	494,855
Unreserved reported in:						
General fund	20,867,180	-	-	-	-	20,867,180
Special revenue funds	-	-	-	-	6,681,159	6,681,159
Capital projects funds	<u>-</u>	<u>23,758,252</u>	<u>6,045,172</u>	<u>-</u>	<u>900,707</u>	<u>30,704,131</u>
Total fund balances	<u>20,867,180</u>	<u>23,758,252</u>	<u>6,045,172</u>	<u>494,855</u>	<u>7,581,866</u>	<u>58,747,325</u>
Total liabilities and fund balances	<u>\$ 23,089,292</u>	<u>\$ 25,750,625</u>	<u>\$ 6,526,176</u>	<u>\$ 655,368</u>	<u>\$ 7,908,195</u>	<u>\$ 63,929,656</u>

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

ROCKWALL COUNTY, TEXAS

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

AS OF SEPTEMBER 30, 2010

Total fund balances - governmental funds balance sheet	\$ 58,747,325
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	43,988,822
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	1,202,980
Long-term liabilities, (such as notes payable, capital lease contract payable, long-term compensated absences, NPO, and bonds payable), are not due and payable in the current period and are therefore not reported in the funds.	(59,864,064)
Governmental funds report outlays for pension costs as expenditures. However, in the statement of activities the amount by which these outlays exceed the annual required contributions for the plan are not expenses. Instead these outlays are reported as an asset on the statement of net assets.	4,319,223
Internal Service Funds are used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets.	<u>1,578,681</u>
Net assets of governmental activities in the Statement of Net Assets	\$ <u><u>49,972,967</u></u>

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

ROCKWALL COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General	Courthouse Construction	Road Improvements Bond 2008	Debt Service	Other Governmental Funds	Total Governmental
REVENUES						
Property taxes	\$ 20,261,344	\$ -	\$ -	\$ 5,361,804	\$ 469,761	\$ 26,092,909
Beverage taxes	221,537	-	-	-	-	221,537
Fines and forfeitures	1,093,613	-	-	-	244,585	1,338,198
Other taxes	14,853	-	-	-	231,337	246,190
Fees and commissions	2,188,121	-	-	-	1,816,043	4,004,164
Intergovernmental	22,440	-	-	-	103,671	126,111
Election	-	-	-	-	111,632	111,632
Investment earnings	139,706	71,576	13,063	4,525	28,405	257,275
Grants	384,200	-	-	-	73,675	457,875
Donations	-	-	-	-	5,500	5,500
Miscellaneous	37,033	52,317	-	-	50,861	140,211
Total revenues	<u>24,362,847</u>	<u>123,893</u>	<u>13,063</u>	<u>5,366,329</u>	<u>3,135,470</u>	<u>33,001,602</u>
EXPENDITURES						
Current:						
General government	3,537,993	-	-	-	75,855	3,613,848
Financial administration	1,694,096	-	-	-	-	1,694,096
Commissioner expenses	370,898	-	-	-	-	370,898
Roads and bridges	-	-	-	-	1,567,666	1,567,666
Public safety	9,489,732	-	-	-	658,887	10,148,619
Public facilities	975,657	-	-	-	-	975,657
Public services	668,794	-	-	-	118,359	787,153
Judicial	2,480,031	-	-	-	20,250	2,500,281
Legal	1,425,043	-	-	-	43,346	1,468,389
Culture and recreation	1,320,627	-	-	-	152,429	1,473,056
Health and welfare	998,039	-	-	-	-	998,039
Conservation	129,166	-	-	-	-	129,166
Capital outlay	906,296	6,109,045	959,005	-	17,163	7,991,509
Debt service:						
Principal	-	-	-	3,297,500	-	3,297,500
Interest and fiscal charges	-	-	-	2,597,642	-	2,597,642
Bond issuance cost and fees	-	-	57,586	194,949	-	252,535
Total expenditures	<u>23,996,372</u>	<u>6,109,045</u>	<u>1,016,591</u>	<u>6,090,091</u>	<u>2,653,955</u>	<u>39,866,054</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>366,475</u>	<u>(5,985,152)</u>	<u>(1,003,528)</u>	<u>(723,762)</u>	<u>481,515</u>	<u>(6,864,452)</u>
OTHER FINANCING SOURCES (USES)						
Issuance of long-term debt	-	-	2,460,000	8,815,000	-	11,275,000
Transfers in	-	-	-	-	590,664	590,664
Transfers out	(590,664)	-	-	-	-	(590,664)
Premium on issuance of bonds	-	-	10,632	382,055	-	392,687
Discount on issuance of bonds	-	-	(16,393)	(22,698)	-	(39,091)
Payment to bond refunding escrow agent	-	-	-	(8,990,432)	-	(8,990,432)
Sale of capital assets	96,580	-	-	-	23,623	120,203
Total other financing sources and uses	<u>(494,084)</u>	<u>-</u>	<u>2,454,239</u>	<u>183,925</u>	<u>614,287</u>	<u>2,758,367</u>
NET CHANGE IN FUND BALANCES	<u>(127,609)</u>	<u>(5,985,152)</u>	<u>1,450,711</u>	<u>(539,837)</u>	<u>1,095,802</u>	<u>(4,106,085)</u>
FUND BALANCES, BEGINNING	<u>20,994,789</u>	<u>29,743,404</u>	<u>4,594,461</u>	<u>1,034,692</u>	<u>6,486,064</u>	<u>62,853,410</u>
FUND BALANCES, ENDING	<u>\$ 20,867,180</u>	<u>\$ 23,758,252</u>	<u>\$ 6,045,172</u>	<u>\$ 494,855</u>	<u>\$ 7,581,866</u>	<u>\$ 58,747,325</u>

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

ROCKWALL 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, 2010

Net change in fund balances - total governmental funds \$(4,106,085)

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

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 exceeded depreciation in the current period. 6,723,586

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 224,757

The issuance of long-term debt (e.g. bonds, leases) 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 these 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. 526,281

Governmental funds report outlays for pension costs as expenditures. However, in the statement of activities the amount by which these outlays exceed the annual required contributions for the plan are not expenses. Instead these outlays are reported as an asset on the statement of net assets. 1,283,767

Internal service funds are used by management to charge the costs of health insurance to individual funds. (41,288)

Change in net assets of governmental activities \$ 4,611,018

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

ROCKWALL COUNTY, TEXAS

STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS

SEPTEMBER 30, 2010

	<u>Governmental Activities Internal Service</u>
ASSETS	
Current assets:	
Receivables (net of allowances for uncollectibles)	\$ 223,599
Interest receivable	2,410
Restricted assets:	
Cash and cash equivalents	<u>1,581,395</u>
 Total assets	 <u>1,807,404</u>
 LIABILITIES	
Current liabilities:	
Accounts payable	51,558
Claims payable	152,206
Accrued liabilities	<u>24,959</u>
 Total liabilities	 <u>228,723</u>
 NET ASSETS	
Restricted	<u>1,578,681</u>
 Total net assets	 <u>\$ 1,578,681</u>

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

ROCKWALL COUNTY, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Governmental Activities</u> <u>Internal Service</u>
OPERATING REVENUES	
Charges for services	\$ 2,838,900
Total operating revenues	<u>2,838,900</u>
OPERATING EXPENSES	
Insurance claims	2,171,040
Stop-loss insurance premiums	452,999
Administrative and other	<u>272,697</u>
Total operating expenses	<u>2,896,736</u>
OPERATING LOSS	<u>(57,836)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	<u>16,548</u>
Total nonoperating revenues (expenses)	<u>16,548</u>
NET LOSS	<u>(41,288)</u>
NET ASSETS, BEGINNING	<u>1,619,969</u>
NET ASSETS, ENDING	<u>\$ 1,578,681</u>

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

ROCKWALL COUNTY, TEXAS

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Governmental Activities</u> <u>Internal Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from users	\$ 2,841,860
Cash paid to employees	(247,738)
Cash paid to suppliers	(2,603,626)
Net cash used by operating activities	<u>(9,504)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>15,226</u>
Net cash provided by investing activities	<u>15,226</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,722
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,575,673</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 1,581,395</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$(57,836)
Change in assets and liabilities:	
Decrease (increase) in receivables	2,960
Increase (decrease) in accounts payable	51,558
Increase (decrease) in claims payable	(31,145)
Increase (decrease) in accrued liabilities	<u>24,959</u>
Total adjustments	<u>48,332</u>
Net cash used by operating activities	<u>\$(9,504)</u>

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

ROCKWALL COUNTY, TEXAS

STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

SEPTEMBER 30, 2010

	Indigent Health Care Private-Purpose Trust	<u>Agency Funds</u>
ASSETS		
Cash and investments	\$ 84,737	\$ 3,770,060
Receivables	105	-
Total assets	<u>84,842</u>	<u>3,770,060</u>
LIABILITIES		
Accounts payable	2,559	-
Accrued expenses	4,201	-
Due to others	-	2,374,637
Due to other governments	-	1,395,423
Total liabilities	<u>6,760</u>	<u>3,770,060</u>
NET ASSETS		
Held in trust	<u>78,082</u>	-
Total net assets	<u>\$ 78,082</u>	<u>\$ -</u>

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

ROCKWALL COUNTY, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Indigent Health Care Private-Purpose Trust
ADDITIONS	
County contributions	\$ 150,000
Interest earnings	277
Total additions	150,277
 DEDUCTIONS	
Administrative expenses	232,308
Total deductions	232,308
 CHANGES IN NET ASSETS	(82,031)
 NET ASSETS, BEGINNING	160,113
 NET ASSETS, ENDING	\$ 78,082

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

ROCKWALL COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Rockwall County (the "County") reflected in the accompanying financial statements conform to Generally Accepted Accounting Principles (GAAP). The County's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The most significant accounting and reporting policies of the County are described in the notes to the financial statements.

A. Reporting Entity

Rockwall County (the "County") was founded in 1873 and operates under the laws of the State of Texas and subsequent court orders providing the following services: public safety (law enforcement and detention facilities, contracts for fire and ambulance service), public welfare (social services, public health), highways and streets, judicial administration and records, library, public improvements, and general administrative services.

The accompanying financial statements present the County and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the County's operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the County. We have adopted the provisions of Statement No. 39 of the Governmental Accounting Standards Board, *Determining Whether Certain Organizations are Component Units*, an amendment of Statement No. 14 of the Governmental Accounting Standards Board, *The Financial Reporting Entity*, as of September 30, 2010. There are no organizations that meet the requirements of GASB 39 which require inclusion in the basic financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the County. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. The County has no business-type activities.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs have been included as part of the program expenses reported for the various functional activities. Program revenue includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. The primary revenue sources susceptible to accrual are property taxes, which are recognized as deferred revenue until cash is received, and grant income, which is accrued when the legal and contractual requirements of the individual programs are met. Expenditures are recorded when incurred. However, expenditures for principal and interest on general long-term debt, compensated absences, and claims and judgments are recorded when due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the County, except those required to be accounted for in another fund.

The Courthouse Construction Fund accounts for the design, construction and equipping of the new Rockwall County Courthouse. Tax notes were issued to finance this project.

The Road Improvements Bond 2008 Fund accounts for the planning, engineering and construction of roads within Rockwall County. Bonds will be issued to finance this project.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the County reports the following fund types:

Internal Service Funds account for the County's self-insurance program and employees benefit fund.

The Private-purpose Trust Fund is used to account for resources legally held in trust by a not-for-profit organization devoted to providing indigent health care. All resources of the fund may be used for the organization's activities.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as *program* revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenue includes all taxes.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

D. Assets, Liabilities and Net Assets or Equity

Cash and Cash Equivalents

For purposes of the statement of cash flows for the proprietary fund types, the County considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are reported at fair value, and the changes in the fair value of investments are recognized as investment revenue.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." The effect of interfund activity has been eliminated from the government-wide financial statements. All trade and property tax receivables are shown net of an allowance for uncollectibles.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the governmental activities column in the government-wide financial statements. All capital assets are valued at their historical cost or estimated historical cost if actual historical cost is not available. Contributed assets are recorded at estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized. Improvements which extend asset lives are capitalized and depreciated over the useful lives of the related assets, as applicable. Capital assets are capitalized if they have an original cost of \$5,000 or more and an expected useful life of over one year. When property or equipment is retired from service or otherwise disposed of, the cost and related accumulated depreciation are removed and any resulting gain or loss is reported in the statement of activities.

Infrastructure capital assets, such as streets, built and/or acquired since fiscal year 1960 are included.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Assets (Continued)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range as follows:

<u>Assets</u>	<u>Years</u>
Infrastructure	10 - 40
Buildings	10 - 40
Improvements	5 - 40
Equipment	5 - 10

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

Bond Issuance Costs

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period in the fund financial statements. Bond proceeds are reported as an "other financing source." Bond issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. In the government-wide financial statements, issuance cost are reported as deferred charges and amortized over the life of the related debt. Bonds payable are reported net of the applicable bond premium or discount.

Compensated Absences

A liability for unused paid time off and compensatory time for all fulltime employees is calculated and reported in the government-wide financial statements. For financial reporting, the following criteria must be met to be considered as compensated absences: a) leave or compensation is attributable to services already rendered, and b) leave or compensation is not contingent on a specific event (such as illness).

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Compensated Absences (Continued)

County employees earn annual leave up to a maximum of 20 days per year based on months of service. Fulltime regular employees earn 10 days of sick leave per year. There is no liability for unpaid accumulated sick leave since the County does not have a policy to pay any amounts when employees separate from service with the County. Employees who have been employed for a year or more are eligible to be paid for all unused annual leave at their regular rate of pay upon termination of employment. Vacation pay is accrued when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation and retirements.

Reserves of Fund Equity

In the fund financial statements, governmental funds report reservations for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Use of Estimates

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

Property Taxes

Property subject to taxation is real property and certain personal property situated in the County. Certain properties of religious, educational and charitable organizations are exempt from taxation. In addition, other special exemptions are allowed by the Commissioners' Court of the County.

The County's ad valorem taxes are levied and become a legal enforceable claim, on October 1 on 100% of assessed valuation at a rate of \$.3750 (\$.2969 for the maintenance and operations and \$.0781 for interest and sinking fund) per \$100 valuation as of the preceding January 1. These taxes are due and payable from October 1 of the year in which levied until January 31 of the following year without interest or penalty. Taxes paid after February 1 of each year are subject to interest and penalty charges.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Property Taxes (Continued)

The County's taxes on real property are a lien (as of the date of levy) against such property until paid. The County may foreclose on real property upon which it has a lien for unpaid taxes. Delinquent taxes on property not otherwise collected are generally paid when there is a sale or transfer of the title to the property.

Any liens and subsequent suits against the taxpayer for payment of delinquent personal property taxes are barred unless instituted within four years from the time such taxes became delinquent. Unlike real property, the sale or transfer of most personal property does not require any evidence that taxes thereon are paid.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the County or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The County Judge serves as the budget officer for the Commissioners' Court and submits the annual budget for approval where the legal level of control is by category. Amendments to the budget and additional appropriations must be approved by Commissioners' Court. Following is a summary of the budget calendar:

- The proposed budget is filed with the County Clerk and made available for public inspection.
- The Commissioners' Court holds a public hearing on the proposed budget and subsequently makes changes and approves the budget including the adoption of a property tax levy which is effective on October 1 preceding the beginning of the fiscal year.

(continued)

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgetary Information (Continued)

- The approved budget is filed with the County Clerk.
- During the course of the budget year, it may be necessary to amend the budget. The Commissioners' Court may, by order, authorize an emergency expenditure as an amendment to the original budget only in a case of grave public necessity to meet an unusual and unforeseen condition that could not have been included in the original budget through the use of reasonable diligent thought and attention. The Commissioners' Court may issue an order to amend the budget by transferring an amount budgeted for one line item to another budgeted line item without authorizing an emergency expenditure.

III. 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 a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains, “Some liabilities, (such as notes payable, capital lease contract payable, long-term compensated absences, and bond payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.” The details of this \$(59,864,064) difference are as follows:

Tax notes	\$(59,075,000)
Premium on bonds	(242,112)
Accrued interest payable	(522,629)
Compensated absences	(581,298)
Deferred charge for bond issuance costs	902,392
Net OPEB obligation	<u>(345,417)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$(59,864,064)</u>

(continued)

III. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
 (Continued)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental fund and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, “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.” The details of this \$6,723,586 difference are as follows:

Capital outlay	\$ 7,991,509
Capital asset retirements	(132,899)
Depreciation expense	<u>(1,135,024)</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>\$ 6,723,586</u>

Another element of that reconciliation states, “Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$224,757 difference are as follows:

Property taxes	\$ 224,232
Adjudicated fines	<u>525</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 224,757</u>

(continued)

III. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
 (Continued)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Another element of that reconciliation states, “The issuance of long-term debt (e.g. bonds, leases) 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 these amounts are deferred and amortized in the statement of activities.” The details of this \$526,281 difference are as follows:

Principal repayments	\$ 3,297,500
Interest payable	(1,388)
Limited tax notes proceeds	(11,275,000)
Bond discount/premium	(358,190)
Bond refunding	8,962,500
Deferred charges	184,359
Compensated absences	(122,256)
OPEB obligation	<u>(161,244)</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>526,281</u>

IV. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

State statutes authorize the County to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or (b) secured by obligations that are described by (1) – (4); (6) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by (1), pledged with a third party selected or approved the County, and placed through a primary government securities dealer.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash and Investments (Continued)

Following are the County's investments at September 30, 2010:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool	\$ 3,859,302	30
MBIA Class	11,707,401	41
TexStar	972,040	47
LOGIC	28,601,773	40
Fannie Mae	1,000,000	872
Federal Home Loan Bank	<u>12,215,000</u>	698
Total investments	<u>\$ 58,355,516</u>	

Investment pools are not categorized as to investment risk since specific securities relating to the government cannot be identified. Investments in 2a7-like pools are valued based upon the value of pool shares. No investments are reported at amortized cost. The County currently invests in three 2a7-like pools, the Texas Local Government Investment Pool (TexPool), Texas Short Term Asset Reserve Program (TexStar), and the Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS).

Under the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accounts. The State Comptroller is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company authorized to operate TexPool.

MBIA CLASS was created under the Texas Government Code Ch. 2256. Municipal Investors Service Corporation (MBIA) is the plan administrator. The Custodian and the Board of Trustees shall conduct the trust's activities. The Board of Trustees shall be made up of all the Trustees elected by the participants. The fair value of the County's position in these pools is the same as the value of the pool shares.

J. P. Morgan Fleming Asset Management (USA), Inc. ("JPMFAM") and First Southwest Asset Management, Inc. ("FSAM") serve as co-administrators for TexStar under an agreement with the TexStar board of directors. JPMFAM provides investment service and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by J.P. Morgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services Co. TexStar bylaws provide for a five-member board of directors consisting of three representatives of participants and one member designated by each of the co-administrators.

Interest Rate Risk. As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that the maximum allowable stated maturity of any individual investment held in the General Fund shall not exceed 60 months nor shall the invested amount in such securities exceed 15% of the General Fund operating reserve. The maximum allowable stated maturity of any individual investment held in all other funds shall not exceed 24 months.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash and Investments (Continued)

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the County's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2010, the County's deposit balance was fully collateralized with securities held by the pledging financial institution in the County's name or by FDIC insurance.

Credit Risk. State law and county policy limit investments in local government investment pools to those rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. The County's investments as of September 30, 2010, were rated as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>
TexPool	AAAm	Standard & Poor's
MBIA Class	AAAm	Standard & Poor's
TexStar	AAAm	Standard & Poor's
LOGIC	AAAm	Standard & Poor's

B. Receivables and Deferred Revenues

Receivables as of year-end for the County's individual major funds and nonmajor funds including the applicable allowances for uncollectible accounts, as follows:

	<u>Governmental Funds</u>			
	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:				
Taxes	\$ 789,513	\$ 159,734	\$ 46,730	\$ 995,977
Adjudicated fines	2,039,951	-	-	2,039,951
Accounts	197,240	-	355,399	552,639
Interest	<u>10,227</u>	<u>-</u>	<u>1,519</u>	<u>11,746</u>
Gross receivables	3,036,931	159,734	403,648	3,600,313
Less: allowance for uncollectibles	<u>1,924,049</u>	<u>17,586</u>	<u>1,498</u>	<u>1,943,133</u>
Net total receivables	<u>\$ 1,112,882</u>	<u>\$ 142,148</u>	<u>\$ 402,150</u>	<u>\$ 1,657,180</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables and Deferred Revenues (Continued)

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 and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General fund:		
Delinquent property taxes receivable	\$ 540,882	\$ -
Adjudicated fines receivable	292,254	-
Other	<u>5,181</u>	<u>-</u>
Total general fund	<u>838,317</u>	<u>-</u>
Debt service:		
Delinquent property taxes receivable	<u>123,348</u>	<u>-</u>
Total debt service	<u>123,348</u>	<u>-</u>
Other governmental funds:		
Delinquent property taxes receivable	4,593	-
Lien assessments	<u>236,722</u>	<u>-</u>
Total other governmental funds	<u>241,315</u>	<u>-</u>
Total governmental funds	<u>\$ 1,202,980</u>	<u>\$ -</u>

C. Capital Assets

Capital assets are recorded at cost or, if donated, at fair 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 valued in two ways: either actual historical cost where the amount can be determined from existing records or using current cost deflated to the year of construction. Once the historical cost is determined, regardless of how it is determined, the asset is then depreciated over its useful life.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets (Continued)

Capital asset activity for the year ended September 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Prior Period Adjustment</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 6,371,813	\$ -	\$ -	\$ -	\$ 6,371,813
Construction in progress	<u>17,236,296</u>	<u>7,316,999</u>	<u>-</u>	<u>-</u>	<u>24,553,295</u>
Total assets not being depreciated	<u>23,608,109</u>	<u>7,316,999</u>	<u>-</u>	<u>-</u>	<u>30,925,108</u>
Capital assets, being depreciated:					
Buildings and improvements	11,976,438	183,305	-	-	12,159,743
Infrastructure	5,289,180	-	-	(56,524)	5,232,656
Machinery and equipment	<u>6,842,732</u>	<u>491,205</u>	<u>(441,006)</u>	<u>-</u>	<u>6,892,931</u>
Total capital assets being depreciated	<u>24,108,350</u>	<u>674,510</u>	<u>(441,006)</u>	<u>(56,524)</u>	<u>24,285,330</u>
Less accumulated depreciation:					
Buildings and improvements	(4,107,064)	(344,046)	-	-	(4,451,110)
Infrastructure	(1,376,700)	(130,831)	-	(685,021)	(2,192,552)
Machinery and equipment	<u>(4,225,914)</u>	<u>(660,147)</u>	<u>308,107</u>	<u>-</u>	<u>(4,577,954)</u>
Total accumulated depreciation	<u>(9,709,678)</u>	<u>(1,135,024)</u>	<u>308,107</u>	<u>(685,021)</u>	<u>(11,221,616)</u>
Total capital assets being depreciated, net	<u>14,398,672</u>	<u>(460,514)</u>	<u>(132,899)</u>	<u>(741,545)</u>	<u>13,063,714</u>
Governmental activities capital assets, net	<u>\$ 38,006,781</u>	<u>\$ 6,856,485</u>	<u>\$ (132,899)</u>	<u>\$ (741,545)</u>	<u>\$ 43,988,822</u>

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

Governmental activities:	
General government	\$ 395,056
Financial administration	18,317
Roads and bridges	313,207
Public safety	313,926
Public facilities	5,365
Public services	38,545
Judicial	23,526
Legal	3,043
Culture and recreation	19,706
Health and welfare	<u>4,333</u>
Total depreciation expense - governmental activities	<u>\$ 1,135,024</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Interfund Receivables/Payables and Transfers

The composition of interfund balances as of September 30, 2010, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 9,707
Debt service	General	<u>932</u>
		<u>\$ 10,639</u>

Balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made; and unsettled overdrafts of pooled cash which will be removed by rebalancing the funds' share of pooled cash and investments.

The following schedule briefly summarizes the County's transfer activity:

<u>Transfers in</u>	<u>Transfers out</u>	<u>Amount</u>
Nonmajor governmental	General	\$ <u>590,664</u>
		<u>\$ 590,664</u>

Transfers are used to: 1) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; and 2) move unrestricted revenues collected in Special Revenue Funds to the General Fund.

E. Long-term Liabilities

The County issues general obligation bonds and tax notes to finance major capital projects. General obligations debt, certificates of obligation and contractual obligations are generally payable from property tax revenues. All other obligations, including capital leases and compensated absences, are payable from revenues of the General Fund.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Liabilities (Continued)

Tax Notes

	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Principal Balance</u>	<u>Due Within One Year</u>
\$950,000 limited tax notes Series 2004	11/04/04	3.51%	\$ 175,000	\$ 175,000
\$550,000 limited tax notes Series 2005	11/30/05	3.85%	205,000	100,000
\$11,500,000 limited tax notes Series 2007	06/18/07	4.0% - 4.037%	10,510,000	420,000
\$1,250,000 limited tax notes Series 2007	09/18/07	3.75% - 4.03%	750,000	175,000
\$2,000,000 limited tax notes Series 2008A	09/25/08	4.09%	1,475,000	270,000
\$24,705,000 tax refunding note Series 2009	02/01/09	2.00%-5.00%	24,250,000	640,000
\$10,620,000 limited tax note Series 2009	02/01/09	2.75%-5.25%	10,435,000	270,000
\$2,460,000 unlimited tax Series 2010	06/08/10	4.15%	2,460,000	50,000
\$8,815,000 limited tax refunding Series 2010	06/08/10	3.65%	<u>8,815,000</u>	<u>475,000</u>
			<u>\$ 59,075,000</u>	<u>\$ 2,575,000</u>

The \$950,000 Limited Tax Notes, Series 2004, were issued for the purpose of purchasing five public safety vehicles, a vehicle for the County Health Department, equipment for Road and Bridge, expansion of the County jail, and other capital equipment purchases for general County purposes. Principal maturities will occur annually beginning February 2006. Interest payments occur semi-annually in February and August at 3.51%. The final principal and interest payment is due February 2011.

The \$550,000 Limited Tax Notes, Series 2005, were issued for the purpose of (a) acquisition of (1) book binding machine, computer equipment and software, courtroom equipment and software, information systems, storage equipment and facilities and furniture and furnishing several offices, (2) GPS navigation system for 911 Coordinator, (3) vehicles and cleaning equipment for maintenance and operations, (4) vehicles for Sheriff's Department and Jail, and (5) trucks for road and bridge; (b) construction improvements to County Clerk's office courtrooms, and indigent health care offices and to pay the costs of issuance fees of the Notes. Principal maturities will occur annually beginning in February 2007. Interest payments will occur semi-annually in February and August at 3.85%. The final principal and interest payment is due February 2012.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Liabilities (Continued)

Tax Notes (Continued)

The \$11,500,000 Permanent Improvement Limited Tax Notes, Series 2007, were issued for the purpose of designing constructing and equipping of a new 52,000 square foot library. Principal maturities will occur annually beginning in February 2008. Interest payments will occur semi-annually in February and August with a range of 4.0% - 4.375%. The final principal and interest payment is due February 2027.

The \$1,250,000 Limited Tax Notes, Series 2007, were issued for the purpose of purchasing computer equipment and software, audio/video equipment, security equipment, information systems, courtroom equipment, technology upgrades, office equipment, furniture and furnishing for County offices, voter election management system, voting registration card imaging, vehicles for Public Safety Departments, vehicles and equipment for road and bridge, construction of holding cells for County Court at Law and District Court, and acquisition of land and improvements for expansion for the jail and other county facilities. Principal maturities will occur annually beginning in February 2008. Interest payments will occur semi-annually in February and August with a range of 3.75% - 4.03%. The final principal and interest payment is due February 2014.

The \$2,000,000 Limited Tax Notes, Series 2008A, were issued for the purpose of paying contractual obligations to be incurred in connection with acquiring, remodeling, improving, and equipping the Rockwall County Services Building located at 915 Whitmore Drive in Rockwall, Texas including the payment of the costs of issuance of the notes. The notes shall mature annually on February 1 beginning in the year 2009 and ending in the year 2015. Interest payments will occur semi-annually on February 1 and August 1 beginning in the year 2009 and ending February 1, 2015, at an annual rate of 4.09%.

The \$24,705,000 Limited Tax Refunding Bonds – Series 2009, were issued to liquidate all but \$5,000,000 of the \$30,000,000 Tax Notes Series 2008 for the purpose of extending the amortization period to 25 years instead of the shorter seven-year period associated with the \$30M Tax Notes 2008 bonds. This action had the effect of reducing the annual debt service associated with the liability and did not affect the original purpose of the funds, which is to pay for the construction of a new courthouse for the County.

\$10,620,000 Unlimited Tax Road Bonds – Series 2009, were issued for the purpose of funding road improvement projects authorized by the voters in the 2004 \$17.250M Road Bond Authorization and the 2008 \$100M Road Bond Authorization. The proceeds were split with \$8.120M allocated to projects authorized by the 2004 bond issue and \$2.500M was allocated to projects authorized by the 2008 bond issue.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Liabilities (Continued)

Tax Notes (Continued)

The \$2,460,000 Unlimited Tax Series 2010, were issued for the purpose of providing funds for (i) permanent public improvements, to-wit: construction, maintenance and operation of macadamized, graveled or paved roads and highways, or in the aid thereof, throughout the County, including participating in the cost of joint projects with various state, city and regional council of government entities, and (ii) paying certain costs of issuing bonds. Principal maturities will occur annually beginning in February 2011. Interest payments will occur semi-annually in February and August at 4.146%. The final principal and interest payment is due February 2034.

The \$8,815,000 Limited Tax Refunding Series 2010, were issued for the purpose of (i) refunding the refunded obligations and (ii) paying the costs of issuing the bonds. Principal maturities will occur annually beginning in February 2011. Interest payments will occur semi-annually in February and August at 3.653%. The final principal and interest payment is due February 2034.

Advance Refunding of Debt

GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt," provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of September 30, 2010, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are as follows:

Permanent Improvement Bonds, Series 2001	\$ <u>2,620,000</u>
Total	\$ <u>2,620,000</u>

The County issued \$8,815,000 of limited tax refunding bonds to provide resources to purchase U. S. Government State and Local Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$10,631,046 for certificates of obligation, permanent improvement bond, and tax notes. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The County contributed excess Interest and Sinking Fund balance as a cash contribution to reduce the bond issue size. Consequently, the reacquisition price did not exceed the net carrying amount of the old debt. This advance refunding was undertaken to decrease total debt service payments over the next 11 years by approximately \$498,781 and resulted in an economic gain of \$350,827.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Liabilities (Continued)

Tax Notes (Continued)

The requirements to amortize all tax notes outstanding, as of September 30, 2010, are summarized as follows:

Fiscal Year Ending September 30,	Tax Notes		
	Principal	Interest	Total
2011	\$ 2,575,000	\$ 2,560,143	\$ 5,135,143
2012	2,590,000	2,373,050	4,963,050
2013	2,555,000	2,286,602	4,841,602
2014	2,660,000	2,191,115	4,851,115
2015	2,555,000	2,091,694	4,646,694
2016-2020	11,840,000	9,070,319	20,910,319
2021-2025	12,120,000	6,644,438	18,764,438
2026-2030	11,945,000	3,895,494	15,840,494
2031-2034	10,235,000	1,051,999	11,286,999
Total	\$ 59,075,000	\$ 32,164,854	\$ 91,239,854

F. Changes in Long-term Debt

The following is a summary of long-term debt transactions of the County for the fiscal year ended September 30, 2010:

Description	Amounts Outstanding September 30, 2009	Issued	Retired	Refunded	Amounts Outstanding September 30, 2010	Due Within One Year
Certificates of obligation	\$ 2,575,000	\$ -	\$ 240,000	\$ 2,335,000	\$ -	\$ -
Tax notes	57,485,000	11,275,000	3,057,500	6,627,500	59,075,000	2,575,000
Bond premiums/discounts	(116,078)	353,596	(4,594)	-	242,112	10,780
Compensated absences	459,042	414,325	292,069	-	581,298	116,260
Net OPEB obligation	184,173	230,209	68,965	-	345,417	-
	\$ 60,587,137	\$ 12,273,130	\$ 3,653,940	\$ 8,962,500	\$ 60,243,827	\$ 2,702,040

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

G. Pension Plans

Defined Benefit Plan – Texas County and District Retirement System (TCDRS)

Plan Description

Rockwall County provides retirement, disability, and death benefits for all of its regular fulltime and part-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer retirement system consisting of 602 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

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

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and county-financed monetary credits. The level of these credits is adopted by the Commissioners' Court of the County within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the County'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 county-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

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 required contribution rate of the employer is actuarially determined annually. The employer may contribute at an elected contribution rate that is higher. For the months of October, November, and December in 2009, the employer contributed at an elected rate of 9% versus the required rate of 6.36%. For 2010, the employer contributed the 9% required rate.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

G. Pension Plans (Continued)

Defined Benefit Plan – Texas County and District Retirement System (TCDRS) (Continued)

Plan Description (Continued)

The deposit rate payable by the employee members for calendar year 2010 is the rate of 7% as adopted by the Commissioners' Court of the County. The employee deposit rate and the employer deposit rate may be changed by the Commissioners' Court of the County within the options available in the TCDRS Act.

Annual Pension Cost

For the employer's accounting year ended September 30, 2010, the annual required contribution for the TCDRS plan was \$1,065,073, and the actual contributions were \$2,660,569. The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2008 and December 31, 2007, the basis for determining the contribution rates for calendar years 2010 and 2009. The December 31, 2009, actuarial valuation is the most recent valuation.

Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/07	12/31/08	12/31/09
Actuarial cost method	entry age	entry age	entry age
Amortization method	Level percentage of payroll, open	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period	15	4.8	30
Asset valuation method	SAF: 10-yr smoothed value ESF: Fund Value	SAF: 10-yr smoothed value ESF: Fund Value	SAF: 10-yr smoothed value ESF: Fund Value
Actuarial Assumptions:			
Investment return ¹	8.00%	8.00%	8.00%
Projected salary increases ¹	5.3%	5.3%	5.4%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	0.0%	0.0%	0.0%

¹ Includes inflation at the state rate

Trend Information for the Retirement Plan for the Employees of Rockwall County

Fiscal year	2008	2009	2010
Annual required contribution (ARC)	\$ 1,038,716	\$ 1,141,902	\$ 1,065,073
Interest on net pension obligation	-	(160,000)	(162,836)
Adjustment to ARC	-	124,544	474,565
Annual pension cost	1,038,716	1,106,446	1,376,802
Contributions made	(3,038,716)	(1,141,902)	(3,660,569)
Net pension obligation (asset), beginning of year	-	(2,000,000)	(2,035,456)
Change in net pension obligation (asset)	(2,000,000)	(35,456)	(2,283,767)
Net pension obligation (asset), end of year	<u>\$(2,000,000)</u>	<u>\$(2,035,456)</u>	<u>\$(4,319,223)</u>
Percentage of APC contributed	292.5%	103.2%	265.9%

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

G. Pension Plans (Continued)

Defined Benefit Plan – Texas County and District Retirement System (TCDRS) (Continued)

Annual Pension Cost (Continued)

**Schedule of Funding Progress for the Retirement Plan
For the Employees of Rockwall County**

Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (1) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2007	\$ 19,635,206	\$ 19,403,683	\$(231,523)	101.19%	\$ 10,467,796	(2.21%)
2008	20,062,445	21,573,217	1,510,772	93.00%	11,896,462	12.70%
2009	25,243,417	25,254,555	11,138	99.96%	13,275,117	0.08%

- 1) The annual covered payroll is based on the employee contributions received by TCDRS for the year ended with the valuation date.
- 2) Revised economic and demographic assumptions due to an experience review were reflected in this valuation.

H. Other Post-retirement Health Care Benefits

The County provides certain health care and life insurance benefits, under county policy, for all active employees upon retirement that meet one of the following requirements: age 60 with 8 or more years of service, at least 30 years of service at any age, or a combined age plus service of at least 75.

A retiree may choose to receive health care coverage through the County’s self-insured plan if retiring prior to age 65 or the retiree may choose to obtain coverage through the CountyChoice Silver plan offered by Texas Association of Counties if retiring at age 65 or older. As noted, it is the retiree’s option to choose either based upon age and other qualifying requirements when retirement occurs. The retiree is free to choose an independent plan for coverage. To offset the cost of health care coverage, the County provides a \$200 monthly stipend to qualified retirees. Spouses are not eligible for the stipend unless they are also qualified County retirees. The stipend applies to both pre-65 and post-65 retirees. The stipend benefit is subject to approval by the Commissioners’ Court on an annual basis. The stipend benefit has been offered to qualified retirees since 2002, although amounts have changed over time.

Expenses for post-retirement health care benefits are recognized on a pay-as-you-go basis. During the year, post-retirement health care benefits paid by the County were \$68,965. The County does not produce separately issued financial statements for the benefit plan.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

I. Post-retirement Health Care Benefits

Annual OPEB Cost and Net OPEB Obligation

The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The County's annual OPEB cost for the current year and the related information is listed below:

Annual Required Contribution (ARC)	\$ 221,000
Interest on Net OPEB Obligation	9,209
Adjustment to the ARC	-
Annual OPEB Cost	<u>230,209</u>
Employer Contributions with Interest	(68,965)
Increase (Decrease) in Net OPEB Obligation	161,244
Net OPEB Obligation, beginning of year	<u>184,173</u>
Net OPEB Obligation, end of year	<u>\$ 345,417</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year (5% discount rate, and level percent of pay amortization).

Fiscal Year Ended	Annual Required Contribution	Employer Contribution	Percentage Contributed	Net OPEB Obligation
09/30/09	\$ 221,000	\$ 36,827	17%	\$ 184,173
09/30/10	221,000	68,965	31%	345,417

Funding Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
09/30/08	\$ -	\$ 1,593,000	\$ 1,593,000	- %	\$ 13,275,117	12.00%

This is the second year of implementation for GASB Statement No. 45 for the County. Only one actuarial evaluation has been required in this time period. Therefore, only one year is available for presentation on the Schedule of Funding Status and Funding Progress.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

I. Post-retirement Health Care Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The projection of future payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the County and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial methods and significant assumptions used are as follows:

Actuarial Valuation Date	09/30/2008
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level percent of payroll
Remaining Amortization Period	30 years; open
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	5%
Payroll Growth Rate	3%
Projected Salary Increases	4%
General Inflation Rate	3%
Healthcare cost trend rate	11%
The number of active members is assumed to remain constant in the future	

(continued)

IV. OTHER INFORMATION (Continued)

J. Prior Period Adjustments

In the government-wide financial statements an adjustment was made to correct a lump sum payment the County made to Texas County and District Retirement System (TCDRS) towards the County's unfunded actuarial accrued liability. The result of this payment should have created a net pension asset in the financial statements. As a result, this adjustment increased beginning net assets by \$1,000,000.

Also in the government-wide statements an adjustment was made to correct an issue in the capital asset detail involving infrastructure. The result of this correction was an increase to the beginning balance of accumulated depreciation on infrastructure. As a result, this adjustment decreased beginning net assets by \$741,545.

K. Health Care Coverage (Self-insured Plan)

During the year ended September 30, 2010, employees of the County were covered by a health insurance plan (the "Plan"). The County contributed \$10,531 per year per employee. Employees, at their option, authorized payroll withholdings to pay contributions for dependents. All contributions were paid into the County's Insurance Trust Fund. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

L. Self-insurance Coverage

The County is exposed to various risks of loss in its normal daily operations. These risks include tort claims, theft/damage of county assets, errors and omissions, and natural disasters. The County has established a separate self-insurance fund (Internal Service) to account for these operations.

M. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the County carries commercial insurance. The County participates in a risk management program through Texas Association of Counties for workers' compensation coverage. The County currently provides health benefits for its employees.

The County has not had any significant reductions in insurance coverage from coverage in the prior year. The amount of settlements has not exceeded insurance coverage in any of the previous three years.

N. Commitments and Contingencies

The County is the defendant in a number of lawsuits arising principally in the normal course of operations. In the opinion of management, the outcome of these lawsuits will not have a material adverse effect on the accompanying combined financial statements and, accordingly, no provision for losses has been recorded.

(continued)

IV. OTHER INFORMATION (Continued)

N. Commitments and Contingencies (Continued)

The County participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the County has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2010, may be impaired. In the opinion of the County, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**REQUIRED
SUPPLEMENTARY INFORMATION**

ROCKWALL COUNTY, TEXAS

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL**

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 20,558,784	\$ 20,558,784	\$ 20,261,344	\$(297,440)
Beverage taxes	135,000	135,000	221,537	86,537
Fines and forfeitures	1,010,000	1,010,000	1,093,613	83,613
Other taxes	30,000	30,000	14,853	(15,147)
Fees and commissions	2,080,870	2,080,870	2,188,121	107,251
Intergovernmental	20,000	20,000	22,440	2,440
Investment earnings	152,800	152,800	139,706	(13,094)
Grants	372,000	372,000	384,200	12,200
Miscellaneous	37,100	40,600	37,033	(3,567)
Total revenues	<u>24,396,554</u>	<u>24,400,054</u>	<u>24,362,847</u>	<u>(37,207)</u>
EXPENDITURES				
Current:				
General government:				
County judge	155,241	155,241	137,298	17,943
County clerk	798,583	800,483	665,610	134,873
Information services	412,943	410,793	379,857	30,936
Nondepartmental	4,126,775	3,224,620	2,252,077	972,543
Human resources	42,281	42,606	37,132	5,474
Commissioners' court	77,690	77,690	66,019	11,671
Total general government	<u>5,613,513</u>	<u>4,711,433</u>	<u>3,537,993</u>	<u>1,173,440</u>
Financial administration:				
Tax assessor/collector	634,737	636,337	602,643	33,694
County treasurer	371,647	371,647	324,203	47,444
County auditor	481,569	483,094	463,751	19,343
Noncapital equipment	210,000	210,000	198,195	11,805
Human Resources	113,808	113,483	105,304	8,179
Total financial administration	<u>1,811,761</u>	<u>1,814,561</u>	<u>1,694,096</u>	<u>120,465</u>
Commissioner expenses:				
County commissioner, precinct #1	103,012	103,012	94,249	8,763
County commissioner, precinct #2	97,587	97,587	92,137	5,450
County commissioner, precinct #3	99,162	99,162	90,691	8,471
County commissioner, precinct #4	100,521	100,521	93,821	6,700
Total commissioner expenses	<u>400,282</u>	<u>400,282</u>	<u>370,898</u>	<u>29,384</u>
Public safety:				
Sheriff's department	4,224,079	4,221,979	4,070,279	151,700
County jail	4,875,861	4,879,405	4,664,015	215,390
Other law enforcement	620,171	620,171	594,472	25,699
Constable #1	85,156	85,156	82,778	2,378
Constable #2	84,342	84,342	78,188	6,154
Total public safety	<u>9,889,609</u>	<u>9,891,053</u>	<u>9,489,732</u>	<u>401,321</u>

(continued)

ROCKWALL COUNTY, TEXAS

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
EXPENDITURES (Continued)				
Public facilities				
Maintenance and operations	\$ 1,043,773	\$ 1,043,773	\$ 975,657	\$ 68,116
Total public facilities	1,043,773	1,043,773	975,657	68,116
Public services:				
Election administrator	426,739	426,739	389,439	37,300
VINE program	18,000	18,000	17,925	75
TCEQ grant	250,000	261,431	261,430	1
Total public services	694,739	706,170	668,794	37,376
Judicial:				
District clerk	661,022	661,022	627,391	33,631
District judge	789,484	789,484	732,631	56,853
Justice of the peace, precinct #1	262,361	262,361	256,512	5,849
Justice of the peace, precinct #2	313,762	313,762	295,009	18,753
Court at law	646,158	646,158	568,488	77,670
Total judicial	2,672,787	2,672,787	2,480,031	192,756
Legal:				
District attorney	1,486,398	1,496,215	1,425,043	71,172
Total legal	1,486,398	1,496,215	1,425,043	71,172
Culture and recreation:				
County library	1,415,567	1,415,567	1,320,627	94,940
Total culture and recreation	1,415,567	1,415,567	1,320,627	94,940
Health and welfare:				
County health coordinator	144,617	146,117	141,292	4,825
Welfare	211,950	211,950	202,413	9,537
Ambulance	467,765	467,765	442,550	25,215
911 services	80,922	80,922	61,784	19,138
Indigent health care	1,000,000	1,000,000	150,000	850,000
Total health and welfare	1,905,254	1,906,754	998,039	908,715
Conservation:				
County agent	161,848	161,848	129,166	32,682
Total conservation	161,848	161,848	129,166	32,682
Total current expenditures	27,095,531	26,220,443	23,090,076	3,130,367

(continued)

ROCKWALL COUNTY, TEXAS

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL**

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Noncurrent:				
Capital outlay:				
Capital equipment	\$ 1,039,263	\$ 1,170,820	\$ 474,042	\$ 696,778
Capital improvements	<u>565,000</u>	<u>749,538</u>	<u>432,254</u>	<u>317,284</u>
Total capital outlay	<u>1,604,263</u>	<u>1,920,358</u>	<u>906,296</u>	<u>1,014,062</u>
Total expenditures	<u>28,699,794</u>	<u>28,140,801</u>	<u>23,996,372</u>	<u>4,144,429</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(4,303,240)</u>	<u>(3,740,747)</u>	<u>366,475</u>	<u>4,107,222</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(132,462)	(631,462)	(590,664)	40,798
Proceeds from sale of assets	<u>2,500</u>	<u>61,507</u>	<u>96,580</u>	<u>35,073</u>
Total other financing sources (uses)	<u>(129,962)</u>	<u>(569,955)</u>	<u>(494,084)</u>	<u>75,871</u>
NET CHANGE IN FUND BALANCE	(4,433,202)	(4,310,702)	(127,609)	4,183,093
FUND BALANCES, BEGINNING	<u>20,994,789</u>	<u>20,994,789</u>	<u>20,994,789</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 16,561,587</u>	<u>\$ 16,684,087</u>	<u>\$ 20,867,180</u>	<u>\$ 4,183,093</u>

**COMBINING FUND
FINANCIAL STATEMENTS**

ROCKWALL COUNTY, TEXAS

COMBINING BALANCE SHEET

GOVERNMENT FUNDS

SEPTEMBER 30, 2010

	Special Revenue		
	Emergency Management	Fire Code Enforcement	Court Record Preservation Fund
ASSETS			
Cash and investments			
Unrestricted	\$ 85,048	\$ 93,042	\$ 14,860
Restricted	-	-	-
Receivables (net of allowance for uncollectibles)			
Taxes	-	-	-
Accounts	55,089	-	-
Interest	-	-	-
	-	-	-
Total assets	\$ 140,137	\$ 93,042	\$ 14,860
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 4,706	\$ -	\$ -
Accrued expenses	5,316	-	-
Deferred revenue	-	-	-
Due to other funds	-	-	-
Total liabilities	10,022	-	-
Fund balances:			
Unreserved	130,115	93,042	14,860
Total fund balances	130,115	93,042	14,860
Total liabilities and fund balances	\$ 140,137	\$ 93,042	\$ 14,860

Special Revenue

District Court Records Technology	Law Library	County/ District Court Technology	DOJ Recovery Act Grant	Justice Court Building Security	D. A. State	D. A. Forfeiture	Cities Readiness Initiative
\$ 8,615	\$ -	\$ 592	\$ 2,547	\$ -	\$ -	\$ 8,942	\$ -
-	209,030	-	-	33,578	-	71,877	-
-	-	-	-	-	-	-	-
-	-	-	-	-	19,518	-	6,837
-	-	-	-	-	-	-	-
<u>\$ 8,615</u>	<u>\$ 209,030</u>	<u>\$ 592</u>	<u>\$ 2,547</u>	<u>\$ 33,578</u>	<u>\$ 19,518</u>	<u>\$ 80,819</u>	<u>\$ 6,837</u>
\$ -	\$ 1,607	\$ -	\$ -	\$ -	\$ 25	\$ 2	\$ 594
-	777	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	1,895	-	6,243
-	2,384	-	-	-	1,920	2	6,837
<u>8,615</u>	<u>206,646</u>	<u>592</u>	<u>2,547</u>	<u>33,578</u>	<u>17,598</u>	<u>80,817</u>	<u>-</u>
<u>8,615</u>	<u>206,646</u>	<u>592</u>	<u>2,547</u>	<u>33,578</u>	<u>17,598</u>	<u>80,817</u>	<u>-</u>
<u>\$ 8,615</u>	<u>\$ 209,030</u>	<u>\$ 592</u>	<u>\$ 2,547</u>	<u>\$ 33,578</u>	<u>\$ 19,518</u>	<u>\$ 80,819</u>	<u>\$ 6,837</u>

(continued)

ROCKWALL COUNTY, TEXAS

COMBINING BALANCE SHEET

GOVERNMENT FUNDS

(Continued)

SEPTEMBER 30, 2010

	Special Revenue		
	Help America Vote Grant	Texas State Library Grant	Emergency Management Federal Grant
ASSETS			
Cash and investments			
Unrestricted	\$ -	\$ -	\$ -
Restricted	15,282	-	-
Receivables (net of allowance for uncollectibles)			
Taxes	-	-	-
Accounts	2,753	-	-
Interest	-	-	-
	-	-	-
Total assets	\$ 18,035	\$ -	\$ -
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Accrued expenses	-	-	-
Deferred revenue	-	-	-
Due to other funds	-	-	-
Total liabilities	-	-	-
Fund balances:			
Unreserved	18,035	-	-
Total fund balances	18,035	-	-
Total liabilities and fund balances	\$ 18,035	\$ -	\$ -

Special Revenue

Task Force Grant	Sheriff's Abandoned Property	Errors and Omissions Insurance	Public Safety Sales Tax	District Clerk Records Management	Court Reporter Service	Appellate Justice System	Justice Court Technology
\$ -	\$ 1,362	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,455	33,113	116,211	534,001	22,003	153,413	21,461	219,024
-	-	-	40,026	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 1,455</u>	<u>\$ 34,475</u>	<u>\$ 116,211</u>	<u>\$ 574,027</u>	<u>\$ 22,003</u>	<u>\$ 153,413</u>	<u>\$ 21,461</u>	<u>\$ 219,024</u>
\$ -	\$ -	\$ -	\$ 3,000	\$ 8	\$ -	\$ 9,019	\$ -
-	-	-	-	292	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000</u>	<u>300</u>	<u>-</u>	<u>9,019</u>	<u>-</u>
<u>1,455</u>	<u>34,475</u>	<u>116,211</u>	<u>571,027</u>	<u>21,703</u>	<u>153,413</u>	<u>12,442</u>	<u>219,024</u>
<u>1,455</u>	<u>34,475</u>	<u>116,211</u>	<u>571,027</u>	<u>21,703</u>	<u>153,413</u>	<u>12,442</u>	<u>219,024</u>
<u>\$ 1,455</u>	<u>\$ 34,475</u>	<u>\$ 116,211</u>	<u>\$ 574,027</u>	<u>\$ 22,003</u>	<u>\$ 153,413</u>	<u>\$ 21,461</u>	<u>\$ 219,024</u>

(continued)

ROCKWALL COUNTY, TEXAS

COMBINING BALANCE SHEET

GOVERNMENT FUNDS

(Continued)

SEPTEMBER 30, 2010

	Special Revenue		
	CC Records Management and Preservation	Records Management and Preservation	Courthouse Security
ASSETS			
Cash and investments			
Unrestricted	\$ -	\$ -	\$ -
Restricted	1,516,702	97,606	81,193
Receivables (net of allowance for uncollectibles)			
Taxes	-	-	-
Accounts	-	-	-
Interest	<u>1,238</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 1,517,940</u>	<u>\$ 97,606</u>	<u>\$ 81,193</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 725	\$ 723	\$ 2,949
Accrued expenses	420	-	3,460
Deferred revenue	-	-	-
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>1,145</u>	<u>723</u>	<u>6,409</u>
Fund balances:			
Unreserved	<u>1,516,795</u>	<u>96,883</u>	<u>74,784</u>
Total fund balances	<u>1,516,795</u>	<u>96,883</u>	<u>74,784</u>
Total liabilities and fund balances	<u>\$ 1,517,940</u>	<u>\$ 97,606</u>	<u>\$ 81,193</u>

Special Revenue

<u>Election Services</u>	<u>Voter Registration Reimbursement</u>	<u>Library Building</u>	<u>TCEQ Local Initiative Project</u>	<u>Sheriff</u>	<u>Library</u>	<u>D. A. Hot Check Fees</u>	<u>Road and Bridge</u>
\$ 126,069	\$ -	\$ -	\$ 3,810	\$ 91,631	\$ 136,815	\$ 39,862	\$ -
-	2,114	60,689	-	-	-	-	2,803,391
-	-	-	-	-	-	-	5,206
21,328	-	-	-	-	-	-	249,874
-	-	-	-	-	-	-	281
<u>\$ 147,397</u>	<u>\$ 2,114</u>	<u>\$ 60,689</u>	<u>\$ 3,810</u>	<u>\$ 91,631</u>	<u>\$ 136,815</u>	<u>\$ 39,862</u>	<u>\$ 3,058,752</u>
\$ -	\$ -	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ 18,457
8,739	-	-	-	-	-	-	14,478
-	-	-	-	-	-	-	241,315
-	1,569	-	-	-	-	-	-
<u>8,739</u>	<u>1,569</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>274,250</u>
<u>138,658</u>	<u>545</u>	<u>60,679</u>	<u>3,810</u>	<u>91,631</u>	<u>136,815</u>	<u>39,862</u>	<u>2,784,502</u>
<u>138,658</u>	<u>545</u>	<u>60,679</u>	<u>3,810</u>	<u>91,631</u>	<u>136,815</u>	<u>39,862</u>	<u>2,784,502</u>
<u>\$ 147,397</u>	<u>\$ 2,114</u>	<u>\$ 60,689</u>	<u>\$ 3,810</u>	<u>\$ 91,631</u>	<u>\$ 136,815</u>	<u>\$ 39,862</u>	<u>\$ 3,058,752</u>

(continued)

ROCKWALL COUNTY, TEXAS

COMBINING BALANCE SHEET

GOVERNMENT FUNDS

(Continued)

SEPTEMBER 30, 2010

	Capital Projects				
	Library Construction Bond	Historic Courthouse	Library Renovation	Veterans Memorial Fund	Total
ASSETS					
Cash and investments					
Unrestricted	\$ -	\$ -	\$ -	\$ -	\$ 613,195
Restricted	396,356	4,602	548	499,201	6,892,850
Receivables (net of allowance for uncollectibles)					
Taxes	-	-	-	-	45,232
Accounts	-	-	-	-	355,399
Interest	-	-	-	-	1,519
	-	-	-	-	1,519
Total assets	<u>\$ 396,356</u>	<u>\$ 4,602</u>	<u>\$ 548</u>	<u>\$ 499,201</u>	<u>\$ 7,908,195</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 41,825
Accrued expenses	-	-	-	-	33,482
Deferred revenue	-	-	-	-	241,315
Due to other funds	-	-	-	-	9,707
Total liabilities	-	-	-	-	326,329
Fund balances:					
Unreserved	396,356	4,602	548	499,201	7,581,866
Total fund balances	<u>396,356</u>	<u>4,602</u>	<u>548</u>	<u>499,201</u>	<u>7,581,866</u>
Total liabilities and fund balances	<u>\$ 396,356</u>	<u>\$ 4,602</u>	<u>\$ 548</u>	<u>\$ 499,201</u>	<u>\$ 7,908,195</u>

ROCKWALL COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENT FUNDS
SEPTEMBER 30, 2010

	Special Revenue		
	Emergency Management	Fire Code Enforcement	Court Record Preservation Fund
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	-
Other taxes	-	-	-
Fees and commissions	199,242	17,880	14,860
Intergovernmental	-	-	-
Election	-	-	-
Investment earnings	41	-	-
Grants	-	-	-
Donations	-	-	-
Miscellaneous	-	-	-
Total revenues	199,283	17,880	14,860
EXPENDITURES			
Current:			
General government	-	-	-
Roads and bridges	-	-	-
Public safety	176,828	-	-
Public service	-	-	-
Judicial	-	-	-
Legal	-	-	-
Culture and recreation	-	-	-
Capital outlay	17,163	-	-
Total expenditures	193,991	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,292	17,880	14,860
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Proceeds from sale of assets	-	-	-
Total other revenues and financing sources (uses)	-	-	-
NET CHANGE IN FUND BALANCES	5,292	17,880	14,860
FUND BALANCES/EQUITY, BEGINNING	124,823	75,162	-
FUND BALANCES/EQUITY, ENDING	\$ 130,115	\$ 93,042	\$ 14,860

Special Revenue

District Court Records Technology	Law Library	County/ District Court Technology	DOJ Recovery Act Grant	Justice Court Building Security	D. A. State	D. A. Forfeiture	Cities Readiness Initiative
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	7,542	-
-	-	-	-	-	-	-	-
8,615	61,975	592	-	5,929	-	-	-
-	-	-	-	-	34,449	-	-
-	326	-	-	43	-	186	-
-	-	-	25,216	-	-	-	28,327
-	-	-	-	-	-	-	-
-	-	-	-	-	2,828	-	-
<u>8,615</u>	<u>62,301</u>	<u>592</u>	<u>25,216</u>	<u>5,972</u>	<u>37,277</u>	<u>7,728</u>	<u>28,327</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	22,669	-	-	-	28,327
-	-	-	-	-	-	-	-
-	-	-	-	-	36,129	3,621	-
-	30,607	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>30,607</u>	<u>-</u>	<u>22,669</u>	<u>-</u>	<u>36,129</u>	<u>3,621</u>	<u>28,327</u>
<u>8,615</u>	<u>31,694</u>	<u>592</u>	<u>2,547</u>	<u>5,972</u>	<u>1,148</u>	<u>4,107</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
8,615	31,694	592	2,547	5,972	1,148	4,107	-
-	174,952	-	-	27,606	16,450	76,710	-
<u>\$ 8,615</u>	<u>\$ 206,646</u>	<u>\$ 592</u>	<u>\$ 2,547</u>	<u>\$ 33,578</u>	<u>\$ 17,598</u>	<u>\$ 80,817</u>	<u>\$ -</u>

(continued)

ROCKWALL COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENT FUNDS
(Continued)
SEPTEMBER 30, 2010

	Special Revenue		
	Help America Vote Grant	Texas State Library Grant	Emergency Management Federal Grant
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	-
Other taxes	-	-	-
Fees and commissions	-	-	-
Intergovernmental	-	-	-
Election	-	-	-
Investment earnings	-	-	2,150
Grants	576	19,529	27
Donations	-	-	-
Miscellaneous	-	-	500
Total revenues	576	19,529	2,677
EXPENDITURES			
Current:			
General government	-	-	-
Roads and bridges	-	-	-
Public safety	-	-	-
Public service	576	-	-
Judicial	-	-	-
Legal	-	-	-
Culture and recreation	-	19,627	-
Capital outlay	-	-	-
Total expenditures	576	19,627	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(98)	2,677
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	36,664
Proceeds from sale of assets	-	-	-
Total other revenues and financing sources (uses)	-	-	36,664
NET CHANGE IN FUND BALANCES	-	(98)	39,341
FUND BALANCES/EQUITY, BEGINNING	18,035	98	(39,341)
FUND BALANCES/EQUITY, ENDING	\$ 18,035	\$ -	\$ -

Special Revenue

Task Force Grant	Sheriff's Abandoned Property	Errors and Omissions Insurance	Public Safety Sales Tax	District Clerk Records Management	Court Reporter Service	Appellate Justice System	Justice Court Technology
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	231,337	-	-	-	-
-	2,233	10,000	-	10,243	26,620	10,000	24,535
-	-	-	-	-	-	-	-
-	44	182	1,007	1	242	21	382
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>2,277</u>	<u>10,182</u>	<u>232,344</u>	<u>10,244</u>	<u>26,862</u>	<u>10,021</u>	<u>24,917</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	317,600	-	-	-	-
-	-	-	-	9,808	-	9,019	1,423
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>317,600</u>	<u>9,808</u>	<u>-</u>	<u>9,019</u>	<u>1,423</u>
<u>-</u>	<u>2,277</u>	<u>10,182</u>	<u>(85,256)</u>	<u>436</u>	<u>26,862</u>	<u>1,002</u>	<u>23,494</u>
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	2,277	10,182	(85,256)	436	26,862	1,002	23,494
<u>1,455</u>	<u>32,198</u>	<u>106,029</u>	<u>656,283</u>	<u>21,267</u>	<u>126,551</u>	<u>11,440</u>	<u>195,530</u>
<u>\$ 1,455</u>	<u>\$ 34,475</u>	<u>\$ 116,211</u>	<u>\$ 571,027</u>	<u>\$ 21,703</u>	<u>\$ 153,413</u>	<u>\$ 12,442</u>	<u>\$ 219,024</u>

(continued)

ROCKWALL COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

GOVERNMENT FUNDS
(Continued)
SEPTEMBER 30, 2010

	Special Revenue		
	CC Records Management and Preservation	Records Management and Preservation	Courthouse Security
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	-
Other taxes	-	-	-
Fees and commissions	190,171	33,510	50,902
Intergovernmental	-	-	-
Election	-	-	-
Investment earnings	7,801	149	153
Grants	-	-	-
Donations	-	-	-
Miscellaneous	-	-	-
Total revenues	<u>197,972</u>	<u>33,659</u>	<u>51,055</u>
EXPENDITURES			
Current:			
General government	51,148	19,408	-
Roads and bridges	-	-	-
Public safety	-	-	126,503
Public service	-	-	-
Judicial	-	-	-
Legal	-	-	-
Culture and recreation	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>51,148</u>	<u>19,408</u>	<u>126,503</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>146,824</u>	<u>14,251</u>	<u>(75,448)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	55,000
Proceeds from sale of assets	-	-	-
Total other revenues and financing sources (uses)	<u>-</u>	<u>-</u>	<u>55,000</u>
NET CHANGE IN FUND BALANCES	146,824	14,251	(20,448)
FUND BALANCES/EQUITY, BEGINNING	<u>1,369,971</u>	<u>82,632</u>	<u>95,232</u>
FUND BALANCES/EQUITY, ENDING	<u>\$ 1,516,795</u>	<u>\$ 96,883</u>	<u>\$ 74,784</u>

Special Revenue

Election Services	Voter Registration Reimbursement	Library Building	TCEQ Local Initiative Project	Sheriff	Library	D. A. Hot Check Fees	Road and Bridge
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 469,761
-	-	-	-	-	71,350	12,779	152,914
-	-	-	-	-	-	-	-
-	-	-	-	-	31,672	-	1,117,064
111,632	-	-	-	7,169	-	-	62,053
-	-	-	-	-	-	-	14,622
-	-	5,500	-	-	-	-	-
-	-	-	-	47,133	-	-	400
<u>111,632</u>	<u>-</u>	<u>5,500</u>	<u>-</u>	<u>54,302</u>	<u>103,022</u>	<u>12,779</u>	<u>1,816,814</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	1,567,666
89,456	-	-	-	15,287	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	3,596	-
-	-	18,000	-	-	81,772	-	-
<u>89,456</u>	<u>-</u>	<u>18,000</u>	<u>-</u>	<u>15,287</u>	<u>81,772</u>	<u>3,596</u>	<u>1,567,666</u>
22,176	-	(12,500)	-	39,015	21,250	9,183	249,148
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	23,623
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,623</u>
22,176	-	(12,500)	-	39,015	21,250	9,183	272,771
<u>116,482</u>	<u>545</u>	<u>73,179</u>	<u>3,810</u>	<u>52,616</u>	<u>115,565</u>	<u>30,679</u>	<u>2,511,731</u>
<u>\$ 138,658</u>	<u>\$ 545</u>	<u>\$ 60,679</u>	<u>\$ 3,810</u>	<u>\$ 91,631</u>	<u>\$ 136,815</u>	<u>\$ 39,862</u>	<u>\$ 2,784,502</u>

(continued)

ROCKWALL COUNTY, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

**GOVERNMENT FUNDS
(Continued)
SEPTEMBER 30, 2010**

	Capital Projects				
	Library Construction Bond	Historic Courthouse	Library Renovation	Veterans Memorial Fund	Total
REVENUES					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 469,761
Fines and forfeitures	-	-	-	-	244,585
Other taxes	-	-	-	-	231,337
Fees and commissions	-	-	-	-	1,816,043
Intergovernmental	-	-	-	-	103,671
Election	-	-	-	-	111,632
Investment earnings	826	28	-	201	28,405
Grants	-	-	-	-	73,675
Donations	-	-	-	-	5,500
Miscellaneous	-	-	-	-	50,861
Total revenues	<u>826</u>	<u>28</u>	<u>-</u>	<u>201</u>	<u>3,135,470</u>
EXPENDITURES					
Current:					
General government	-	5,299	-	-	75,855
Roads and bridges	-	-	-	-	1,567,666
Public safety	-	-	-	-	658,887
Public service	-	-	-	-	118,359
Judicial	-	-	-	-	20,250
Legal	-	-	-	-	43,346
Culture and recreation	2,423	-	-	-	152,429
Capital outlay	-	-	-	-	17,163
Total expenditures	<u>2,423</u>	<u>5,299</u>	<u>-</u>	<u>-</u>	<u>2,653,955</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,597)</u>	<u>(5,271)</u>	<u>-</u>	<u>201</u>	<u>481,515</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	499,000	590,664
Proceeds from sale of assets	-	-	-	-	23,623
Total other revenues and financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>499,000</u>	<u>614,287</u>
NET CHANGE IN FUND BALANCES	<u>(1,597)</u>	<u>(5,271)</u>	<u>-</u>	<u>499,201</u>	<u>1,095,802</u>
FUND BALANCES/EQUITY, BEGINNING	<u>397,953</u>	<u>9,873</u>	<u>548</u>	<u>-</u>	<u>6,486,064</u>
FUND BALANCES/EQUITY, ENDING	<u>\$ 396,356</u>	<u>\$ 4,602</u>	<u>\$ 548</u>	<u>\$ 499,201</u>	<u>\$ 7,581,866</u>

ROCKWALL COUNTY, TEXAS

TRUST AND AGENCY FUNDS

COMBINING BALANCE SHEET

SEPTEMBER 30, 2010

	<u>Tax Assessor/ Collector</u>	<u>County Clerk</u>	<u>District Attorney</u>	<u>District Clerk</u>	<u>Sheriff</u>	<u>Bail Bond Board</u>	<u>Totals</u>
ASSETS							
Cash and investments	\$ <u>1,395,423</u>	\$ <u>369,391</u>	\$ <u>151,178</u>	\$ <u>979,422</u>	\$ <u>121,140</u>	\$ <u>753,506</u>	\$ <u>3,770,060</u>
Total assets	\$ <u>1,395,423</u>	\$ <u>369,391</u>	\$ <u>151,178</u>	\$ <u>979,422</u>	\$ <u>121,140</u>	\$ <u>753,506</u>	\$ <u>3,770,060</u>
LIABILITIES							
Due to others	\$ -	\$ 369,391	\$ 151,178	\$ 979,422	\$ 121,140	\$ 753,506	\$ 2,374,637
Due to other governments	<u>1,395,423</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,395,423</u>
Total liabilities	\$ <u>1,395,423</u>	\$ <u>369,391</u>	\$ <u>151,178</u>	\$ <u>979,422</u>	\$ <u>121,140</u>	\$ <u>753,506</u>	\$ <u>3,770,060</u>



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

To the Honorable County Judge and
Commissioners Court of
Rockwall County, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Rockwall County, Texas, as of and for the year ended September 30, 2010, which collectively comprise the County's basic financial statements and have issued our report thereon dated May 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Pattillo, Brown & Hill, L.L.P.

May 20, 2011