

ARMSTRONG COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

**FOR YEAR ENDED
DECEMBER 31, 2009**

ARMSTRONG COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

**For Year Ended
December 31, 2009**

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ARMSTRONG COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

**For Year Ended
December 31, 2009**

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PART I
INTRODUCTORY SECTION

ARMSTRONG COUNTY, TEXAS
PRINCIPAL COUNTY OFFICIALS
DECEMBER 31, 2009

Hugh Reed	County Judge
John M. Britten	Commissioner, Precinct #1
Michael E. Baker	Commissioner, Precinct #2
Tom Ferris	Commissioner, Precinct #3
C.M. Bryant	Commissioner, Precinct #4
Connie Spiller	County and District Clerk
Joe D. Reck	County Tax Assessor/Collector
James R. Walker	County Sheriff
Beatrice Sturkie	Justice of the Peace
Sara D. Messer	County Treasurer

PART II
FINANCIAL SECTION



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

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of Armstrong County, Texas as of and for the year ended December 31, 2009, which comprises the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Armstrong County, Texas. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Armstrong County, Texas at December 31, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2010, on our consideration of Armstrong County, Texas' internal control over financial reporting and 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 should be read in conjunction with this report in considering the results of our audit.

The budgetary comparison schedules for the General Fund and Road & Bridge Fund and the schedule of funding progress for the retirement plan for the employees of Armstrong County on pages 22 through 25 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires 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. The County has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Doshier, Pickens & Francis, LLC

Doshier, Pickens & Francis, LLC
July 19, 2010

BASIC FINANCIAL STATEMENTS

ARMSTRONG COUNTY, TEXAS
STATEMENT OF NET ASSETS
DECEMBER 31, 2009

ASSETS	GOVERNMENTAL ACTIVITIES
Current assets:	
Cash and cash investments	\$ 1,090,831
Accounts receivable (net)	838,529
Taxes receivable - delinquent (net)	10,941
Noncurrent assets:	
Capital assets (net of accumulated depreciation):	
Land	23,108
Buildings and improvements	173,353
Machinery and equipment	233,099
Total Assets	2,369,861
LIABILITIES	
Current liabilities:	
Accounts payable	99,004
Capital lease	39,067
Compensated absences	8,667
Total Current Liabilities	146,738
Total Liabilities	146,738
NET ASSETS	
Invested in capital assets, net of related debt	390,493
Unrestricted	1,832,630
Total Net Assets	\$ 2,223,123

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

**ARMSTRONG COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR YEAR ENDED DECEMBER 31, 2009**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Governmental Activities:					
Government administration	\$ 114,314	\$ 129,544	\$ 1,469	\$ -	\$ 16,699
Financial administration	214,532	124,970	-	-	(89,562)
Facilities management	73,091	2,100	14,214	-	(56,777)
Criminal justice system	186,702	323,138	17,233	-	153,669
Public safety	197,339	16,900	81,644	-	(98,795)
Corrections and rehabilitation	164,717	-	-	-	(164,717)
Health and human services	7,304	269	-	-	(7,035)
Community and economic development	62,396	-	3,379	-	(59,017)
Highways and streets	278,760	22,106	28,048	-	(228,606)
Total	<u>\$ 1,299,155</u>	<u>\$ 619,027</u>	<u>\$ 145,987</u>	<u>\$ -</u>	<u>(534,141)</u>
General revenues:					
Property taxes					620,459
Interest earnings					5,332
Other					223
Total general revenues					<u>626,014</u>
Change in Net Assets					91,873
Net Assets at Beginning of Year					<u>2,131,250</u>
Net Assets at End of Year					<u>\$ 2,223,123</u>

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

**ARMSTRONG COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

ASSETS	GENERAL FUND	ROAD AND BRIDGE LATERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash and cash equivalents	\$ 817,995	\$ 116,518	\$ 156,318	\$ 1,090,831
Accounts receivable (net of allowances for uncollectibles of \$224,705)	798,063	39,719	748	838,530
Taxes receivable (net of allowance for uncollectibles of \$10,941)	10,941	-	-	10,941
Total Assets	\$ 1,626,999	\$ 156,237	\$ 157,066	\$ 1,940,302
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 98,990	\$ -	\$ 14	\$ 99,004
Deferred revenue	655,328	-	-	655,328
Total Liabilities	754,318	-	14	754,332
Fund balances:				
Undesignated	872,681	156,237	157,052	1,185,970
Total Fund Balances	872,681	156,237	157,052	1,185,970
Total Liabilities and Fund Balances	\$ 1,626,999	\$ 156,237	\$ 157,066	\$ 1,940,302

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

ARMSTRONG COUNTY, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR YEAR ENDED DECEMBER 31, 2009

Fund Balances of Governmental Funds	\$ 1,185,970
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	23,108		
Buildings and improvements, net of \$342,017 accumulated depreciation		173,353		
Equipment, net of \$837,259 accumulated depreciation		233,099		
		429,560		429,560

Some of the County's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as deferred revenue in the funds.	8,999
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Some of the County's fines and fees will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as deferred revenue in the funds.	646,328
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Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances at December 31, 2009 are:	
Compensated absences	(8,667)
Capital lease	(39,067)
	(47,734)

Net assets of governmental activities	\$ <u><u>2,223,123</u></u>
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The notes to the basic financial statements are an integral part of this statement.

ARMSTRONG COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR YEAR ENDED DECEMBER 31, 2009

	GENERAL FUND	ROAD AND BRIDGE LATERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 406,831	\$ 213,978	\$ -	\$ 620,809
Licenses and fees	220,539	20,159	30,952	271,650
Intergovernmental	229,624	28,048	-	257,672
Fines and forfeitures	258,002	-	-	258,002
Other	10,536	2,443	1,204	14,183
Total Revenues	1,125,532	264,628	32,156	1,422,316
EXPENDITURES				
Current:				
Government administration	95,699	-	-	95,699
Financial administration	213,855	-	-	213,855
Facilities management	69,227	-	1,200	70,427
Criminal justice system	177,158	-	7,351	184,509
Public safety	179,491	-	-	179,491
Corrections and rehabilitation	164,433	-	-	164,433
Health and human services	7,304	-	-	7,304
Community and economic development	62,360	-	-	62,360
Highways and streets	-	240,400	-	240,400
Debt service:				
Lease payments	-	40,980	-	40,980
Capital outlay	31,781	-	-	31,781
Total Expenditures	1,001,308	281,380	8,551	1,291,239
EXCESS OF REVENUES OVER EXPENDITURES	124,224	(16,752)	23,605	131,077
FUND BALANCES AT BEGINNING OF YEAR	748,457	172,989	133,447	1,054,893
FUND BALANCES AT END OF YEAR	\$ 872,681	\$ 156,237	\$ 157,052	\$ 1,185,970

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

ARMSTRONG COUNTY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR YEAR ENDED DECEMBER 31, 2009

Net change in fund balances - total governmental funds	\$ 131,077
<p>Governmental funds report all capital outlays as expenditures. However, in the statement of activities the cost of some of the assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$75,920) exceeded capital additions (\$31,781) in the current period.</p>	
	(44,139)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the decrease in the deferred revenue in the governmental funds.</p>	
	(31,288)
<p>Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available.</p>	
Increase in compensated absences liability	(1,020)
Decrease in capital lease liability	37,243
	91,873
Change in net assets of governmental activities	\$ 91,873

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

ARMSTRONG COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
DECEMBER 31, 2009

	<u>TOTAL AGENCY FUNDS</u>
ASSETS	
Cash	\$ 340,888
Total Assets	<u>\$ 340,888</u>
LIABILITIES	
Accounts payable	\$ 131,720
Due to other governmental entities	170,952
Deposits	<u>38,216</u>
Total Liabilities	<u>\$ 340,888</u>

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

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Armstrong County's (the County) financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

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

A. FINANCIAL REPORTING ENTITY

Armstrong County is a public corporation and political subdivision of the State of Texas. The Commissioners Court, which is made up of four commissioners and the County Judge, is the general governing body of the County in accordance with Article 5, Paragraph 18 of the Texas Constitution. The County provides the following services as authorized by the statutes of the State of Texas: government and financial administration (e.g., tax collection and county administration), criminal justice system (courts, juries, district attorney, etc.), public safety and correction and rehabilitation (sheriff, jail, etc.), highways and streets, and health and human services and community and economic development (e.g. library, extension services and assistance to indigents).

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

(Continued)

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continuation

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - Continuation

Separate **fund financial statements** are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. The General Fund and the Road and Bridge Lateral Fund meet criteria as *major governmental funds*. The major funds are reported in separate columns in the fund financial statements. Non-major funds include the other Special Revenue funds. The combined amounts for these funds are reflected in a single column in the fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Major revenue types which have been accrued are district clerk and county clerk fees, justice of the peace fines and fees, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

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

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

Governmental fund level financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue.

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

Expenditures generally are recorded when a fund liability is incurred; however, expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

The government reports the following major governmental funds:

The **General Fund** is the general operating fund of the County. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, charges for services, intergovernmental revenues and investment of idle funds. Primary expenditures are for government and financial administration, public safety and corrections, criminal justice, health and human services and capital acquisition.

(Continued)

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continuation

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

The **Road and Bridge Lateral Fund** is a special revenue fund used to account for the revenues derived from property taxes and license fees levied for purposes of highways, streets and roads expenditures.

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

D. USE OF RESTRICTED ASSETS

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

E. ASSETS, LIABILITIES, AND NET ASSETS

1. Deposits and Investments

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

2. Receivables and Payables

Property taxes are based on taxable value at January 1 and become due October 1 and past due after January 31 of the following year. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior years' levies are shown net of an allowance for uncollectible accounts of \$10,941.

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

Reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as deferred revenue in the fund statements. Receivables are shown net of an allowance for uncollectible accounts of \$224,705.

Payables consist of vendor obligations for goods and services as well as funds payable to others when the criteria for their release have been met.

(Continued)

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continuation

E. ASSETS, LIABILITIES, AND NET ASSETS - Continuation

3. Capital Assets

Capital assets, which include land, buildings and improvements, and machinery and equipment, are reported in the government-wide financial statements. The County has opted not to retroactively report infrastructure (assets acquired prior to January 1, 2004). According to the County's capitalization policy, capital assets, such as equipment, are defined as individual assets (or systems of assets) having a cost of \$5,000 or more. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is included as part of the capitalized value of the assets constructed. There was no capitalized interest during the current fiscal year.

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

Assets	Years
Buildings and improvements	20 - 40
General equipment	5 - 10
Vehicles	5 - 10
Computer hardware	5

4. Compensated Absences

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

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

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

The County's permanent, full-time employees are entitled to vacations of up to a maximum of twenty-one days per year based on years of employment. Vacation time earned, but not taken, is paid at termination, but employees cannot accumulate more than seven days beyond one calendar year. Sick leave accrues at one day per month with a maximum of 120 working days, but compensation is paid only for an illness-related absence. Unused sick leave is non-vesting and will not be paid on termination. Accrued vacation leave and comp time reported in the government-wide financial statements is \$8,667 at December 31, 2009.

(Continued)

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continuation

E. ASSETS, LIABILITIES, AND NET ASSETS - Continuation

5. Unemployment and Workers' Compensation Benefits

The County participates in a Texas Association of Counties plan that provides unemployment and worker's compensation benefits.

6. Long-term Obligations

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

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties of use for a specific purpose. There are no fund reservations as of December 31, 2009.

8. Net Assets

In the government-wide financial statements, equity is classified as net assets and displayed in two categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds.

Unrestricted net assets consist of all other net assets that do not meet the definition of "invested in capital assets, net of related debt."

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

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

1. Prior to September 1, the proposed budget is submitted to the Commissioners' Court.
2. The Commissioners' Court provides for a public hearing on the County budget prior to the levy of taxes by the Commissioners' Court.
3. Prior to October 1, the budget is legally adopted by order of the Commissioners' Court for the General Fund and Road and Bridge Lateral Special Revenue Fund.

(Continued)

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – Continuation

A. BUDGETARY INFORMATION - Continuation

4. The budget is prepared by fund and department with the legal level of control at the department level. Administrative control is maintained through the establishment of more detailed account or object class budgets within the departments. Emergency expenditures to meet unusual and unforeseen conditions which could not, by reasonable diligent thought and attention, have been included in the original budget, whereby total expenditures of a department have been increased must be authorized by the Court as emergency amendments to the original budget. Management may not amend the budget at any level without approval of the Commissioner’s Court. Amounts shown in the financial statements represent the original budget amounts and all supplemental appropriations. Supplemental appropriations to the original adopted budget are in the Final Budget Amounts column of the Budgetary Comparison Schedule for both the General Fund and the Road and Bridge Lateral Special Revenue Fund.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) on the modified accrual basis of accounting on an annual basis.
6. Formal budgetary integration on an annual basis is employed as a management control device during the year for the General Fund and the Road and Bridge Lateral Special Revenue Fund.
7. All appropriations lapse at the end of the County's fiscal year and may be re-budgeted the next year.
8. Under GASB Statement No. 34, budgetary comparison information is required to be presented for the General Fund and each major special revenue fund with a legally adopted budget.

NOTE 3 - CASH

Following is a reconciliation of the County’s cash and deposit balances as of December 31, 2009:

Cash and deposit balances consist of:

Petty cash	\$ 50
Bank deposits	626,390
TexPool deposits	805,279
	805,279
Total	\$ 1,431,719

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

Government-wide Statement of Net Assets	\$ 1,090,831
Fiduciary Funds Statement of Net Assets	340,888
	340,888
Total	\$ 1,431,719

Custodial credit risk – deposits. As of December 31, 2009, the carrying amount of the County’s deposits with financial institutions was \$626,390 and the bank’s balance was \$629,740. Of the bank balance, \$542,192 was insured through the Federal Depository Insurance Corporation (FDIC). The remaining \$87,548 was collateralized with securities held by the pledging institution’s agent in the County’s name.

(Continued)

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 3 - CASH - Continuation

As of December 31, 2009, the County had \$805,279 invested in the Texas Treasury Safekeeping Trust Company (TexPool). TexPool is a public funds investment pool created pursuant to the Interlocal Cooperation Act of the State of Texas. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure.

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

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

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. State law and County policy limit investments in local government pools to those rated no lower than AAA or an equivalent rating by at least one nationally recognized rating services. As of December 31, 2009, the County's investment in TexPool was rated AAA by Standard and Poor's.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of December 31, 2009, 74% of the County's carrying value of cash was invested in TexPool. All other cash was deposited with the County's depository bank and was adequately secured as described above.

NOTE 4 - PROPERTY TAXES

The State of Texas Constitutional tax rate limit for both operations and debt service is \$.8000 on each \$100 of assessed valuation. The tax rate on the 2008 tax roll was \$.44479 per \$100, which means that the County has a tax margin of \$.35521 per \$100 and could raise up to \$510,907 additional revenue from the 2008 assessed valuation of \$143,832,350 before the limit is reached.

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

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 5 - CAPITAL ASSETS

Capital assets are recorded at cost or, if donated, at fair market value at the date of receipt. In accordance with GASB Statement No. 34, depreciation policies were adopted to include useful lives and classification by function. As stated earlier, the County opted not to report its infrastructure assets retroactively.

Capital asset activity for the year ended December 31, 2009 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	\$ 23,108	\$ -	\$ -	\$ 23,108
Buildings and improvements	502,815	12,556	-	515,371
Equipment	<u>1,055,643</u>	<u>19,225</u>	<u>4,510</u>	<u>1,070,358</u>
 Total capital assets cost	 <u>1,581,566</u>	 <u>31,781</u>	 <u>4,510</u>	 <u>1,608,837</u>
 Less accumulated depreciation for:				
Buildings and improvements	327,239	14,778	-	342,017
Equipment	<u>780,627</u>	<u>61,142</u>	<u>4,510</u>	<u>837,259</u>
 Total accumulated depreciation	 <u>1,107,866</u>	 <u>75,920</u>	 <u>4,510</u>	 <u>1,179,276</u>
 Total capital assets net	 <u>\$ 473,700</u>	 <u>\$ (44,139)</u>	 <u>\$ -</u>	 <u>\$ 429,561</u>

Depreciation expense for the year ended December 31, 2009 was charged to the functions/programs of the primary government as follows:

Governmental activities:

Government administration	\$ 18,616
Facilities management	2,664
Criminal justice system	2,637
Public safety	17,513
Highways and streets	<u>34,490</u>
 Total Depreciation Expense	 <u>\$ 75,920</u>

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 6 - RETIREMENT PLAN

Plan Description. Armstrong County, Texas 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 the statewide agent multiple-employer public employee retirement system consisting of 586 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the County (employer), within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the County.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the County within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy. The County has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the County based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the County is actuarially determined annually. The County contributed using the actuarially determined rate of 3.71% for calendar year 2009. The contribution rate payable by the employee members for 2009 is the rate of 7.00% as adopted by the governing body of the County. The employee contribution rate and the employer contribution rate may be changed by the governing body of the County within the options available in the TCDRS Act.

Annual Pension Cost. For the County's accounting year ending December 31, 2009 the annual pension cost for the TCDRS plan for its employees was \$24,709, and the actual contributions were \$24,709.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2008, the basis for determining the contribution rate for calendar year 2009. The December 31, 2008 actuarial valuation is the most recent valuation.

(Continued)

**ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 6 - RETIREMENT PLAN - Continuation

ACTUARIAL VALUE INFORMATION

Actuarial valuation date	12/31/06	12/31/07	12/31/08
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Amortization in years	30.0	30.0	30.0
Asset valuation method	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value
Actuarial Assumptions:			
Investment return*	8.00%	8.00%	8.00%
Projected salary increases*	5.30%	5.30%	5.30%
Inflation	3.50%	3.50%	3.50%
Cost-of-living adjustment	0.00%	0.00%	0.00%

* Includes inflation at the stated rate

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

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2009	\$ 24,709	100%	\$ -
December 31, 2008	22,752	100%	-
December 31, 2007	26,416	100%	-

(Continued)

**ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 6 - RETIREMENT PLAN - Continuation

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll* (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/08	\$ 1,244,329	\$ 1,159,871	\$ (84,458)	107.28	\$ 610,028	-13.84

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

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

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

There were no interfund receivables or payables as of December 31, 2009.

There were no interfund transfers for the year ended December 31, 2009.

NOTE 8 - RISK MANAGEMENT

The County's major areas of risk management are: public officials and law enforcement liability, general comprehensive liability and property damage, workers' compensation, automobile liability and employee health insurance. The County has obtained insurance with an insurance company and a public entity risk pool in which all risk is transferred to those entities for all the above areas. The County pays a deductible per incident except on the employee health insurance in which the deductible is the responsibility of the employee. There have been no significant reductions in coverage from the prior year.

NOTE 9 - BUDGETS

Expenditures exceeded the budget as presented in the financial statements for the following departments: Tax Assessor/Collector and Criminal Justice System County Judge in the General Fund and Highways and Streets Precinct 4 in the Road and Bridge Lateral Fund. Existing fund balances were adequate to cover the excess of expenditures over budget.

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 10 - CAPITAL LEASE

The government has entered into a lease agreement as lessee for financing the acquisition of a Caterpillar motor grader. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through a capital lease are as follows:

Assets:

Machinery and equipment	\$	197,665
Less: Accumulated depreciation		<u>(51,063)</u>
 Total	 \$	 <u><u>146,602</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2009, were as follows:

Year Ending December 31, 2010	\$	<u>40,980</u>
Total minimum lease payments		40,980
Less: amount representing interest		<u>(1,913)</u>
 Present value of minimum lease payments	 \$	 <u><u>39,067</u></u>

NOTE 11 - LONG-TERM DEBT

	Balance January 1, 2009	Additions	Deletions	Balance December 31, 2009	Due Within One Year
Capital lease	\$ 76,310	\$ -	\$ 37,243	\$ 39,067	\$ 39,067
Estimated liability for compensated absences	<u>7,646</u>	<u>14,093</u>	<u>13,072</u>	<u>8,667</u>	<u>8,667</u>
 Total	 <u><u>\$ 83,956</u></u>	 <u><u>\$ 14,093</u></u>	 <u><u>\$ 50,315</u></u>	 <u><u>\$ 47,734</u></u>	 <u><u>\$ 47,734</u></u>

**ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 12 - LANDFILL FINANCIAL ASSURANCE COSTS

The County is the owner/operator of the Claude (Armstrong County) Landfill for which financial assurance for closure, post-closure care, and corrective action costs is demonstrated through the financial test specified in Texas Administrative Code, Section 37.271. The closure, post-closure, and corrective action cost estimates are shown below:

Closure cost estimate	\$ 14,000
Post-closure cost estimate	1,800

At present, there are no closure, post-closure or corrective action cost liabilities or requirements outstanding. There has been no estimate of the percentage of landfill capacity used to date, nor an estimated landfill life stated in years.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

ARMSTRONG COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR YEAR ENDED DECEMBER 31, 2009

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Taxes	\$ 434,948	\$ 406,210	\$ 406,831	\$ 621
Licenses and fees	220,200	220,200	220,539	339
Intergovernmental	158,576	223,773	229,624	5,851
Fines and forfeitures	270,100	270,100	258,002	(12,098)
Other	18,600	18,800	10,536	(8,264)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	1,102,424	1,139,083	1,125,532	(13,551)
EXPENDITURES				
Current:				
Government Administration				
County Judge	39,964	39,964	36,323	3,641
Dues	3,095	3,095	1,498	1,597
Other Administration	59,450	60,423	57,878	2,545
	<hr/>	<hr/>	<hr/>	<hr/>
Total Government Administration	102,509	103,482	95,699	7,783
Financial Administration				
Treasurer	63,733	63,733	60,109	3,624
Tax Assessor/Collector	150,926	152,870	153,746	(876)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Financial Administration	214,659	216,603	213,855	2,748
Facilities Management				
Courthouse Maintenance	56,095	75,599	54,787	20,812
Activity Building	6,831	4,759	2,946	1,813
Election Administration	4,500	11,500	11,494	6
	<hr/>	<hr/>	<hr/>	<hr/>
Total Financial Administration	67,426	91,858	69,227	22,631
Criminal Justice System				
County & District Clerk	61,511	61,752	60,469	1,283
Justice of the Peace	53,922	53,922	53,077	845
County Judge	40,814	40,814	41,633	(819)
Other Judicial	28,043	28,043	20,727	7,316
District & County Jury	4,700	4,700	852	3,848
Juvenile Services	700	700	400	300
	<hr/>	<hr/>	<hr/>	<hr/>
Total Criminal Justice System	189,690	189,931	177,158	12,773
Public Safety				
Sheriff Department	166,421	151,422	120,224	31,198
Department of Public Safety	3,140	3,140	2,098	1,042

(Continued)

ARMSTRONG COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR YEAR ENDED DECEMBER 31, 2009

Continuation	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Public Safety - continuation				
Emergency Management	\$ 24,794	\$ 79,390	\$ 41,169	\$ 38,221
Other Public Safety	16,000	16,000	16,000	-
Total Public Safety	<u>210,355</u>	<u>249,952</u>	<u>179,491</u>	<u>70,461</u>
Corrections and Rehabilitation				
Housing and Booking	173,155	173,155	164,433	8,722
Supervision	1,800	1,800	-	1,800
Total Corrections and Rehabilitation	<u>174,955</u>	<u>174,955</u>	<u>164,433</u>	<u>10,522</u>
Health and Human Services				
Court Ordered Indigent Health Care	5,100	7,800	7,304	496
Total Health and Human Services	<u>54,145</u>	<u>55,645</u>	<u>7,304</u>	<u>48,341</u>
Community and Economic Development				
Parks and Recreation	950	950	950	-
Library	17,704	17,704	16,161	1,543
Home Economic Agent	13,941	13,941	13,592	349
County Agricultural Agent	35,957	35,957	31,657	4,300
Total Community and Economic Development	<u>68,552</u>	<u>68,552</u>	<u>62,360</u>	<u>6,192</u>
Capital Outlay	-	31,781	31,781	-
Total Expenditures	<u>1,082,291</u>	<u>1,182,759</u>	<u>1,001,308</u>	<u>181,451</u>
NET CHANGES IN FUND BALANCE	20,133	(43,676)	124,224	167,900
FUND BALANCE AT BEGINNING OF YEAR	<u>748,457</u>	<u>748,457</u>	<u>748,457</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 768,590</u>	<u>\$ 704,781</u>	<u>\$ 872,681</u>	<u>\$ 167,900</u>

ARMSTRONG COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
ROAD AND BRIDGE LATERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR YEAR ENDED DECEMBER 31, 2009

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES				
Taxes	\$ 219,216	\$ 214,017	\$ 213,978	\$ (39)
Licenses and fees	21,000	21,000	20,159	(841)
Intergovernmental	28,000	28,000	28,048	48
Other	3,300	3,300	2,443	(857)
	<u>271,516</u>	<u>266,317</u>	<u>264,628</u>	<u>(1,689)</u>
EXPENDITURES				
Current:				
Highways and Streets				
Precinct 1	50,448	51,448	42,676	8,772
Precinct 2	55,248	56,248	54,034	2,214
Precinct 3	58,875	59,875	59,347	528
Precinct 4	57,350	57,350	57,970	(620)
Landfill	13,386	12,886	12,458	428
Conservation	-	500	500	-
All Precincts	15,333	13,410	13,415	(5)
Debt Service:				
Capital lease payment	41,000	41,000	40,980	20
	<u>291,640</u>	<u>292,717</u>	<u>281,380</u>	<u>11,337</u>
NET CHANGE IN FUND BALANCE	(20,124)	(26,400)	(16,752)	9,648
FUND BALANCE AT BEGINNING OF YEAR				
	<u>172,989</u>	<u>172,989</u>	<u>172,989</u>	<u>-</u>
FUND BALANCE AT END OF YEAR				
	<u>\$ 152,865</u>	<u>\$ 146,589</u>	<u>\$ 156,237</u>	<u>\$ 9,648</u>

ARMSTRONG COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREMENT PLAN
FOR THE EMPLOYEES OF ARMSTRONG COUNTY, TEXAS
FOR THE YEAR ENDED DECEMBER 31, 2009

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)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/06	\$ 1,158,423	\$ 969,133	\$ (189,290)	119.53%	\$ 550,703	-34.37%
12/31/07	1,232,547	1,025,997	(206,550)	120.13	564,871	-36.57
12/31/08	1,244,329	1,159,871	(84,458)	107.28	610,028	-13.84



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

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

We have audited the financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of Armstrong County, Texas as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated July 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Armstrong County, Texas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Armstrong County, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Armstrong County, Texas' internal control over financial reporting.

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 a combination of control deficiencies, that adversely affects Armstrong County, Texas' 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 Armstrong County, Texas' financial statements that is more than inconsequential will not be prevented or detected by Armstrong County, Texas' 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 Armstrong County, Texas' internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Doshier, Pickens & Francis, LLC

Doshier, Pickens & Francis, LLC
July 19, 2010

ARMSTRONG COUNTY, TEXAS
SCHEDULE OF FINDINGS
December 31, 2009

Separation of Duties

The responsibility of recording cash receipts and disbursements in the general ledger should be segregated from the responsibility of making the daily deposits or issuing checks. In addition, an employee who is independent of these functions should be responsible for reconciling the bank on a monthly basis. Segregating these duties allows management to more effectively monitor the accuracy of the recorded balances in the general ledger. Furthermore, having proper segregation of duties empowers the County's management to prevent unauthorized cash disbursements and to ensure that all cash that is received is deposited into the bank and properly recorded in the general ledger.

During the course of our audit we noted that a single person within the County is responsible for performing each of these activities. As a result, there is an increased risk that a material misstatement could be present in the financial statements that would not be detected timely by the County's management. Furthermore, without proper segregation of duties, the County does not have sufficient controls in place to prevent and detect fraud.

We recognize that due to the small number of staff in each County office, adequate segregation of duties is difficult. However, we recommend that County Officials explore opportunities to implement compensating controls for the lack of adequate segregation of duties.

Knowledge and Application of Generally Accepted Accounting Principles

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

During the course of our audit we noted that many adjustments were necessary in order to correct various underlying account balances in the general ledger so that the County's financial statements could be prepared in accordance with generally accepted accounting principles. These adjustments were needed to convert the County's financial statements from a cash basis method of accounting to an accrual basis as required by generally accepted accounting principles. As a result, it is evident that the County is lacking someone with sufficient technical knowledge to prepare its financial statements in accordance with generally accepted accounting principles independent of the audit process.

We recommend that County identify someone within the County or appoint a representative for the County who possesses the skills and knowledge necessary in order to apply generally accepted accounting principles in recording the County's financial transactions and preparing its financial statements. As your independent auditors, we may propose journal entries from information or schedules that you provide and assist you in the preparation of the County's financial statements, but the County's management must take responsibility for those journal entries and must provide one person or representative who understands the journal entries and the resulting financial statements in order to take responsibility for the accuracy and completeness of those financial statements.