

NEWTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2008**

**NEWTON COUNTY, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008**

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**INTRODUCTORY
SECTION**

**NEWTON COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2008
DIRECTORY OF OFFICIALS**

COMMISSIONERS' COURT:

Truman Dougharty
William L. "Bill" Fuller
Thomas Gill
Prentiss Hopson
Ethel Brinson

County Judge
Commissioner, Precinct No. 1
Commissioner, Precinct No. 2
Commissioner, Precinct No. 3
Commissioner, Precinct No. 4

OTHER COUNTY OFFICIALS:

Misti Spacek
Bree Allen
Mary Cobb
Melissa Burks
Karen Pousson
Elizabeth Holloway
Joe Walker
Sharon Long
Gwen Simmons

District Attorney
District Clerk
County Clerk
County Tax Assessor and Collector
County Treasurer
County Auditor
Sheriff
Librarian
Indigent Health Care

JUSTICE OF PEACE:

A.J. Satterwhite
Brenda Smith
Jimmy Mack Hopson
Dana Bean

Justice of Peace, Precinct No. 1
Justice of Peace, Precinct No. 2
Justice of Peace, Precinct No. 3
Justice of Peace, Precinct No. 4

CONSTABLES:

Mervin Ozan, Jr.
Billie Lewis
Holton "Bubba" Johnson
David Coffman

Constable, Precinct No. 1
Constable, Precinct No. 2
Constable, Precinct No. 3
Constable, Precinct No. 4

**FINANCIAL
SECTION**



Charles E. Reed & Associates, P.C.

Certified Public Accountants & Consultants

Member

American Institute of
Certified Public Accountants

Texas Society of
Certified Public Accountants

AICPA Private
Companies Practice Section

INDEPENDENT AUDITORS' REPORT

To the County Judge and
Members of the County Court
Newton County, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely component units, each major fund, and the aggregate remaining fund information of Newton County, Texas, as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Newton County, Texas' 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Newton County, Texas as of December 31, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2009, on our consideration of Newton 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Beaumont

3302 McFaddin, Suite One
Beaumont, Texas 77706

(409) 833-8986 • Fax: (409) 833-4486

Port Arthur

3636 Professional Drive
Port Arthur, Texas 77642

(409) 983-3277 • Fax: (409) 983-3270

Silsbee

295 Hwy. 327 East
Silsbee, Texas 77656

(409) 385-2806 • Fax: (409) 385-4338

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Newton County, Texas' basic financial statements. The introductory section, combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Texas Single Audit Circular issued by the Governor of the State and is also not a required part of the basic financial statements of Newton County, Texas. The combining and individual non-major fund financial statements and the schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Yours very truly,

Charles E. Reed & Associates, P.C.

Charles E. Reed & Associates, P.C.
Certified Public Accountants

August 28, 2009

NEWTON COUNTY, TEXAS Management's Discussion and Analysis

As management of Newton County (County), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2008. We encourage readers to consider the information presented here in conjunction with the County's financial statements, which follow this section.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of 2008 by \$19,787,209. Of this amount, \$6,430,708 is considered unrestricted. The unrestricted net assets of the County's governmental activities are \$3,246,186 and may be used to meet the government's ongoing obligations.
- The County's total net assets increased by \$1,496,661 in 2008.
- As of the close of the current fiscal year, the County's governmental funds reported a combined ending fund balance of \$6,988,239. Of this balance, \$6,988,239 is considered unreserved at December 31, 2008.
- The General Fund reported a fund balance of \$3,580,458 at the end of the current fiscal year. The unreserved fund balance for the General Fund was \$2,580,458 or 63.2% of total general expenditures (including transfers out).
- The County's total debt decreased by \$277,560 during the current fiscal year. Debt was issued in the current fiscal year in the amount of \$524,610.

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 comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

The government-wide financial statements can be found on pages 9 and 10 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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, and all major funds; non-major funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The County adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 11-13 of this report.

Proprietary funds. The County has two proprietary funds.

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 beginning on page 20 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the County's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 32 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the Notes to the Financial Statements. Combining statements can be found on page 33 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The County's assets exceeded liabilities by \$19,787,209 at the close of the most recent fiscal year.

A portion of the County's net assets, \$8,813,738 reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, equipment, and infrastructure), less any related debt used to acquire those assets that remain outstanding. The County uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Net Assets

	2008	2007	2008	2007
	Governmental Activities	Governmental Activities	Business-Type Activities	Business-Type Activities
Current and other assets	\$ 8,047,826	\$ 8,434,364	\$ 6,047,170	\$ 6,106,209
Capital assets	7,846,698	5,073,786	11,858,348	12,217,522
Total assets	15,894,524	13,508,150	17,905,518	18,323,731
Long-term liabilities	454,392	290,900	10,885,000	12,005,000
Other liabilities	377,825	197,536	2,295,616	1,047,897
Total liabilities	832,217	488,436	13,180,616	13,052,897
Net assets:				
Invested in capital assets, net of related debt	7,273,358	4,782,886	1,540,380	863,532
Restricted	4,542,763	4,920,519	-	1,623,791
Unrestricted	3,246,186	3,316,309	3,184,522	2,783,511
	<u>\$ 15,062,307</u>	<u>\$ 13,019,714</u>	<u>\$ 4,724,902</u>	<u>\$ 5,270,834</u>

An additional portion of the County's net assets, \$4,542,763 represents resources that are subject to restrictions as to how they may be used. The remaining balance of unrestricted net assets \$6,430,708, may be utilized to meet the government's on-going obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate government activities. The same situation held true for the prior fiscal year.

CHANGES IN NET ASSETS

	2008	2007	2008	2007
	Governmental Activities	Governmental Activities	Proprietary Activities	Proprietary Activities
REVENUES				
Charges for services	\$ 1,202,781	\$ 1,179,471	\$ 13,641,763	\$ 14,538,362
Operating grants and contributions	1,171,334	2,747,073	-	-
Capital Grants	2,228,536	-	-	-
General revenues:				
Property taxes	4,169,734	3,506,337	-	-
Miscellaneous	99,245	25,793	-	-
Interest income	178,532	364,080	118,398	184,710
Other	301,269	509,149	-	-
Total Revenues	<u>9,351,431</u>	<u>8,331,903</u>	<u>\$ 13,760,161</u>	<u>\$ 14,723,072</u>
EXPENDITURES				
General government	2,363,157	2,255,888	-	-
Public safety & health	3,542,721	2,109,663	-	-
Public facilities	1,798,580	1,412,491	13,719,444	14,568,875
Conservation	41,498	113,053	-	-
Culture and Recreation	133,523	135,257	-	-
Interest on long-term debt	16,008	9,928	-	-
Total Expenditures	<u>7,895,487</u>	<u>6,036,280</u>	<u>13,719,444</u>	<u>14,568,875</u>
Excess of Revenues over Expenses	1,455,944	2,295,623	40,717	154,197
Transfers	586,649	576,649	(586,649)	(576,650)
Increase (decrease) in net assets	<u>2,042,593</u>	<u>2,872,272</u>	<u>(545,932)</u>	<u>(422,453)</u>
Net assets at beginning of year	<u>13,019,714</u>	<u>9,826,119</u>	<u>5,270,834</u>	<u>4,413,085</u>
Prior Period Adjustment	-	321,323	-	1,280,202
Net Assets End of Year	<u>\$ 15,062,307</u>	<u>\$ 13,019,714</u>	<u>4,724,902</u>	<u>5,270,834</u>

The government's total net assets increased by \$ 1,496,661 during the current fiscal year. The County's governmental activities increased due primarily to the efficient management of expenses and increased revenue from charges, interest and other.

Financial Analysis of the Government's Funds

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

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

As of December 31, 2008, the County's governmental funds reported combined ending fund balances of \$ 6,988,239 a decrease of \$ 46,928 in comparison with the prior year. All of this amount constitutes unreserved fund balance, which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the County. At December 31, 2008 unreserved and total fund balance of the General Fund was \$ 3,580,458. As a measure of liquidity of the General Fund, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures (including transfers out). Fund balance represents 63.2% of total General Fund expenditures (including transfers out).

The fund balance of the General Fund increased by \$ 855,758 during 2008. It was budgeted at a decrease of \$ (1,736,378) during this year. Therefore, this increase was at \$5,151,045 positive variance. Revenue had a positive variance of \$ 914,127.

Capital Assets and Debt Administration

Capital assets. The County's investment in capital assets for governmental and business-type activities as of December 31, 2008, amounts to \$ 19,705,046 (net of accumulated depreciation). This investment in capital assets includes land, and other capital assets such as buildings, improvements, and equipment.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ 1,050,855	\$ 300,000	\$ 1,350,855
Other capital assets	6,795,843	11,558,348	18,354,191
	<u>\$ 7,846,698</u>	<u>\$ 11,858,348</u>	<u>\$ 19,705,046</u>

Additional information on the County's capital assets can be found in Note 1 on page 23 and Note 3 (D) on pages 27-28.

Long-term debt. At December 31, 2008, the County had \$12,018,340 of long-term debt.

	DEBT OUTSTANDING	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Bonds Payable	\$ -	\$ 11,445,000
Notes Payable	573,340	-
	<u>\$ 573,340</u>	<u>\$ 11,445,000</u>

Total liabilities outstanding at December 31, 2008 increased by \$ 471,500, from December 31, 2007, because same debt was issued, and payables were higher. Additional information on the County's debt can be found in Note 3E, beginning on page 28.

Economic Factors and Next Year's Budgets and Rates

Unemployment is at 11.9 %; Tax rate for 2008-2009 year is reduced to \$.610957.

As always in times of limited resources and consideration of the burden to rate and tax payers, the following items may be considered in balancing future budgets.

- Budget for 2009 is similar to 2008.
- Use of fund balance to offset inflationary increases in expenses without increasing tax rate.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show accountability for the funding it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Auditor, Newton County, Newton, Texas.

**BASIC
FINANCIAL
STATEMENTS**

NEWTON COUNTY, TEXAS
 GOVERNMENT-WIDE STATEMENT OF NET ASSETS
 DECEMBER 31, 2008

Exhibit A

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash & Cash Equivalents	\$ 5,340,398	\$ 3,576,598	\$ 8,916,996
Receivables:			
Accounts Receivable	103,458	2,333,352	2,436,810
Property Taxes Receivable	1,733,679	-	1,733,679
Allowance for Uncollectible Taxes	(60,000)	-	(60,000)
Restricted Cash and Investments	930,291	-	930,291
Original Issue Discount - Net	-	137,220	137,220
Capital Assets	-	-	-
Land	1,050,855	300,000	1,350,855
Construction in Progress	3,489,324	-	3,489,324
Capital Assets - Net	3,306,519	11,558,348	14,864,867
TOTAL ASSETS	\$ 15,894,524	\$ 17,905,518	\$ 33,800,042
LIABILITIES			
Accounts Payable	\$ 258,877	\$ 1,735,616	\$ 1,994,493
Notes Payable			
Due Within One Year	118,948	560,000	678,948
Due After One Year	454,392	10,885,000	11,339,392
TOTAL LIABILITIES	\$ 832,217	\$ 13,180,616	\$ 14,012,833
NET ASSETS			
Investment in Capital Assets- Net of Debt	\$ 7,273,358	\$ 1,540,380	\$ 8,813,738
Restricted	930,291	-	930,291
Restricted - Special Revenue	3,612,472	-	3,612,472
Unrestricted	3,246,186	3,184,522	6,430,708
TOTAL NET ASSETS	\$ 15,062,307	\$ 4,724,902	\$ 19,787,209

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

NEWTON COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit B

<u>Functions-Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Specific Operating Grants</u>	<u>Program Specific Capital Grants</u>	<u>Activities Total</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General Government	\$ 775,703	\$ -	\$ 27,328	\$ -	\$ (748,375)	\$ -	\$ (748,375)
Judicial	689,619	-	-	-	(689,619)	-	(689,619)
Legal	236,687	-	61,329	-	(175,358)	-	(175,358)
Financial Administration	650,136	-	-	-	(650,136)	-	(650,136)
Public Facilities	1,798,580	4,070	-	1,891,173	96,663	-	96,663
Public Safety	3,090,486	1,198,711	1,043,806	337,363	(510,606)	-	(510,606)
Health & Welfare	452,235	-	26,021	-	(426,214)	-	(426,214)
Conservation	41,498	-	-	-	(41,498)	-	(41,498)
Culture & Recreation	133,523	-	12,850	-	(120,673)	-	(120,673)
Miscellaneous	11,012	-	-	-	(11,012)	-	(11,012)
Interest on long-term debt	16,008	-	-	-	(16,008)	-	(16,008)
Total Governmental Activities	\$ 7,895,487	\$ 1,202,781	\$ 1,171,334	\$ 2,228,536	\$ (3,292,836)	\$ -	\$ (3,292,836)
Business-Type Activities:							
Prison Facilities	\$ 13,719,444	\$ 13,641,764	\$ -	\$ -	\$ -	\$ (77,680)	\$ (77,680)

General Revenues			
Property Taxes	\$ 4,169,734	\$ -	\$ 4,169,734
Intergovernmental	94,697	-	94,697
Miscellaneous	4,548	-	4,548
Interest	178,532	118,398	296,930
Other	148,424	-	148,424
Gain on Disposal of Capital Asset	152,845	-	152,845
Transfers	586,649	(586,650)	(1)
Total General Revenues	5,335,429	(468,252)	4,867,177
Change in Net Assets	2,042,593	(545,932)	1,496,661
Net Assets-Beginning	13,019,714	5,270,834	18,290,548
Prior Period Adjustment			
Net Assets-End	\$ 15,062,307	\$ 4,724,902	\$ 19,787,209

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

	5,10,98,99	20	46	72	68	70	Total	Total
		Road &						
		Bridge	Newton Co	FEMA	Hazard	Courthouse	Non-Major	Governmental
		General	Hartford Ins	Grant	Mitigation Grant	Emergency Gr	Funds	Funds
ASSETS								
Cash and Cash Equivalents	\$ 1,888,111	\$ 201,088	\$ 1,592,360	\$ 19,792	\$ 138,050	\$ 110,370	\$ 1,390,627	\$ 5,340,398
Investments	\$ 718,003	-	-	-	-	-	212,288	930,291
Property Taxes Receivable	\$ 1,733,679	-	-	-	-	-	-	1,733,679
Allowance for Uncollectible Taxes	\$ (60,000)	-	-	-	-	-	-	(60,000)
Accounts Receivable	\$ 29,222	5,134	-	-	-	-	69,102	103,458
TOTAL ASSETS	4,309,015	206,222	1,592,360	19,792	138,050	110,370	1,672,017	8,047,826
LIABILITIES								
Accounts Payable	132,538	1,531	-	2,422	-	-	122,386	258,877
Deferred Revenue	800,710	-	-	-	-	-	-	800,710
TOTAL LIABILITIES	933,248	1,531	-	2,422	-	-	122,386	1,059,587
FUND BALANCE								
Unreserved	3,375,767	204,691	1,592,360	17,370	138,050	110,370	1,549,631	6,988,239
Reserved	-	-	-	-	-	-	-	-
TOTAL FUND BALANCE	3,375,767	204,691	1,592,360	17,370	138,050	110,370	1,549,631	6,988,239
TOTAL LIABILITIES AND FUND BALANCE	4,309,015	206,222	1,592,360	19,792	138,050	110,370	1,672,017	8,047,826

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

NEWTON COUNTY, TEXAS
RECONCILIATION OF THE STATEMENT OF NET ASSETS,
TO THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
DECEMBER 31, 2008

Exhibit C-1

Net Fund Balances of Governmental Funds	\$ 6,988,239
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	7,846,698
Long Term Liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(573,340)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	<u>800,710</u>
Net Assets of Governmental Activities- Exhibit A	<u><u>\$15,062,307</u></u>

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

NEWTON COUNTY, TEXAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit D

	5,10,98,99	20	46	72	68	70	Total	Total
	General Fund	Road & Bridge General	Newton Co Hartford Ins	FEMA Grant	Hazard Mitigation Grant	Courthouse Emergency Gr	Non-Major Funds	Governmental Funds
REVENUE								
Taxes	\$ 3,597,938	\$ 466,687	\$ -	\$ -	\$ -	\$ -	\$ 506,059	\$ 4,570,684
Intergovernmental	15,642	-	-	-	-	-	79,055	94,697
Fines and Fees	493,339	604,998	-	-	-	-	100,374	1,198,711
Licenses and Permits	4,070	-	-	-	-	-	-	4,070
Miscellaneous	-	-	-	-	-	-	-	4,548
Interest	76,157	6,218	54,787	-	-	-	39,472	178,532
Other Revenue	82,664	6,000	-	21,310	-	1,898	-	148,424
Grants	27,328	-	-	-	1,043,806	1,213,143	38,450	3,399,870
TOTAL REVENUE	4,297,138	1,083,903	54,787	21,310	1,043,806	1,215,041	1,883,551	9,599,536
EXPENDITURES								
Current								
General Administration	274,598	253,391	-	-	-	-	38,658	566,647
Judicial	689,619	-	-	-	-	-	-	689,619
Legal	108,549	-	-	-	-	-	128,138	236,687
Financial Administration	650,136	-	-	-	-	-	-	650,136
Public Facilities	258,455	-	-	-	-	-	1,538,232	1,796,687
Public Safety	1,214,526	-	-	191,078	906,759	-	555,156	2,867,519
Health and Welfare	345,360	-	-	-	-	-	106,875	452,235
Conservation	-	-	-	-	-	-	41,498	41,498
Culture and Recreation	-	-	-	-	-	-	133,523	133,523
Miscellaneous	11,012	-	-	-	-	-	-	11,012
Debt Service	-	-	-	-	-	-	-	-
Principle Payment	28,076	-	-	-	-	-	53,355	81,431
Interest Expense	1,559	-	-	-	-	-	14,449	16,008
Capital Outlay	169,232	-	-	-	-	1,705,514	1,339,975	3,214,721
TOTAL EXPENDITURES	3,751,122	253,391	-	191,078	906,759	1,705,514	3,949,859	10,757,723
Excess (Deficiency) of Revenues Over (Under) Expenditures	546,016	830,512	54,787	(169,768)	137,047	(490,473)	(2,066,308)	(1,158,187)
OTHER FINANCING SOURCES								
Transfers In	1,012,313	8,758	-	187,138	102,000	570,000	1,612,556	3,492,765
Transfers (Out)	(848,756)	(810,000)	(570,000)	(119,641)	(137,000)	-	(420,719)	(2,906,116)
Issuance of Debt	116,915	-	-	-	-	-	407,695	524,610
TOTAL OTHER FINANCING SOURCES (USES)	280,472	(801,242)	(570,000)	67,497	(35,000)	570,000	1,599,532	1,111,259
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	826,488	29,270	(515,213)	(102,271)	102,047	79,527	(466,776)	(46,928)
FUND BALANCE - BEGINNING OF PERIOD	2,549,279	175,421	2,107,573	119,641	36,003	30,843	2,016,407	7,035,167
Prior Period Adjustment	-	-	-	-	-	-	-	-
FUND BALANCE - END OF PERIOD	\$ 3,375,767	\$ 204,691	\$ 1,592,360	\$ 17,370	\$ 138,050	\$ 110,370	\$ 1,549,631	\$ 6,988,239

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

NEWTON 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 DECEMBER 31, 2008

Exhibit D-1

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

Net change in fund balances - total governmental funds (Exhibit D) \$ (919,897)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlays exceeded depreciation in the current period:

Capital Outlay	\$ 3,214,721	
Depreciation	<u>(433,916)</u>	
		<u>2,780,805</u>

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.

Issuance of Debt	\$ (524,610)	
Payment of Principal	81,431	
Reduction of Principal on disposal of Capital Asset	<u>162,788</u>	
		(280,391)

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

Change in Deferred Tax Revenue	(1,201,660)	
Other	(9,943)	(1,211,603)

Change in Net Assets of Governmental Activities (Exhibit B) \$ 368,914

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

NEWTON COUNTY, TEXAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET TO ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit E

	Budgeted Original	Budgeted Final	Actual	Variance with Final Budget - Positive Negative
REVENUE				
Taxes	2,761,155	2,761,155	\$ 3,597,938	\$ 836,783
Intergovernmental	-	-	15,642	15,642
Fines and Fees	412,394	412,394	493,339	80,945
Licenses and Permits	4,100	4,100	4,070	(30)
Miscellaneous	-	-	-	-
Interest	138,000	138,000	76,157	(61,843)
Other Revenue	52,362	52,362	82,664	30,302
Grants	15,000	15,000	27,328	12,328
TOTAL REVENUE	<u>3,383,011</u>	<u>3,383,011</u>	<u>4,297,138</u>	<u>914,127</u>
EXPENDITURES				
Current				
General Administration	795,143	799,815	274,598	525,217
Judicial	566,281	572,882	689,619	(116,737)
Legal	138,767	144,678	108,549	36,129
Financial Administration	480,932	487,664	650,136	(162,472)
Public Facilities	303,774	303,774	258,455	45,319
Public Safety	1,367,373	1,383,142	1,214,526	168,616
Health and Welfare	392,835	392,835	345,360	47,475
Conservation	76,842	76,842	-	76,842
Miscellaneous	109,000	109,000	11,012	97,988
Debt Service				
Principle Payment	-	-	28,076	(28,076)
Interest Expense	-	-	1,559	(1,559)
Capital Outlay	-	-	169,232	(169,232)
TOTAL EXPENDITURES	<u>4,230,947</u>	<u>4,270,633</u>	<u>3,751,122</u>	<u>519,511</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(847,936)</u>	<u>(887,622)</u>	<u>546,016</u>	<u>1,433,638</u>
OTHER FINANCING SOURCES				
Transfers In	-	-	1,012,313	1,012,313
Transfers (Out)	-	(848,756)	(848,756)	0
Issuance of Debt	-	-	116,915	116,915
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(848,756)</u>	<u>280,472</u>	<u>1,129,228</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(847,936)</u>	<u>(1,736,378)</u>	<u>826,488</u>	<u>2,562,866</u>
FUND BALANCE AT BEGINNING OF PERIOD	<u>-</u>	<u>-</u>	<u>2,549,279</u>	<u>2,549,279</u>
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE AT END OF PERIOD	<u>\$ (847,936)</u>	<u>\$ (1,736,378)</u>	<u>\$ 3,375,767</u>	<u>\$ 5,112,145</u>

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

NEWTON COUNTY, TEXAS
 STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
 DECEMBER 31, 2008

Exhibit F

	Business-Type Activities <u>Enterprise Fund</u> Correctional Facility	<u>Component Unit</u> Public Facility Corporation	<u>Total</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 1,169,954	\$ 2,406,644	\$3,576,598
Accounts Receivables - Net of Allowances for Uncollectibles	2,207,058	126,294	2,333,352
Total Current Assets	<u>3,377,012</u>	<u>2,532,938</u>	<u>5,909,950</u>
Non-Current Assets			
Restricted Cash and Investments	-	-	-
Original Issue Discount	-	233,274	233,274
Less: Accumulated Accretion	-	(96,054)	(96,054)
Total Capital Assets, Net of Accumulated Depreciation	<u>755,590</u>	<u>11,102,758</u>	<u>11,858,348</u>
Total Non-Current Assets	<u>755,590</u>	<u>11,239,978</u>	<u>11,995,568</u>
Total Assets	<u>4,132,602</u>	<u>13,772,916</u>	<u>17,905,518</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	1,735,616	-	1,735,616
Bonds Payable - Current Portion	-	560,000	560,000
Total Current Liabilities	<u>1,735,616</u>	<u>560,000</u>	<u>2,295,616</u>
Long-Term Liabilities			
Bonds Payable - Noncurrent Portion	-	10,885,000	10,885,000
Total Long-term Liabilities	<u>-</u>	<u>10,885,000</u>	<u>10,885,000</u>
Total Liabilities	<u>1,735,616</u>	<u>11,445,000</u>	<u>13,180,616</u>
NET ASSETS			
Invested in Capital Assets	1,127,032	413,348	1,540,380
Restricted	-	-	-
Unrestricted	<u>1,269,954</u>	<u>1,914,568</u>	<u>3,184,522</u>
Total Net Assets	<u>\$ 2,396,986</u>	<u>\$ 2,327,916</u>	<u>\$4,724,902</u>

NEWTON COUNTY, TEXAS
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2008

Exhibit G

	Business-Type Activities <u>Enterprise Fund</u>	<u>Component Unit</u>	
	Correctional Facility	Public Facility Corporation	<u>Total</u>
OPERATING REVENUES			
Project Revenues	\$ 12,197,363	\$ 1,444,401	\$13,641,764
Total Operating Revenues	<u>12,197,363</u>	<u>1,444,401</u>	<u>13,641,764</u>
OPERATING EXPENSES			
Management Fees	10,484,816	-	10,484,816
Newton County Fee	550,000	-	550,000
Depreciation	107,942	251,227	359,169
PFC Lease	1,278,028	-	1,278,028
Professional Fees	29,927	10,085	40,012
Trust Fees	3,700	-	3,700
Repairs & Maintenance	37,967	19,786	57,753
Accretion Expense-OID	-	13,722	13,722
Bond Interest	-	932,244	932,244
Total Operating Expenses	<u>12,492,380</u>	<u>1,227,064</u>	<u>13,719,444</u>
Operating Income (Loss)	<u>(295,017)</u>	<u>217,337</u>	<u>(77,680)</u>
Nonoperating Revenues (Expenditures)			
Interest Income	30,937	87,461	118,398
Miscellaneous Income (Expenses)	-	-	-
Transfer	(586,650)	-	(586,650)
Total Nonoperating Revenues (Expenses)	<u>(555,713)</u>	<u>87,461</u>	<u>(468,252)</u>
Change in Net Assets	<u>(1,437,380)</u>	<u>304,798</u>	<u>(1,132,582)</u>
Total Net Assets at Beginning of Year	<u>3,247,716</u>	<u>2,023,118</u>	<u>5,270,834</u>
Total Net Assets at End of Year	<u>\$ 1,810,336</u>	<u>\$ 2,327,916</u>	<u>\$ 4,138,252</u>

The accompanying notes are an integral part of this financial statement.

NEWTON COUNTY, TEXAS
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit H

	Business-Type Activities		
	<u>Enterprise Fund</u>	<u>Component Unit</u>	
	<u>Correctional</u>	<u>Public Facility</u>	
	<u>Facility</u>	<u>Corporation</u>	<u>Total</u>
Cash Flows From Operating Activities			
Receipts from customers	\$ 11,202,613	\$ 1,444,396	\$ 12,647,009
Payment for interfund services provided	-	-	-
Payment for goods and services	(11,696,719)	(962,115)	(12,658,834)
Payment to employees	-	-	-
Net cash provided (used) by operating activities	<u>(494,106)</u>	<u>482,281</u>	<u>(11,825)</u>
Cash Flows from Non-Capital Financing Sources (Uses)			
Miscellaneous	30	6	36
Transfers	<u>(586,650)</u>	<u>-</u>	<u>(586,650)</u>
Cash Flows from Capital and Related Financing Activities			
Principal payments	<u>-</u>	<u>(560,000)</u>	<u>(560,000)</u>
Cash Flows from Investing Activities			
Interest Income	<u>30,907</u>	<u>87,461</u>	<u>118,368</u>
Net Increase(Decrease) in Cash and Cash Equivalents	<u>(1,049,819)</u>	<u>9,748</u>	<u>(1,040,071)</u>
Cash and Cash Equivalents at Beginning of Year			
Unrestricted cash and cash equivalents	2,219,773	773,105	2,992,878
Restricted cash	-	1,623,791	1,623,791
	<u>2,219,773</u>	<u>2,396,896</u>	<u>4,616,669</u>
Cash and Cash Equivalents at End of year			
Unrestricted cash and cash equivalents	\$ 1,169,954	\$ 2,406,644	\$ 3,576,598
Restricted cash	-	-	-
	<u>1,169,954</u>	<u>2,406,644</u>	<u>3,576,598</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss) adjustments	\$ (295,017)	\$ 217,337	\$ (77,680)
Depreciation	107,942	251,227	359,169
Bond Discount Accretion	-	13,722	13,722
(Increase) decrease in receivable	(994,750)	(5)	(994,755)
Increase (decrease) in payables	687,719	-	687,719
	<u>\$ (494,106)</u>	<u>\$ 482,281</u>	<u>\$ (11,825)</u>

The accompanying notes are an integral part of this financial statement.

NEWTON COUNTY, TEXAS
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 DECEMBER 31, 2008

Exhibit I

	Agency Funds										Total						
	Justice of the Peace		Criminal District Attorney		District Clerk Fee Fund		District Clerk Trust Funds		County Clerk Fee Fund			County Clerk Trust Fund		Tax Assessor Collector			
	699	\$	35,770	\$	203,863	\$	102,961	\$	31,322	\$		214,336	\$	688,078	\$	1,277,029	
Cash	-	\$	699	\$	35,770	\$	203,863	\$	102,961	\$	31,322	\$	214,336	\$	688,078	\$	1,277,029
Total Assets	-		699		35,770		203,863		102,961		31,322		214,336		688,078		1,277,029
LIABILITIES																	
Payables to Newton County Beneficiaries	-		699		35,770		203,863		102,961		31,322		214,336		688,078		1,277,029
Total Liabilities	-	\$	699	\$	35,770	\$	203,863	\$	102,961	\$	31,322	\$	214,336	\$	688,078	\$	1,277,029

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

NEWTON COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Financial Reporting Entity

Newton County, Texas (the County) was formed by state law. The County is governed by the County Judge and Commissioners, all of which are elected officials, and provides the following services for the County: public safety (sheriff and constables), public transportation (roads and bridges), health and welfare, conservation, public improvements, environmental protection, and administrative services.

The accompanying financial statements of Newton County (the County) have been prepared in conformity with generally accepted accounting principles ("GAAP") applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The County's financial statements include the accounts of all County operations. The County evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the County's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

1. Legal status of the potential component unit including the right to incur its own debt, levy its own taxes and charges, expropriate property in its own name, sue and be sued, and the right to buy, sell and lease property in its own name.
2. Whether the County governing authority appoints a majority of board members of the potential component units.
3. Fiscal interdependency between the County and the potential component unit.
4. Imposition of will by the County on the potential component unit.
5. Financial benefit/burden relationship between the County and the potential component unit.

Based upon these criteria, the County has one component unit – The Public Facility Corporation.

On December 12, 2001, the County of Newton, Texas formed the Newton County Public Facility Corporation, pursuant to the Public Facilities Act Chapter 303 of the Texas Local Government Code, for the purpose of financing eligible jail and criminal detention projects and other public facilities on behalf of Newton County, Texas. Specifically, the Newton County Public Facility Corporation was formed to refinance the debt of approximately \$ 14,300,000 of revenue bonds issued by Newton County, Texas. The bonds were initially issued by Newton County, Texas to acquire real property, construct, furnish and equip a multi-classification secure detention center known as the Fillyaw Correctional Facility located in Newton County, Texas. This type of alternative revenue source and financing lessens the local tax burden. The Project Revenue Bonds are repaid solely from the revenues generated by the facility, using no County tax dollars and presenting no liability to either the County or the Newton County Public Facility Corporation. Additionally, the Fillyaw Correctional Facility utilizes local business and workforce for the operation of the facility providing an even greater benefit to the economy of Newton County, Texas.

Newton County, Texas contracts with GEO correctional group for a "per diem" rate (or administrative fee) from the revenues generated and receives revenue from the inmate telephone system. The contract guarantees a minimum fee to Newton County, Texas of \$ 50,000 per month. Several additional agreements were made between Newton County, Texas and the GEO correctional group whereby the GEO correctional group would absorb operating losses and recoup them from subsequent years revenue after the \$ 50,000 minimum monthly fee was paid to Newton County, Texas. Our report does not reflect any amount due to either Newton County, Texas or the GEO correctional group as the amount appears to be in dispute and is not measurable due to the fact that many of the agreements were verbal and not condensed to writing.

(B) Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statements of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. 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-like activities, which rely to a significant extent on fees and charges for support.

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. 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 governmental-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The fiduciary fund types are used to account for assets held by a government unit in a trustee capacity for individuals, private organizations, other governmental units, and/or other funds.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenue to be available if it is collected within 60 days of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However,

debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the County.

The County has the following major governmental funds:

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

Road and Bridge Fund - The Road & Bridge Fund is used to maintain county roads, bridges, ditches, etc. through the out County.

Newton County Hartford Insurance Fund - This fund accounts for amount used to improve and restore county facilities.

FEMA Grant Fund - This fund accounts for disaster grant from FEMA.

Hazard Mitigation Grant Fund - This fund accounts for grants for mitigation of hazards.

Courthouse Emergency Grant Fund - This fund accounts for grants to restore and rebuild the Newton County Courthouse.

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. Governments also have the option of the following subsequent private-sector guidance for their business-like activities and Enterprise Funds, subject to this same limitation. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Interfund services provided and used are not eliminated in the process of consolidation of governmental funds.

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

(D) Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The County's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the County to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Investments are stated at fair value.

Receivables and Payables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

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

Property taxes are levied as of October 1, on property values assessed on January 1. On February 1, billings are considered past due and property taxes begin to accrue interest. On July 1, of the following year liens, penalties and interest are assessed.

Inventories and Prepaid Items

The costs of governmental fund-type inventories are recorded as expenditures when purchased. The cost of inventory on hand at December 31, 2008 was minimal.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, sidewalks and similar items) are recorded in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of \$5,000 or more and a useful life of two or more years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation. Interest incurred during construction is not capitalized on capital assets.

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

Property, plant and equipment are depreciated in the governmental funds of the government using the straight-line method over the following estimated useful lives:

Assets	Years
Building	40
Building Improvements	15-40
Roads and Bridges	15-40

Vehicles	5-10
Office Equipment	5-10
Computer Equipment	3-5

Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the County. Sick leave accrues to full-time, permanent employees to specified maximums. Although employees are encouraged to take vacations in the year earned, payment of accrued vacation time is eligible to employees who separated from the County in good standing up to one week carryover. Accumulated sick leave is not compensated upon resignation, retirement, or dismissal.

Long-term Obligations

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

The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

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

Fund Deficit

As of December 31, 2008 no funds had a deficit fund balance.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the following governmental funds: the General Fund, Road & Bridge. All other governmental funds are unbudgeted. All annual appropriations lapse at fiscal year end.

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

1. On or before September 30th of each year, the County Budget Officer shall submit to the County Court a budget estimate of the revenues of the County and the expenditures or expenses of conducting the affairs thereof for the ensuing year.
2. On receipt of the estimate the County Court shall at once prepare an appropriation ordinance, using the estimate as a basis. Provisions shall be made for public hearings upon the appropriation ordinance before a committee of the County Court, or before the entire County Court.

3. Following the public hearing, and before the second reading and final passage, the appropriation ordinance shall be published in the official newspaper of the County.
4. The County Court shall not pass the appropriation ordinance until at least ten days after its publication, but shall pass the appropriation ordinance no later than December 31 of each year.
5. The legal level of control is by fund level where the County Court's approval is required. The County Court may transfer unencumbered appropriations for the use of a department, division or purpose or any other department, division or purpose without public notice and public hearing except when such transfer shall be made of revenue or earnings of any non-tax supported public utility to any other purpose. No amendment is necessary if department expenditures exceed budget, as long as fund expenditures do not exceed the fund budget.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

(A) Deposits

The carrying amount of the County's deposits as of December 31, 2008 were \$7,440,641, and the bank balances were \$7,769,018. Of the bank balance, \$ 100,000 was covered by FDIC insurance and up to \$10,679,052 was covered by collateral held in the County's name by the agent bank which is the County's depository bank.

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. It is both policy and legally required that the County's deposits be collateralized. The amount exposed to custodial risk is \$ 0.

In accordance with GASB Statement No. 31, the County's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the cost-basis of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at cost unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of less than one year or less at time of purchase. The term "non-participating" means that the investment's value does not vary with market interest rate changes.

(B) Receivables

Receivables and related allowances for uncollectible accounts were as follows as of December 31, 2008 for the governmental funds of the County:

	<u>General</u>	<u>Road & Bridge</u>	<u>Other</u>	<u>Total</u>
Property taxes	\$ 1,733,679	\$ -	\$ -	\$ 1,733,679
Accounts	<u>29,222</u>	<u>5,134</u>	<u>69,102</u>	<u>103,458</u>
	1,762,901	5,134	69,102	1,837,137
Allowance for Uncollectibles	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>60,000</u>
	<u>\$ 1,822,901</u>	<u>\$ 5,134</u>	<u>\$ 69,102</u>	<u>\$ 1,897,137</u>

Receivables for the Business-Type – Enterprise Funds:

	<u>Correctional Facility</u>	<u>Public Facility Corporation</u>	<u>Total</u>
Accounts	\$ 2,207,058	\$ 126,294	\$2,333,352

Property appraisal within the County is the responsibility of the Newton County Appraisal District (Appraisal District). The Appraisal District is required under the Property Tax Code to appraise all property within the county on the basis of 100% of market value. The value of real property within the Appraisal District must be reviewed every five years; however, the County may, at its own expense, require annual reviews of appraised values. The County may challenge appraised value established by the Appraisal District through various appeals and legal action. Under the Property Tax Code legislation, the County establishes the tax rates for property within the County's corporate limits. However, if the new tax rate exceeds the effective rate after certain adjustments for the previous year by more than eight percent (8%), qualified voters of the County may petition for an election to determine whether to limit the tax rate to no more than eight percent (8%) above the effective tax rate.

Property Tax Calendar - Below is an analysis of dates and their relationship to the property tax revenues:

County Calendar	December 31
Tax Calendar	As of January 1
Levy Date	October 1
Due Date	On or before January 31
Delinquent Date	February 1
Lien Date	July 1 of each year

Valuation of Delinquent Property Taxes Receivables - The State of Texas prohibits the County from forgiving an Ad Valorem property tax debt. Adjustments to delinquent taxes receivable are made only on discovery of errors or omissions, judgment orders of a court of law, or upon specific acts of the State Legislature.

The accompanying financial statements include the County's estimate of delinquent taxes that may have doubtful collectibility. This estimate is included in this report for "best knowledge" valuation purposes only and does not in any way indicate a write-off of delinquent taxes.

In the fund financial statements, property taxes that are measurable and available (receivable within the current period and collected within the current period or within 60 days thereafter to be used to pay

EXHIBIT J
NOTES TO THE FINANCIAL STATEMENTS

liabilities of the current period) are recognized as revenue in the year of levy. Property taxes that are measurable, but not available, are recorded, net of estimated uncollectible amounts, as deferred revenues in the year of levy. Such deferred revenues are recognized as revenue in the fiscal year in which they become available.

Property Tax Levy - the County's maximum legal rate is \$.80 per \$100.00 valuation. The 2007-2008 tax rate was \$.610957 per \$100.00 valuation assessed at 100% of market value.

(D) Capital Assets

Governmental Activities

Capital asset activity for the year ended December 31, 2008 was as follows:

Asset	Balance	Additions	Deletions	Balance	Life
Land	\$ 1,040,410	\$ 10,445	\$ -	\$ 1,050,855	N/A
Buildings	10,452,825	-	-	10,452,825	50
Equipment	3,218,130	743,060	213,400	3,747,790	7
CIP	1,783,810	1,705,514	-	3,489,324	-
Infrastructure	16,533,815	749,312	-	17,283,127	40
	\$ 33,028,990	\$ 3,208,331	\$ 213,400	\$ 36,023,921	

Accumulated Depreciation	Prior	Additions	Deletions	Ending A/D	Book Value
Land	\$ 1,040,410	\$ 10,445	\$ -	\$ 1,050,855	\$1,050,855
Buildings	9,893,464	209,056	-	10,102,520	350,305
Equipment	1,803,954	222,967	211,897	1,815,024	1,932,766
CIP	-	-	-	-	3,489,324
Infrastructure	16,257,786	1,893	-	16,259,679	1,023,448
	\$ 28,995,614	\$ 444,361	\$ 211,897	\$ 29,228,078	\$7,846,698

Depreciation Expense was charged to functions/programs as follows:

Government Activities:	
General Government	\$ 209,056
Public Safety	222,967
Public Facilities	1,893
Total Depreciation Expense - Government Activities	<u>\$ 433,916</u>

EXHIBIT J
NOTES TO THE FINANCIAL STATEMENTS

Enterprise Fund	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets being depreciated:				
Equipment	\$ 1,079,416	\$ -	\$ -	\$ 1,079,416
Total Capital Assets being depreciated	1,079,416	-	-	1,079,416
Less Accumulated Depreciation for:				
Total	215,884	107,942	-	323,826
	863,532	(107,942)	-	755,590
 Component Unit				
Land	300,000	-	-	300,000
 Total Capital Assets being depreciated				
Building	12,561,352	-	-	12,561,352
Accumulated Depreciation	1,507,362	251,227	-	1,758,589
 Total Component Units Capital Assets, Net	11,353,990	(251,227)	-	11,102,763

(E) Long-term Debt

The County is obligated for notes payable to provide funds for the acquisition and construction of major capital facilities. No bonds are outstanding at December 31, 2008.

Description	Interest Rate	Beginning Balance 1/1/2008	Debt Issuance	Principal Payments	Interest Payments	Other Adjustments	Ending Balance 12/31/2008
Grader	5.50%	107,357	-	24,155	6,573	-	83,202
Grader	4.15%	86,043	-	8,067	3,572	77,976	-
Grader	4.15%	91,286	-	6,473	3,613	84,813	-
Computers	6.10%	6,215	-	2,072	405	-	4,143
Grader	5.25%	-	91,495	-	-	-	91,495
Grader	3.75%	-	152,850	-	-	-	152,850
Grader	4.50%	-	163,350	-	-	-	163,350
Software	6.10%	-	82,409	28,041	1,485	-	54,368
JP Software	6.10%	-	30,400	10,539	286	-	19,861
Sharp Copier	6.10%	-	4,106	36	74	-	4,070
		\$ 290,901	\$ 524,610	\$ 79,383	\$ 16,008	\$ 162,789	\$ 573,339

Debt services requirements to maturity are as follows:

Year	Principal	Interest	Total
2009	\$ 118,948	\$ 28,030	\$ 146,978
2010	127,775	19,203	146,978
2011	91,286	12,863	104,149
2012	30,925	10,085	41,010
	\$ 368,934	\$ 70,181	\$ 439,115

EXHIBIT J
NOTES TO THE FINANCIAL STATEMENTS

The Public Facilities Corporation has bonds outstanding. The bonds were issued in 2002 at a range of 7% to 8% interest rate payable over 17 years. The bonds are callable after 2019.

Debt Service Requirements on the Series 2002 Bond:

Year	Principal	Interest	Total
2009	\$ 560,000	\$ 932,244	\$ 1,492,244
2010	605,000	887,828	1,492,828
2010	650,000	839,981	1,489,981
2011	700,000	787,200	1,487,200
2012	755,000	729,000	1,484,000
2013-2017	4,805,000	2,591,800	7,396,800
2018-2019	3,930,000	375,600	4,305,600
	\$ 12,005,000	\$ 7,143,653	\$ 19,148,653

(F) Individual Interfund Transactions
Transfers are as follows:

Fund	Transfers In	Transfers Out
General	\$ 1,012,313	\$ 848,756
NCCC Accrual Account	-	586,650
District Attorney State Fund	-	6,289
Road & Bridge - General	8,758	810,000
Road & Bridge Pct. 1	185,000	-
Road & Bridge Pct.2	185,000	-
Road & Bridge Pct. 3	185,000	-
Road & Bridge Pct. 4	185,000	-
VAW Grant	10,392	-
Commissioners Special Pct. 1	25,000	-
Commissioners Special Pct. 2	25,000	-
Commissioners Special Pct. 3	25,000	-
Commissioners Special Pct. 4	25,000	-
TCPD Grant	101,476	25,953
Newton County Hartford Ins.	-	570,000
Solid Waste Disposal	70,000	-
Voter Registration	38,500	-
Newton County Library	78,900	-
Historical Operating	9,250	-
Victims Coord. Grant	2,500	-
Victims Advocate	6,452	-
Hazard Mit Grant	102,000	137,000
Courthouse Emergency Grant	570,000	-
TDHCA Grant	445,087	379,719
FEMA Grant	187,138	119,641
Civic Center	10,000	-
Federal Forest Fund	-	8,758
	\$ 3,492,766	\$ 3,492,766

Interfund transfers are generally utilized to accomplish budgetary goals for various services and functions of the County including debt service.

NOTE 4 - Other Information

(A) Risk Management and Litigation

The County is exposed to various risks of losses related to torts, theft of, damage to and destruction of fixed assets; errors and omissions; injuries to employees; and natural disasters.

The County has obtained commercial insurance coverage for these risks and provided various employee education and prevention programs.

There have been no significant reductions in insurance from the prior year. The liabilities for claims have not changed since last year. There have been no settlements in excess of coverage in the past three years. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience. Claims liabilities include specific, incremental claim adjustment expenses, allocated loss adjustment expenses, and are reduced for estimated recoveries on unsettled claims such as salvage or subrogation.

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

(B) Commitments and Contingencies

The County participates in grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment 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 collectibility of any related receivable 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.

(C) Pension Plans

Plan Description

The County provides retirement, disability, and death benefits for all of its full time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of statewide agent multiple-employer public employee retirement system consisting of 574 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.

EXHIBIT J
NOTES TO THE FINANCIAL STATEMENTS

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated deposits in the plan to receive any employer-financed benefit. Members who withdraw their personal deposits 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 deposits to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated deposits and the employer-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 the employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 7.0% for 2008.

The deposit rate payable by the employee members for calendar year 2008 is the rate of 7% as adopted by the governing body of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Annual Pension Cost

For the employer's accounting year ending December 31, 2008, the annual pension cost for the TCDRS plan for its employees was \$161,863 and the actual contributions were \$161,863. 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, 2004 and December 31, 2005, the basis for determining the contribution rates for calendar years 2006 and 2007. The December 31, 2007 actuarial valuation is the most recent valuation.

City of Newton
Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date		12/31/2007
Actuarial Value of Assets (A)	\$	4,341,919
Actuarial Accrued Liability (B)	\$	4,317,249
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL) (D) = (B)-(A)	\$	(24,670)
Percentage Funded (C) = (A)/(B)		101%
Annual Covered Payroll (E)	\$	2,078,523

EXHIBIT J
NOTES TO THE FINANCIAL STATEMENTS

UAAL as a Percentage of Covered Payroll (D)/(E) -1.19%

Net Pension Obligation (NPO) at the Beginning of Period	\$	-
Annual Pension Cost:		
Annual Required Contribution (ARC) (F)	\$	161,863
Contributions Made (F)	\$	161,863
NPO at the end of the period	\$	-

Actuarial Assumptions

Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	30 Years
Asset Valuation Method	Long Term Appreciation with Adjustment
(to accurately reflect the requirements of GASB statement, No. 25, paragraphs 36e and 138)	
Investment Rate of Return	8%
Projected Salary Increases	5.30%
Includes Inflation At	4.00%
Cost-of-Living Adjustments	None

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll c	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2003	\$3,123,173	\$3,115,879	(7,294)	100.23%	\$1,578,843	-0.46%
12/31/2004	2,977,949	3,031,834	53,885	98.22%	\$1,851,964	2.91%
12/31/2005	3,358,385	3,385,421	27,036	99.20%	\$1,914,684	1.41%
12/31/2006	3,869,824	3,850,415	(19,409)	100.50%	\$2,046,300	-0.95%
12/31/2007	4,341,919	4,317,249	(24,670)	100.57%	\$2,091,900	-1.18%

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

**NON-MAJOR GOVERNMENTAL
FUND**

NEWTON COUNTY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2008

Exhibit K

	14	15	19	21	22	23	24	25	29	30	31
	Prison Guard Detail	Indigent Defense Grant	District Attorney State Fund	Road & Bridge Pct 1	Road & Bridge Pct 2	Road & Bridge Pct 3	Road & Bridge Pct 4	Courthouse Security	VAW Grant	Right Of Way	Commissioner Spec Pet 1
ASSETS											
Cash and Cash Equivalents	\$ 24,297	\$ 3,486	\$ 13,475	\$ 59,760	\$ 74,035	\$ 42,036	\$ 101,918	\$ 90,102	\$ 1,215	\$ 59,890	\$ 22,098
Investments	-	-	-	31,422	-	-	-	-	-	160,448	-
Accounts Receivable	-	-	11,210	-	-	-	-	82	-	-	1,878
TOTAL ASSETS	\$ 24,297	\$ 3,486	\$ 24,685	\$ 91,182	\$ 74,035	\$ 42,036	\$ 101,918	\$ 90,184	\$ 1,215	\$ 220,338	\$ 23,976
LIABILITIES											
Accounts Payable	\$ -	\$ -	\$ 172	\$ 2,443	\$ 6,589	\$ 2,318	\$ 17,657	\$ -	\$ 86	\$ -	\$ 717
TOTAL LIABILITIES	\$ -	\$ -	\$ 172	\$ 2,443	\$ 6,589	\$ 2,318	\$ 17,657	\$ -	\$ 86	\$ -	\$ 717
FUND BALANCE											
Unreserved	24,297	3,486	24,513	88,739	67,446	39,718	84,261	90,184	1,129	220,338	23,259
TOTAL FUND BALANCE	24,297	3,486	24,513	88,739	67,446	39,718	84,261	90,184	1,129	220,338	23,259
TOTAL LIABILITIES AND FUND BALANCE	\$ 24,297	\$ 3,486	\$ 24,685	\$ 91,182	\$ 74,035	\$ 42,036	\$ 101,918	\$ 90,184	\$ 1,215	\$ 220,338	\$ 23,976

NEWTON COUNTY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2008

Exhibit K

	32	33	34	35	36	37	38	39	40	41
	Commissioner Spec Pct 2	Commissioner Spec Pct 3	Commissioner Spec Pct 4	TCDP Grant	Dedicated Road Pct 1	Dedicated Road Pct 2	Dedicated Road Pct 3	Dedicated Road Pct 4	Record Preservation	Lateral Road Pct 1
ASSETS										
Cash and Cash Equivalents	\$ 66,885	\$ 42,696	\$ 4,653	\$ 4,241	\$ 23,804	\$ 56,236	\$ 15,982	\$ 82,089	\$ 107,027	\$ 19,546
Investments	478	478	478	-	68	68	68	68	651	-
Accounts Receivable										
TOTAL ASSETS	\$ 67,363	\$ 43,174	\$ 5,131	\$ 4,241	\$ 23,872	\$ 56,304	\$ 16,050	\$ 82,157	\$ 107,678	\$ 19,546
LIABILITIES										
Accounts Payable	\$ 14,042	\$ 1,994	\$ 2,743	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL LIABILITIES	\$ 14,042	\$ 1,994	\$ 2,743	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FUND BALANCE										
Unreserved	53,321	41,180	2,388	4,241	23,872	56,304	16,050	82,157	107,678	19,546
TOTAL FUND BALANCE	53,321	41,180	2,388	4,241	23,872	56,304	16,050	82,157	107,678	19,546
TOTAL LIABILITIES AND FUND BALANCE	\$ 67,363	\$ 43,174	\$ 5,131	\$ 4,241	\$ 23,872	\$ 56,304	\$ 16,050	\$ 82,157	\$ 107,678	\$ 19,546

NEWTON COUNTY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2008

Exhibit K

	42	43	44	45	47	48	49	50	51	52
	Lateral Road Pct 2	Lateral Road Pct 3	Lateral Road Pct 4	Courthouse Restoration	Victims Impact Panel	Sheriff Contraband	Library Tocker Grant	Solid Waste Disposal	Voter Registration	Law Library
ASSETS										
Cash and Cash Equivalents	\$ 20,547	\$ 14,578	\$ 53,267	\$ 137,574	\$ 1,112	\$ 11,618	\$ 14,031	\$ 50,940	\$ 10,551	\$ 2,380
Investments	-	-	-	-	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	-	-	-	6,079	-	60
TOTAL ASSETS	\$ 20,547	\$ 14,578	\$ 53,267	\$ 137,574	\$ 1,112	\$ 11,618	\$ 14,031	\$ 57,019	\$ 10,551	\$ 2,440
LIABILITIES										
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,491	\$ 1,381	\$ 398
TOTAL LIABILITIES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,491	\$ 1,381	\$ 398
FUND BALANCE										
Unreserved	20,547	14,578	53,267	137,574	1,112	11,618	14,031	52,528	9,170	2,042
TOTAL FUND BALANCE	20,547	14,578	53,267	137,574	1,112	11,618	14,031	52,528	9,170	2,042
TOTAL LIABILITIES AND FUND BALANCE	\$ 20,547	\$ 14,578	\$ 53,267	\$ 137,574	\$ 1,112	\$ 11,618	\$ 14,031	\$ 57,019	\$ 10,551	\$ 2,440

NEWTON COUNTY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2008

Exhibit K

	53	55	56	58	59	60	63	65	66	71
	Newton Co	Historical	Historical	Dist Attny	Dist Attny	Powell	Victims	Victims	Records	TDHCA
	Library	Operating	Book Fund	Hot Check	Contraband	Hotel Fund	Coord. Grant	Advocate	Management	Grants
ASSETS										
Cash and Cash Equivalents	\$ 4,313	\$ 12,546	\$ 7,284	\$ 5,195	\$ 5,844	\$ 17,557	\$ 4,636	\$ 12	\$ 28,698	\$ 12,117
Investments	-	-	20,418	-	-	-	-	-	-	-
Accounts Receivable	1,800	-	-	90	-	-	-	-	12	-
TOTAL ASSETS	\$ 6,113	\$ 12,546	\$ 27,702	\$ 5,285	\$ 5,844	\$ 17,557	\$ 4,636	\$ 12	\$ 28,710	\$ 12,117
LIABILITIES										
Accounts Payable	\$ 367	\$ 203	\$ -	\$ 272	\$ -	\$ 105	\$ 72	\$ 4	\$ -	\$ -
TOTAL LIABILITIES	\$ 367	\$ 203	\$ -	\$ 272	\$ -	\$ 105	\$ 72	\$ 4	\$ -	\$ -
FUND BALANCE										
Unreserved	5,747	12,343	27,702	5,013	5,844	17,452	4,564	8	28,710	12,117
TOTAL FUND BALANCE	5,747	12,343	27,702	5,013	5,844	17,452	4,564	8	28,710	12,117
TOTAL LIABILITIES AND FUND BALANCE	\$ 6,114	\$ 12,546	\$ 27,702	\$ 5,285	\$ 5,844	\$ 17,557	\$ 4,636	\$ 12	\$ 28,710	\$ 12,117

NEWTON COUNTY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2008

Exhibit K

	80	88	92	93	Total
	Civic Center Operations	State Fee Account	Justice Court Technology	Federal Forest Fund	Nonmajor Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 2,189	\$ 49,472	\$ 8,480	\$ 215	\$ 1,390,627
Investments	-	-	-	-	212,288
Accounts Receivable	298	511	-	44,725	69,102
TOTAL ASSETS	\$ 2,487	\$ 49,983	\$ 8,480	\$ 44,940	\$ 1,672,017
LIABILITIES					
Accounts Payable	\$ 1,618	\$ 49,982	\$ -	\$ 14,732	\$ 122,386
TOTAL LIABILITIES	\$ 1,618	\$ 49,982	\$ -	\$ 14,732	\$ 122,386
FUND BALANCE					
Unreserved	869	-	8,480	30,208	1,549,631
TOTAL FUND BALANCE	869	-	8,480	30,208	1,549,631
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,487	\$ 49,982	\$ 8,480	\$ 44,940	\$ 1,672,017

NEWTON COUNTY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit L

	14	15	19	21	22
	Prison Guard Detail	Indigent Defense Grant	Dist. Attny State Fund	Road & Bridge Pct 1	Road & Bridge Pct 2
REVENUE					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	33,760	-	-
Fines and Fees	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Interest	401	-	460	2,360	1,028
Other Revenue	-	-	-	-	-
Grants	-	11,740	-	-	-
TOTAL REVENUE	401	11,740	34,220	2,360	1,028
EXPENDITURES					
Current					
General Administration	-	-	-	-	-
Judicial	-	-	-	-	-
Legal	-	12,031	34,875	-	-
Public Facilities	-	-	-	140,986	156,084
Public Safety	-	-	-	-	-
Health and Welfare	-	-	-	-	-
Conservation	-	-	-	-	-
Culture and Recreation	-	-	-	-	-
Debt Service	-	-	-	-	-
Principle Payment	-	-	-	24,155	-
Interest Expense	-	-	-	6,573	-
Capital Outlay	-	-	-	-	-
TOTAL EXPENDITURES	-	12,031	34,875	171,714	156,084
Excess (Deficiency) of Revenues Over (Under) Expenditures	401	(291)	(655)	(169,354)	(155,056)
OTHER FINANCING SOURCES					
Transfers In (Out)	-	-	-	185,000	185,000
Transfers In (Out)	-	-	(6,289)	-	-
Issuance of Debt	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(6,289)	185,000	185,000
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	401	(291)	(6,944)	15,646	29,944
FUND BALANCE AT BEGINNING OF PERIOD	23,896	3,777	31,457	73,093	37,502
FUND BALANCE AT END OF PERIOD	\$ 24,297	\$ 3,486	\$ 24,513	\$ 88,739	\$ 67,446

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

NEWTON COUNTY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit L

	23	24	25	29	30	31	32
	Road & Bridge Pct 3	R & B Pct 4	Courthouse Security	VAW Grant	Right of Way	Commissioner Spec Pct 1	Commissioner Spec Pct 2
REVENUE							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 104,242	\$ 104,242
Intergovernmental	-	-	-	-	-	-	-
Fines and Fees	-	-	12,510	-	-	-	-
Miscellaneous	-	500	-	-	-	-	-
Interest	1,347	1,591	1,406	46	8,212	1,319	2,618
Other Revenue	-	-	-	-	-	-	-
Grants	-	-	-	26,021	-	-	-
TOTAL REVENUE	1,347	2,091	13,916	26,067	8,212	105,561	106,860
EXPENDITURES							
Current							
General Administration	-	-	-	-	-	-	-
Judicial	-	-	-	-	-	-	-
Legal	-	-	-	37,512	-	-	-
Public Facilities	262,829	158,031	3,885	-	11,463	137,488	175,786
Public Safety	-	-	-	-	-	-	-
Health and Welfare	-	-	-	-	-	-	-
Conservation	-	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-
Principle Payment	-	14,540	-	-	-	-	-
Interest Expense	-	7,185	-	-	-	-	-
Capital Outlay	-	316,200	-	-	-	135,643	10,000
TOTAL EXPENDITURES	262,829	495,956	3,885	37,512	11,463	273,131	185,786
Excess (Deficiency) of Revenues Over (Under) Expenditures	(261,482)	(493,865)	10,031	(11,445)	(3,251)	(167,570)	(78,926)
OTHER FINANCING SOURCES							
Transfers In (Out)	185,000	185,000	-	10,391	-	25,000	25,000
Transfers In (Out)	-	-	-	-	-	-	-
Issuance of Debt	-	316,200	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	185,000	501,200	-	10,391	-	25,000	25,000
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(76,482)	7,335	10,031	(1,054)	(3,251)	(142,570)	(53,926)
FUND BALANCE AT BEGINNING OF PERIOD	116,200	76,926	80,153	2,183	223,589	165,829	107,247
FUND BALANCE AT END OF PERIOD	\$ 39,718	\$ 84,261	\$ 90,184	\$ 1,129	\$ 220,338	\$ 23,259	\$ 53,321

NEWTON COUNTY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit L

	33	34	35	36	37	38	39
	Commissioner Spec Pct 3	Commissioner Spec Pct 4	TCDP Grant	Dedicated Road Pct 1	Dedicated Road Pct 2	Dedicated Road Pct 3	Dedicated Road Pct 4
REVENUE							
Taxes	\$ 104,242	\$ 104,242	\$ -	\$ 15,133	\$ 15,133	\$ 15,133	\$ 15,133
Intergovernmental	-	-	-	-	-	-	-
Fines and Fees	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-
Interest	1,473	2,727	-	550	903	441	1,317
Other Revenue	10,000	1,753	-	-	-	-	-
Grants	-	-	678,030	-	-	-	-
TOTAL REVENUE	115,715	108,722	678,030	15,683	16,036	15,574	16,450
EXPENDITURES							
Current							
General Administration	-	-	-	-	-	-	-
Judicial	-	-	-	-	-	-	-
Legal	-	-	-	-	-	-	-
Public Facilities	105,990	249,299	-	25,990	3,218	53,627	-
Public Safety	-	-	-	-	-	-	-
Health and Welfare	-	-	-	-	-	-	-
Conservation	-	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-
Principle Payment	-	-	-	-	-	-	-
Interest Expense	-	-	-	-	-	-	-
Capital Outlay	97,232	-	749,312	-	-	-	6,390
TOTAL EXPENDITURES	203,222	249,299	749,312	25,990	3,218	53,627	6,390
Excess (Deficiency) of Revenues Over (Under) Expenditures	(87,507)	(140,577)	(71,282)	(10,307)	12,818	(38,053)	10,060
OTHER FINANCING SOURCES							
Transfers In (Out)	25,000	25,000	101,476	-	-	-	-
Transfers In (Out)	-	-	(25,953)	-	-	-	-
Issuance of Debt	91,495	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	116,495	25,000	75,523	-	-	-	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	28,988	(115,577)	4,241	(10,307)	12,818	(38,053)	10,060
FUND BALANCE AT BEGINNING OF PERIOD	12,192	117,965	-	34,179	43,486	54,103	72,097
FUND BALANCE AT END OF PERIOD	\$ 41,180	\$ 2,388	\$ 4,241	\$ 23,872	\$ 56,304	\$ 16,050	\$ 82,157

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

NEWTON COUNTY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit L

	40	41	42	43	44	45	47
	Record Preservation	Lateral Road Pct 1	Lateral Road Pct 2	Lateral Road Pct 3	Lateral Road Pct 4	Courthouse Restoration	Victims Impact Panel
REVENUE							
Taxes	\$ -	\$ 7,140	\$ 7,140	\$ 7,139	\$ 7,140	\$ -	\$ -
Intergovernmental	-	-	-	-	-	-	-
Fines and Fees	31,222	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-
Interest	1,582	389	239	239	802	2,307	18
Other Revenue	-	-	-	-	-	-	-
Grants	-	-	-	-	-	-	-
TOTAL REVENUE	32,804	7,529	7,379	7,378	7,942	2,307	18
EXPENDITURES							
Current							
General Administration	-	-	-	-	-	-	-
Judicial	-	-	-	-	-	-	-
Legal	-	-	-	-	-	-	-
Public Facilities	-	13,767	-	35,312	1,483	2,994	-
Public Safety	-	-	-	-	-	-	-
Health and Welfare	-	-	-	-	-	-	-
Conservation	18,007	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	-	-
Debt Service							
Principle Payment	-	-	-	-	-	-	-
Interest Expense	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-
TOTAL EXPENDITURES	18,007	13,767	-	35,312	1,483	2,994	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	14,797	(6,238)	7,379	(27,934)	6,459	(687)	18
OTHER FINANCING SOURCES							
Transfers In (Out)	-	-	-	-	-	-	-
Transfers In (Out)	-	-	-	-	-	-	-
Issuance of Debt	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-	-	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	14,797	(6,238)	7,379	(27,934)	6,459	(687)	18
FUND BALANCE AT BEGINNING OF PERIOD	92,881	25,784	13,168	42,512	46,808	138,261	1,094
FUND BALANCE AT END OF PERIOD	\$ 107,678	\$ 19,546	\$ 20,547	\$ 14,578	\$ 53,267	\$ 137,574	\$ 1,112

NEWTON COUNTY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit L

	48	49	50	51	52	53	55
	Sheriff Contraband	Library Tocker Grant	Solid Waste Disposal	Voter Registration	Law Library	Newton Co Library	Historical Operating
REVENUE							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-	-	-
Fines and Fees	9,641	-	23,855	122	4,360	-	-
Miscellaneous	-	-	3,479	-	-	-	569
Interest	121	166	1,545	542	74	756	643
Other Revenue	-	-	-	-	-	18,110	1,425
Grants	-	8,525	-	-	-	4,325	-
TOTAL REVENUE	9,762	8,691	28,879	664	4,434	23,191	2,637
EXPENDITURES							
Current							
General Administration	-	-	-	37,024	-	-	-
Judicial	-	-	-	-	-	-	-
Legal	-	-	-	-	7,870	-	-
Public Facilities	-	-	-	-	-	-	-
Public Safety	5,000	-	-	-	-	-	-
Health and Welfare	-	-	106,875	-	-	-	-
Conservation	-	-	-	-	-	-	-
Culture and Recreation	-	1,203	-	-	-	102,991	6,306
Debt Service	-	-	-	-	-	-	-
Principle Payment	-	-	-	2,072	-	-	2,049
Interest Expense	-	-	-	405	-	-	-
Capital Outlay	-	-	25,198	-	-	-	-
TOTAL EXPENDITURES	5,000	1,203	132,073	39,501	7,870	102,991	8,355
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,762	7,488	(103,194)	(38,837)	(3,436)	(79,800)	(5,718)
OTHER FINANCING SOURCES							
Transfers In (Out)	-	-	70,000	38,500	-	78,900	9,250
Transfers In (Out)	-	-	-	-	-	-	-
Issuance of Debt	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	70,000	38,500	-	78,900	9,250
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	4,762	7,488	(33,194)	(337)	(3,436)	(900)	3,532
FUND BALANCE AT BEGINNING OF PERIOD	6,856	6,543	85,722	9,507	5,478	6,647	8,811
FUND BALANCE AT END OF PERIOD	\$ 11,618	\$ 14,031	\$ 52,528	\$ 9,170	\$ 2,042	\$ 5,747	\$ 12,343

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

NEWTON COUNTY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit L

	56	58	59	60	63	65
	Historical Book Fund	Dist Attny Hot Ck Fund	Dist Attny Contraband	Powell Hotel Fund	Victims Coord. Grant	Victims Advocate Gr
REVENUE						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-	-
Fines and Fees	-	3,278	3,547	-	-	-
Miscellaneous	-	-	-	-	-	-
Interest	752	84	86	-	55	58
Other Revenue	714	-	-	4,948	-	-
Grants	-	-	-	-	35,185	14,404
TOTAL REVENUE	<u>1,466</u>	<u>3,362</u>	<u>3,633</u>	<u>4,948</u>	<u>35,240</u>	<u>14,462</u>
EXPENDITURES						
Current						
General Administration	-	-	-	-	-	-
Judicial	-	-	-	-	-	-
Legal	-	2,568	4,689	-	-	21,768
Public Facilities	-	-	-	-	-	-
Public Safety	-	-	-	-	35,506	-
Health and Welfare	-	-	-	-	-	-
Conservation	-	-	-	-	-	-
Culture and Recreation	1,164	-	-	1,901	-	-
Debt Service	-	-	-	-	-	-
Principle Payment	-	-	-	-	-	-
Interest Expense	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-
TOTAL EXPENDITURES	<u>1,164</u>	<u>2,568</u>	<u>4,689</u>	<u>1,901</u>	<u>35,506</u>	<u>21,768</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>302</u>	<u>794</u>	<u>(1,056)</u>	<u>3,047</u>	<u>(266)</u>	<u>(7,306)</u>
OTHER FINANCING SOURCES						
Transfers In (Out)	-	-	-	-	2,500	6,452
Transfers In (Out)	-	-	-	-	-	-
Issuance of Debt	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,500</u>	<u>6,452</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>302</u>	<u>794</u>	<u>(1,056)</u>	<u>3,047</u>	<u>2,234</u>	<u>(854)</u>
FUND BALANCE AT BEGINNING OF PERIOD	<u>27,400</u>	<u>4,219</u>	<u>6,900</u>	<u>14,405</u>	<u>2,330</u>	<u>862</u>
FUND BALANCE AT END OF PERIOD	<u>\$ 27,702</u>	<u>\$ 5,013</u>	<u>\$ 5,844</u>	<u>\$ 17,452</u>	<u>\$ 4,564</u>	<u>\$ 8</u>

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

NEWTON COUNTY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit I.

	66	71	74	75	80	92	93
	Records Management	TDHCA Grant	Texas Disaster Relief Grant	HAVA Grant	Civic Center Operations	Justice Court Technology	Federal Forest Fund
REVENUE							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-	-	45,295
Fines and Fees	3,816	-	-	-	525	7,498	-
Miscellaneous	-	-	-	-	-	-	-
Interest	462	-	-	-	214	139	-
Other Revenue	-	1,500	-	-	-	-	-
Grants	-	337,363	-	-	-	-	-
TOTAL REVENUE	4,278	338,863	-	-	739	7,637	45,295
EXPENDITURES							
Current							
General Administration	1,634	-	-	-	-	-	-
Judicial	-	-	-	-	-	-	-
Legal	-	-	-	-	-	6,825	-
Public Facilities	-	-	-	-	-	-	-
Public Safety	-	514,650	-	-	-	-	-
Health and Welfare	-	-	-	-	-	-	-
Conservation	-	-	-	-	-	-	23,491
Culture and Recreation	-	-	-	-	19,958	-	-
Debt Service	-	-	-	-	-	-	-
Principle Payment	-	-	-	-	-	10,539	-
Interest Expense	-	-	-	-	-	286	-
Capital Outlay	-	-	-	-	-	-	-
TOTAL EXPENDITURES	1,634	514,650	-	-	19,958	17,650	23,491
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,644	(175,787)	-	-	(19,219)	(10,013)	21,804
OTHER FINANCING SOURCES							
Transfers In (Out)	-	445,087	-	-	10,000	-	-
Transfers In (Out)	-	(379,719)	-	-	-	-	(8,758)
Issuance of Debt	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	65,368	-	-	10,000	-	(8,758)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	2,644	(110,419)	-	-	(9,219)	(10,013)	13,046
FUND BALANCE AT BEGINNING OF PERIOD	26,066	122,536			10,088	18,493	17,162
FUND BALANCE AT END OF PERIOD	\$ 28,710	\$ 12,117	\$ -	\$ -	\$ 869	\$ 8,480	\$ 30,208

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

NEWTON COUNTY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit I.

	Total Nonmajor Governmental Fund
REVENUE	
Taxes	\$ 506,059
Intergovernmental	79,055
Fines and Fees	100,374
Miscellaneous	4,548
Interest	39,472
Other Revenue	38,450
Grants	1,115,593
TOTAL REVENUE	<u>1,883,551</u>
EXPENDITURES	
Current	
General Administration	38,658
Judicial	-
Legal	128,138
Public Facilities	1,538,232
Public Safety	555,156
Health and Welfare	106,875
Conservation	41,498
Culture and Recreation	133,523
Debt Service	-
Principle Payment	53,355
Interest Expense	14,449
Capital Outlay	1,339,975
TOTAL EXPENDITURES	<u>3,949,859</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,066,308)</u>
OTHER FINANCING SOURCES	
Transfers In (Out)	1,612,556
Transfers In (Out)	(420,719)
Issuance of Debt	407,695
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,599,532</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(466,776)</u>
FUND BALANCE AT BEGINNING OF PERIOD	<u>2,016,407</u>
FUND BALANCE AT END OF PERIOD	<u>\$ 1,549,631</u>

SINGLE AUDIT SECTION



Charles E. Reed & Associates, P.C.

Certified Public Accountants & Consultants

Member

American Institute of
Certified Public Accountants

Texas Society of
Certified Public Accountants

AICPA Private
Companies Practice Section

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the County Judge and
Members of the County Court
Newton County, Texas

Compliance

We have audited the compliance of Newton County, Texas, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the State of Texas Single Audit Circular issued by the Office of the Governor of the State that are applicable to each of its major federal programs for the year ended December 31, 2008. Newton County, Texas' major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of Newton County, Texas' management. Our responsibility is to express an opinion on Newton County, Texas' compliance based on our audit.

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

In our opinion, Newton County, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with these requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items: 2008-01 and 2008-02.

Beaumont

3302 McFaddin, Suite One
Beaumont, Texas 77706

(409) 833-8986 • Fax: (409) 833-4486

Port Arthur

3636 Professional Drive
Port Arthur, Texas 77642

(409) 983-3277 • Fax: (409) 983-3270

Silsbee

295 Hwy. 327 East
Silsbee, Texas 77656

(409) 385-2806 • Fax: (409) 385-4338

Internal Control Over Compliance

The management of Newton County, Texas is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Newton County, Texas' internal control over compliance with requirements that could have a direct and material effect on a major federal and state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Newton County, Texas' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

County of Newton, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County of Newton, Texas' response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the County Commissioners, management, other within the entity, 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.

Charles E. Reed & Associates, P.C.

Charles E. Reed & Associates, P.C.
Certified Public Accountants
Port Arthur, Texas, U.S.A.
August 15, 2008



Charles E. Reed & Associates, P.C.

Certified Public Accountants & Consultants

Member

American Institute of
Certified Public Accountants

Texas Society of
Certified Public Accountants

AICPA Private
Companies Practice Section

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 County Judge and
Members of the County Court
Newton County, Texas

We have audited the financial statements of the governmental activities the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Newton County, Texas as of and for the year ended December 31, 2008, which collectively comprise the Newton County, Texas', basic financial statements and have issued our report thereon dated August 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of the County's financial statements that is

Beaumont

3302 McFaddin, Suite One
Beaumont, Texas 77706

(409) 833-8986 • Fax: (409) 833-4486

Port Arthur

3636 Professional Drive
Port Arthur, Texas 77642

(409) 983-3277 • Fax: (409) 983-3270

Silsbee

295 Hwy. 327 East
Silsbee, Texas 77656

(409) 385-2806 • Fax: (409) 385-4338

more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider those items as indicated in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and other matters

As part of obtaining reasonable assurance about whether Newton County, Texas' financial statements are free of material misstatements, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items

We noted certain matters that we reported to management of County of Newton, Texas, in a separate letter dated August 28, 2009.

The County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the County Commissioners, management, 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.

Yours very truly,

Charles E. Reed & Associates, P.C.

Charles E. Reed & Associates, P.C.

Certified Public Accountants

Port Arthur, Texas, U.S.A.

August 28, 2009

Newton County, Texas
 Schedule of Expenditures of Federal Awards
 For the Year Ended December 31, 2008

Corrected

Schedule I

	<u>Federal CFDA Number</u>	<u>Amount of Award</u>	<u>Amount Expended</u>
<u>Department of Homeland Security</u>			
Governors Department of Emergency Management	97.039	1,312,826	861,760
Governors Department of Emergency Management	97.039	2,763,662	45,000
FEMA - Hurricane Ike	97.036		137,396
FEMA - Hurricane Gustav	97.036		53,683
			<u>1,097,839</u>
<u>Department of Housing and Urban Development</u>			
Texas Department of Housing and Community Affairs	14.239	312,000	59,944
Texas Department of Housing and Community Affairs	14.239	624,000	265,227
ORCA- Disaster Recovery	14.239	421,600	-
ORCA- Disaster Recovery	14.239	498,160	189,480
ORCA- 1st time Water/Sewer	14.228	250,000	44,750
ORCA- 1st time Water/Sewer	14.228	249,695	11,929
ORCA - Disaster Flood Project	14.228	350,000	284,179
ORCA - Disaster Recovery	14.228		408,454
			<u>1,263,963</u>
<u>Department of Justice</u>			
Victim Advocate Project	16.575	28,370	21,768
Violence Against Women	16.588	26,000	9,987
Violence Against Women	16.588	26,000	27,438
			<u>59,193</u>
		Total Federal Money Expended	<u>\$ 2,420,995</u>

NEWTON COUNTY, TEXAS
 SCHEDULE OF STATE OF TEXAS EXPENDITURES
 FOR THE YEAR ENDED DECEMBER 31, 2008

Completed

Schedule II

		Grant I.D.	Amount of Award	Amount Expended
Texas Comptroller	Texas Task Force on Indigent Defense	212-08-176	11,740	8,255
Texas Comptroller	Texas Task Force on Indigent Defense	212-09-176	11,399	-
Texas Comptroller	Texas Task Force on Indigent Defense	212-07-176	11,982	3,777
Texas Historical Commission	Newton County Court House Restoration	3-2002	4,038,848	1,705,514
Texas Library Association	Tocker	28140	8,525	1,203
Texas Department of Agriculture			15,000	15,000
Deep East Texas Council of Gov.	Solid Waste Project	09-14-G07	19,600	19,600
Office of Attorney General	Texas SAVNS/VINE Program		31,340	-
Deep East Texas Council of Gov.	LETTP		17,527	17,527
Texas Department of Transportation			4,000	4,000
Comptroller of Public Accounts		CM905	34,000	-
Total State Money Expended			\$	<u>1,774,876</u>

Newton County, Texas
 Schedule of Expenditures of Federal Awards
 For the Year Ended December 31, 2008

Schedule I

Department of Homeland Security

	<u>Federal CFDA Number</u>	<u>Amount of Award</u>	<u>Amount Expended</u>
Governors Department of Emergency Management	97.039	1,312,826	861,760
Governors Department of Emergency Management	97.039	2,763,662	45,000
FEMA	97.036		137,396
FEMA	97.036		53,683
			<u>1,097,839</u>

Department of Housing and Urban Development

Texas Department of Housing and Community Affairs	14.239	312,000	59,944
Texas Department of Housing and Community Affairs	14.239	624,000	265,227
ORCA- Disaster Recovery	14.239	421,600	-
ORCA- Disaster Recovery	14.239	498,160	189,480
ORCA- 1st time Water/Sewer	14.228	250,000	44,750
ORCA- 1st time Water/Sewer	14.228	249,695	11,929
ORCA - Disaster Flood Project	14.228	350,000	284,179
ORCA - Disaster Recovery	14.228		408,454
			<u>1,263,963</u>

Total Federal Money Expended \$ 2,361,802

See attached

NEWTON COUNTY, TEXAS
 SCHEDULE OF STATE OF TEXAS EXPENDITURES
 FOR THE YEAR ENDED DECEMBER 31, 2008

		Grant I.D.	Amount of Award	Amount Expended
Texas Comptroller	Texas Task Force on Indigent Defense	212-08-176	11,740	8,255
Texas Comptroller	Texas Task Force on Indigent Defense	212-09-176	11,399	-
Texas Comptroller	Texas Task Force on Indigent Defense	212-07-176	11,982	3,777
Texas Historical Commission	Newton County Court House Restoration	3-2002	4,038,848	1,705,514
Governors Criminal Justice Division	Victim Advocate Project	16951-04	28,370	21,768
Governors Criminal Justice Division	Violence Against Women	19193-02	26,000	9,987
Governors Criminal Justice Division	Violence Against Women	16951-01	26,000	27,438
Texas Library Association	Tocker	28140	8,525	1,203
Texas Department of Agriculture			15,000	15,000
Deep East Texas Council of Gov.	Solid Waste Project	09-14-G07	19,600	19,600
Office of Attorney General	Texas SAVNS/VINE Program		31,340	-
Deep East Texas Council of Gov.	LETPP		17,527	17,527
Texas Department of Transportation			4,000	4,000
Comptroller of Public Accounts		CM905	34,000	-
Department of Homeland Security	Hurricane Ike	97.036	137,396	-
Department of Homeland Security	Hurricane Gustav	97.036	53,683	-
Total State Money Expended			\$	<u>1,834,069</u>

See attached

NEWTON COUNTY, TEXAS
NOTES TO EXPENDITURES OF FEDERAL AND STATE AWARDS SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal and State Financial Awards presents the activity of all Federal and State financial assistance programs of the Newton County, Texas. All federal awards received directly from Federal agencies and state and federal awards passed through state agencies are included on the Schedule.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal and State Financial Awards is presented using the accrual basis of accounting.

The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

NOTE 3 – BASIS OF PRESENTATION

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

NEWTON COUNTY, TEXAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 DECEMBER 31, 2008

Section I-Summary of Auditor's Results

Financial Statements

Type if auditor's report issued: Unqualified

Internal Control over financial reporting:

Material weakness identified? Yes No
 Significant deficiency that is not considered
 to be a material weakness? Yes No
 Noncompliance material to financial statements noted? Yes No

Federal Awards

Material weakness identified? Yes No
 Significant deficiency identified that is
 not considered to be a material weakness? Yes No

Type auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in
 accordance with section 510(a) of Circular A-133 Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
97.039	Federal Emergency Management
14.239	Housing and Urban Development
14.228	Housing and Urban Development

<u>Grant ID#</u>	<u>Name of State Program</u>
3-2002	Texas Historical Commission

The threshold used to distinguish the type of federal program was \$ 300,000.

Auditee qualified as low-risk auditee? Yes No

Section II-Financial Statements Findings

Criteria: In accordance with OMB A-133, the organization should have procedures in place to prevent control deficiencies over financial reporting.

A control deficiency exist 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 misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a material misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

MATERIAL WEAKNESSES

Finding #08-01A:

SAFEGUARD OF ORIGINAL BOOKS OF RECORD

Issue: During our examination, we noted that the District Clerk was custodian of various County records which are original books of record. These records were being kept in area that did not protect them from perils such as weather related events or fire.

Recommendation: This issue had been discussed with the County Auditor. During that discussion, we suggested that the County subject all documents and records to the safekeeping requirements of the Texas Local Government Code as well as sound, prudent business practices.

Finding #08-01B:

PHYSICAL INVENTORY

Issue: A physical inventory count was not taken at year-end. We applied alternative procedures to satisfy ourselves as to the value of the inventory, if any. Prior to year-end, the County had not conducted a physical inventory count and no inventory was reflected in the County's books. By not recording inventory on hand at year-end, expenditures were overstated by the actual cost of any inventory on hand.

Recommendation: This issue had been discussed in detail with the County Auditor. During that discussion we suggested that the County conduct a quarterly physical inventory count and reconcile the count to the general ledger. The result would be an accurate accounting of the inventory expended in the normal day to day operations of the County and prevent the overstatement of expenditures.

SIGNIFICANT DEFICENCIES

Finding 08-02A

FINANCIAL REPORTING

Issue: The County was not able to issue, without auditor assistance, completed financial statements with all of the related footnotes, in accordance with generally accepted accounting principles and free of material misstatement. This inability is a symptom of significant deficiencies in internal control.

Recommendation: We suggest the County consider hiring a certified public accounting firm to review and adjust its financial statements on a quarterly basis and produce year-end statements in order for the County to have the ability to meet the financial reporting requirements for externally released financial statements. The County Auditor and staff possess the necessary accounting experience to reliably initiate, authorize, record and process financial data and to report such financial data for internal management purposes. However, their job functions are not designed to require that they maintain current expertise in financial reporting requirements for externally released financial statements that are prepared in accordance with generally accepted accounting principles to include the presentation format of the financial statements and all of the related footnotes that accompany such financial statements.

GRANT ADMINISTRATION AND MANAGEMENT

Issue: During our examination of grant revenues and expenditures, we found that County staff responsible for the administration of grants was not familiar with OMB Circular A-133 nor OMB Circular A-87 which sets forth the compliance requirements as well as cost principles associated with federal grants. It was noted that the County depends on external grant administrators to perform reconciliations and compile documentation regarding specific grants. However, some grants such as Hurricane recovery grants are administered without the assistance of external grant administrators and are not being monitored for compliance requirements. Further, those charged with the responsibility for grant administration were not capable of producing a complete and reconciled Schedule of Expenditures of Federal Awards. Subsequent to year-end, the County Auditor was able to compile a complete and reconciled Schedule of Expenditures of Federal Awards and perform a reconciliation of those grants not being administered by external grant administrators.

Recommendation: This issue had been discussed in detail with the County Auditor. During that discussion we suggested that the County develop policies and procedures that require all grants to be reconciled on a timely basis. The reconciliations should include all grants including those being administered by external grant administrators. Further, we suggested that the County assign the grant administration functions of the County to someone who is familiar with OMB Circular A-133 and OMB Circular A-87.

Section III - Federal Award Findings and Questioned Costs

None

Section IV-Status of Prior Year Findings

MATERIAL WEAKNESSES

2007-1 Petty Cash

Issue: During our examination of internal controls over cash, we noted some areas in which physical safeguards over the County's cash and could be improved. We discovered petty cash funds that were not known to either the County Treasurers Office or the County Auditors Office. This issue was discussed in our prior year management letter. Proper physical safeguards over the County's cash decrease the County's susceptibility to misappropriation. Adequate physical counts should exist over cash at all times, with access limited only to those with authorization.

Recommendation: This issue has been discussed in detail with the County Auditor. During that discussion, we suggested that the County undertake a discovery process to identify and quantify all petty cash funds within the departments of the County. Petty cash boxes should be assigned to individual employees and said employees are responsible for balancing their cash and forwarding to the Treasures Office a balance sheet daily. We also suggested that access to individual cash drawers be locked in secure areas. We suggest the County develop policies and procedures to subject all cash funds to the Internal Control Systems approved by the County.

Status of Finding: The County has implemented a discovery process to identify and quantify all petty cash funds within the departments of the County. The County has also developed a policies and procedures manual that subjects all cash funds to the Internal Control Systems.

2007-2 Account Reconciliations

Issue: We noted several bank account reconciliations that did not agree to the General Ledger. Although these amounts are considered immaterial in dollar amount, the possibility exists that the financial statements of the County may be misstated should the errors not be caught in a timely manner.

Recommendations: This issue has been discussed in detail with the County Auditor. During that discussion we suggested that the County review its policies and procedures regarding the reconciliation of cash and follow said policies and procedures as written.

Status of Finding: The County has developed a policies and procedures manual that subjects all bank reconciliations of cash to the Internal Control Systems.

SIGNIFICANT DEFICIENCIES

2007-3 Financial Reporting

The County Auditor and staff possess the necessary accounting experience to reliably initiate, authorize, record and process financial data and to report such financial data for internal management purposes. However, their job functions are not designed to require that they maintain current expertise in financial reporting requirements for externally released financial statements that are prepared in accordance with generally accepted accounting principles include the presentation format of the financial statements and all of the related footnoted that accompany such financial statements.

Status of Finding: We have developed procedures for the County Auditor to obtain the knowledge in financial reporting requirements for externally released financial statements. The County Auditor will be attending training for these reporting requirements in February, 2010.

2007-4 Physical Inventory

Issue: A physical inventory count was taken at our request. Prior to year-end, the County had not conducted a physical inventory on hand at year-end, expenditures by the actual cost of any inventory on hand.

Recommendation: This issue has been discussed in detail with the County Auditor. During that discussion we suggested that the County conduct a quarterly physical inventory count and reconcile the count to the general ledger. The result would be an accurate accounting of the inventory expended in the normal day to day operations of the County and prevent the overstatement of expenditures.

Status of Finding: The Auditor's office has developed policies and procedures to conduct a physical inventory and reconcile the count to the general ledger.

2007-5 Safeguard of County Assets

Issue: During our examination of cash, we noted that the County has seized and or confiscated various assets through court proceedings that were not being accounted for nor subjected to the Internal Control Procedures of the County.

Recommendation: This issue was discussed in detail with the County Auditor. During that discussion, we suggested that the County identify all seized and or forfeited property and develop policies and procedures to insure that said assets are properly accounted for and subjected to Internal Control policies of the County.

Status of Finding: The Auditor's office has developed procedures to identify all seized and/or forfeited property. We have developed a polices and procedures manual that insures assets are properly accounted for and subjected to Internal Control policies of the County.

Section IV - Corrective Action Plan

Material Weaknesses:

Finding 2008-01A Safeguard of Original Books of Record: The County will subject all documents and records to the safekeeping requirements of the Texas Local Government Code as well as sound, prudent business practices. This corrective action has been implemented immediately. The County Auditor, Elizabeth Holloway, is responsible for this corrective action plan.

Finding 2008-01B Physical Inventory: The Auditor's office has developed policies and procedures to conduct a physical inventory and reconcile the count to the general ledger. The County Auditor, Elizabeth Holloway, is responsible for this corrective action plan.

Significant Deficiencies:

Finding 2008-02A Financial Reporting: We have developed procedures for the County Auditor to obtain the knowledge in financial reporting requirements for externally released financial statements. The County Auditor will be attending training for these reporting requirements in February, 2010. The County Auditor, Elizabeth Holloway, is responsible for this corrective action plan.

Finding 2008-02B Grant Administration and Management: The County is developing policies and procedures that require all grants to be reconciled on a timely basis. The reconciliations will include all grants including those being administered by external grant administrators. The County Auditor has completed a Grants Management training class. The County Auditor, Elizabeth Holloway, is responsible for this corrective action plan.



Charles E. Reed & Associates, P.C.

Certified Public Accountants & Consultants

Member

American Institute of
Certified Public Accountants

Texas Society of
Certified Public Accountants

AICPA Private
Companies Practice Section

August 28, 2009

To the Commissioners Court
County of Newton, Texas
Newton, Texas

In planning and performing our audit of the basic financial statements of the County of Newton, Texas (the County) for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Management comments involve a variety of observations and suggestions regarding the County's activities that go beyond internal control structure matters. Such matters may deal with operational or administrative efficiencies and other items of perceived benefit to the County. We have discussed these comments with management on an informal basis during the audit as part of normal ongoing contact with the County's personnel. This letter does not affect our report dated August 28, 2009, on the basic financial statements of the County.

Beaumont

6850 Phelan Boulevard
Beaumont, Texas 77706
(409) 833-8986 • Fax: (409) 833-4486

Port Arthur

3636 Professional Drive
Port Arthur, Texas 77642
(409) 983-3277 • Fax: (409) 983-3270

Silsbee

295 Hwy. 327 East
Silsbee, Texas 77656
(409) 385-2806 • Fax: (409) 385-4338

This letter is to communicate to the County certain matters related to the conduct of our audit as we have described above, in order to assist the County in overseeing the financial reporting and disclosure process for which the County management is responsible. For every condition that we have noted, we have proposed recommendations in order to strengthen internal controls and operating efficiency. These recommendations serve as suggestions for improvements and not as criticism of County personnel. The implementation of these recommendations, however, is dependent upon the County's assessment of the related cost and benefits associated with implementing such recommendation. We will review the status of these comments during our next audit engagement.

MATERIAL WEAKNESSES

1) PETTY CASH

Issue: During our examination of internal controls over cash, we noted some areas in which physical safeguards over the County's cash could be improved. We discovered that petty cash funds that were not being reconciled and forwarded to either the County Treasurers Office or the County Auditors Office. Proper physical safeguards over the County's cash decrease the County's susceptibility to misappropriation. Adequate physical counts should exist over cash at all times, with access limited only to those with authorization.

Recommendation: This issue has been discussed in detail with the County Auditor. During that discussion, we suggested that the County undertake a discovery process to identify and quantify all petty cash funds within the departments of the County. Petty cash boxes should be assigned to individual employees and said employees is responsible for balancing their cash and forwarding to the Treasurers Office a balance sheet daily. We also suggested that access to individual cash drawers be restricted to only the employee responsible for their specific drawer and that the drawers be locked in secure areas. We suggest the County develop policies and procedures to subject all cash funds to the Internal Control Systems approved by the County.

2) CUSTODIAL AND TRUST ACCOUNTS

Issue: We noted that the District Clerks Office was responsible for the administration and safekeeping of several custodial and trust accounts for several individuals. Upon inquiry of the District Clerk, we were told these accounts were not being reconciled and further, were not being reconciled to the books of original entry which indicates how much and to whom the money belongs.

Recommendation: This issue has been discussed in detail with the County Auditor. During that discussion, we suggested that the County develop policies and procedures to subject all custodial and trust funds to the Internal Control System approved by the County which includes the reconciliation process. Custodial and trust accounts

should be reconciled on a monthly basis and forwarded to the County Auditors Office for monitoring.

3) SAFEGUARD OF ORIGINAL BOOKS OF RECORD

Issue: During our examination, we noted that the District Clerk was custodian of various County records which are original books of record. These records were being kept in area that did not protect them from perils such as weather related events or fire.

Recommendation: This issue had been discussed with the County Auditor. During that discussion, we suggested that the County subject all documents and records to the safekeeping requirements of the Texas Local Government Code as well as sound, prudent business practices.

4) ADHERENCE TO THE TEXAS UNCLAIMED PROPERTY ACT

Issue: During our examination, we discovered that the County was not following policies and procedures established by the Texas State Comptroller regarding the remitting of unclaimed funds to the State of Texas as prescribed by the Texas Unclaimed Property Act. We found areas of non-compliance in all areas of the County's departments including payroll, accounts payable and custodial and trust accounts.

Recommendation: This issue has been discussed in detail with the County Auditor. During that discussion, we suggested the County adopt policies and procedures to insure that the County is in compliance with the Texas Unclaimed Property Act. We further suggest that those who are responsible for the areas that come under the Act receive training to better their understanding regarding the compliance requirements of the Act.

5) PHYSICAL INVENTORY

Issue: A physical inventory count was not taken at year-end. We applied alternative procedures to satisfy ourselves as to the value of the inventory, if any. Prior to year-end, the County had not conducted a physical inventory count and no inventory was reflected in the County's books. By not recording inventory on hand at year-end, expenditures were overstated by the actual cost of any inventory on hand.

Recommendation: This issue had been discussed in detail with the County Auditor. During that discussion we suggested that the County conduct a quarterly physical inventory count and reconcile the count to the general ledger. The result would be an accurate accounting of the inventory expended in the normal day to day operations of the County and prevent the overstatement of expenditures.

SIGNIFICANT DEFICIENCIES

6) FINANCIAL REPORTING

Issue: The County was not able to issue, without auditor assistance, completed financial statements with all of the related footnotes, in accordance with generally accepted accounting principles and free of material misstatement. This inability is a symptom of significant deficiencies in internal control.

Recommendation: We suggest the County consider hiring a certified public accounting firm to review and adjust its financial statements on a quarterly basis and produce year-end statements in order for the County to have to ability to meet the financial reporting requirements for externally released financial statements. The County Auditor and staff possess the necessary accounting experience to reliably initiate, authorize, record and process financial data and to report such financial data for internal management purposes. However, their job functions are not designed to require that they maintain current expertise in financial reporting requirements for externally released financial statements that are prepared in accordance with generally accepted accounting principles to include the presentation format of the financial statements and all of the related footnotes that accompany such financial statements.

7) GRANT ADMINISTRATION AND MANAGEMENT

Issue: During our examination of grant revenues and expenditures, we found that County staff responsible for the administration of grants was not familiar with OMB Circular A-133 nor OMB Circular A-87 which sets forth the compliance requirements as well as cost principles associated with federal grants. It was noted that the County depends on external grant administrators to perform reconciliations and compile documentation regarding specific grants. However, some grants such as Hurricane recovery grants are administered without the assistance of external grant administrators and are not being monitored for compliance requirements. Further, those charged with the responsibility for grant administration were not capable of producing a complete and reconciled Schedule of Expenditures of Federal Awards. Subsequent to year-end, the County Auditor was able to compile a complete and reconciled Schedule of Expenditures of Federal Awards and perform a reconciliation of those grants not being administered by external grant administrators.

Recommendation: This issue had been discussed in detail with the County Auditor. During that discussion we suggested that the County develop policies and procedures that require all grants to be reconciled on a timely basis. The reconciliations should include all grants including those being administered by external grant administrators. Further, we suggested that the County assign the grant administration functions of the County to someone who is familiar with OMB Circular A-133 and OMB Circular A-87.

MANAGEMENT COMMENTS

1) FRAUD DETECTION PROCEDURES (SAS 99)

The County should continue to implement controls for fraud prevention including the following policies, procedures and systems:

- a) Accounting Manual
- b) Code of Conduct
- c) Conflicts of Interest
- d) Ethics Policies
- e) Employee reporting or "whistleblower" program

This report is intended solely for the information and use of the Commissioners Court of the County of Newton, Texas and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Charles E. Reed & Associates, P.C.

Charles E. Reed and Associates, P.C.
Certified Public Accountants

NEWTON COUNTY

Elizabeth Holloway
County Auditor



Ginger Arnold
Assistant Auditor

PO Box 296
Newton, Texas 75966
E-Mail: newtoncoauditor@yahoo.com

Phone: 409-379-5755
Fax: 409-379-5623

September 29, 2009

Response to Management Letter Comments from Annual Audit for the year ended December 31, 2008:

MATERIAL WEAKNESSES

1. PETTY CASH

Recommendation: Suggested that access to individual cash drawers be restricted to only the employee responsible for their specific drawer and that the drawers be locked in secure areas. Also suggested the County develop policies and procedures to subject all cash funds to the Internal Control Systems approved by the County.

Response: The Auditor's office has implemented audit programs for petty cash funds and has developed an Internal Control System that will subject all cash funds to these policies and procedures.

2. CUSTODIAL AND TRUST ACCOUNTS

Recommendation: Suggested that the County develop policies and procedures to subject all custodial and trust funds to the Internal Control System approved by the County which includes the reconciliation process. Custodial and trust accounts should be reconciled on a monthly basis and forwarded to the County Auditor's office for monitoring.

Response: The Auditor's office has developed policies and procedures to subject all custodial and trust funds to the Internal Control System approved by the County, which includes the reconciliation process. These accounts will be reconciled on a monthly basis and forwarded to the County Auditor's office for monitoring.

3. SAFEGUARD OF ORIGINAL BOOKS OF RECORD

Recommendation: Suggested that the County subject all documents and records to the safekeeping requirements of the Texas Local Government Code as well as sound, prudent business practices.

Response: The Auditor's office has developed policies and procedures to subject all documents and records to the safekeeping requirements of the Texas Local Government Code.

4. ADHERENCE TO THE TEXAS UNCLAIMED PROPERTY ACT

Recommendation: Suggested the County adopt policies and procedures to insure that the County is in compliance with the Texas Unclaimed Property Act. It is also suggested that those who are responsible for the areas that come under the Act receive training to better their understanding regarding the compliance requirements of the Act.

Response: The Auditor's office has developed policies and procedures to insure that the County is in compliance with the Texas Unclaimed Property Act. Those who are responsible for the areas that come under the Act will receive training to better their understanding regarding the compliance requirements of the Act.

5. PHYSICAL INVENTORY

Recommendation: Suggested that the County conduct a quarterly physical inventory count and reconcile the count to the general ledger.

Response: The Auditor's office has developed policies and procedures to conduct a physical inventory and reconcile the count to the general ledger.

SIGNIFICANT DEFICIENCIES

6. FINANCIAL REPORTING

Recommendation: Suggested the County hire a certified public accounting firm to review and adjust its financial statements on a quarterly basis and produce year-end statements.

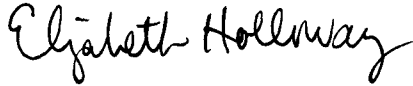
Response: The Auditor will be attending training for financial reporting requirements for financial statements prepared in accordance with generally accepted accounting principles.

7. GRANT ADMINISTRATION AND MANAGEMENT

Recommendation: Suggested the County develop policies and procedures that require all grants to be reconciled on a timely basis. Also suggested that the County assign the grant administration functions of the County to someone who is familiar with OMB Circular A-133 and OMB Circular A-87.

Response: The Auditor has attended an intensive grant management training and is developing policies and procedures for grants.

Sincerely,



Elizabeth Holloway
Newton County Auditor