ARMSTRONG COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FOR YEAR ENDED
DECEMBER 31, 2010

ARMSTRONG COUNTY, TEXAS

ANNUAL FINANCIAL REPORT
For Year Ended
December 31, 2010

TABLE OF CONTENTS

	Page
PART I - INTRODUCTORY SECTION	
List of Principal County Officials	iii
PART II - FINANCIAL SECTION	
Independent Auditors' Report	1
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	2
Statement of Activities	3
Fund Financial Statements	
Balance Sheet – Governmental Funds	4
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	5
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Statement of Fiduciary Net Assets – Fiduciary Funds	8
Notes to Financial Statements	9

ARMSTRONG COUNTY, TEXAS

ANNUAL FINANCIAL REPORT
For Year Ended
December 31, 2010

TABLE OF CONTENTS

Page

REQUIRED SUPPLEMENTARY INFORMATION

General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual 22

Road and Bridge Lateral Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual 24

Schedule of Funding Progress for the Retirement Plan for the Employees
of Armstrong County, Texas 25

PART III - COMPLIANCE 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* 26

Schedule of Findings 28

PART I

INTRODUCTORY SECTION

ARMSTRONG COUNTY, TEXAS

PRINCIPAL COUNTY OFFICIALS

DECEMBER 31, 2010

Hugh Reed	County Judge
John M. Britten	Commissioner, Precinct #1
Michael E. Baker	Commissioner, Precinct #2
Tom Ferris	Commissioner, Precinct #3
C.M. Bryant, Jr.	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

DP&F
DOSHIER, PICKENS & FRANCIS, LLC
CERTIFIED PUBLIC ACCOUNTANTS
301 S. Polk, Suite 800 P.O. Box 9938
Amarillo, TX 79105-5938 806.373.3011
Fax: 806.376.8126 www.dpfcpa.com

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, 2010, 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, 2010, 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 21, 2011, 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 considered in assessing the results of our audit.

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

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 21, 2011

BASIC FINANCIAL STATEMENTS

ARMSTRONG COUNTY, TEXAS
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

		GOVERNMENTAL ACTIVITIES
ASSETS		
Current assets:		
Cash and cash investments	$	1,145,783
Accounts receivable (net)		943,017
Taxes receivable - delinquent (net)		13,336
Noncurrent assets:		
Capital assets (net of accumulated depreciation):		
Land		23,108
Buildings and improvements		234,921
Machinery and equipment		243,467
Total Assets		2,603,632
LIABILITIES		
Current liabilities:		
Accounts payable		119,396
Compensated absences		9,774
Total Current Liabilities		129,170
Total Liabilities		129,170
NET ASSETS		
Invested in capital assets, net of related debt		501,496
Unrestricted		1,972,966
Total Net Assets	$	2,474,462

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, 2010

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS: GOVERNMENTAL ACTIVITIES
Governmental Activities:					
Government administration	$ 124,760	$ 135,532	$ 155	$ -	$ 10,927
Financial administration	217,018	128,378	-	-	(88,640)
Facilities management	53,628	2,190	-	-	(51,438)
Criminal justice system	194,117	457,429	15,330	-	278,642
Public safety	245,832	17,398	73,355	-	(155,079)
Corrections and rehabilitation	176,088	-	-	-	(176,088)
Health and human services	10,870	502	50	-	(10,318)
Community and economic development	58,779	-	7,980	-	(50,799)
Highways and streets	260,711	23,442	28,934	-	(208,335)
Total	$ 1,341,803	$ 764,871	$ 125,804	$ -	(451,128)

General revenues:	
Property taxes	694,172
Interest earnings	3,572
Other	4,723
Total general revenues	702,467
Change in Net Assets	251,339
Net Assets at Beginning of Year	2,223,123
Net Assets at End of Year	$ 2,474,462

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

ARMSTRONG COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	GENERAL FUND	ROAD AND BRIDGE LATERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	$ 905,703	$ 149,158	$ 90,922	$ 1,145,783
Accounts receivable (net of allowances for uncollectibles of $255,228)	908,240	34,458	319	943,017
Taxes receivable (net of allowance for uncollectibles of $13,336)	13,336	-	-	13,336
Total Assets	$ 1,827,279	$ 183,616	$ 91,241	$ 2,102,136
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 115,158	$ 4,238	$ -	$ 119,396
Deferred revenue	763,951	-	-	763,951
Total Liabilities	879,109	4,238	-	883,347
Fund balances:				
Undesignated	948,170	179,378	91,241	1,218,789
Total Fund Balances	948,170	179,378	91,241	1,218,789
Total Liabilities and Fund Balances	$ 1,827,279	$ 183,616	$ 91,241	$ 2,102,136

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, 2010

Total fund balances of governmental funds		$ 1,218,789
Amounts reported for *governmental activities* in the statement of net assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		
Land	$ 23,108	
Buildings and improvements, net of accumulated depreciation	234,921	
Equipment, net of accumulated depreciation	243,467	
Total capital assets		501,496
Some of the County's taxes will be collected after year-end, but are not available within sixty days to pay for the current period's expenditures, and therefore, are reported as deferred revenue in the funds.		10,272
Some of the County's fines and fees will be collected after year-end, but are not available within sixty days to pay for the current period's expenditures, and therefore, are reported as deferred revenue in the funds.		753,679
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:		
Compensated absences		(9,774)
Net assets of governmental activities		$ 2,474,462

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, 2010

	GENERAL FUND	ROAD AND BRIDGE LATERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	$ 443,617	$ 249,285	$ -	$ 692,902
Licenses and fees	226,050	20,897	28,974	275,921
Intergovernmental	201,172	28,934	50	230,156
Fines and forfeitures	264,530	-	-	264,530
Other	18,346	2,662	-	21,008
Total Revenues	1,153,715	301,778	29,024	1,484,517
EXPENDITURES				
Current:				
Government administration	105,497	-	-	105,497
Financial administration	217,329	-	-	217,329
Facilities management	51,033	-	-	51,033
Criminal justice system	181,665	-	9,856	191,521
Public safety	226,259	-	-	226,259
Corrections and rehabilitation	176,012	-	-	176,012
Health and human services	10,870	-	-	10,870
Community and economic development	58,800	-	-	58,800
Highways and streets	-	238,153	-	238,153
Debt service:				
Lease payments	-	40,484	-	40,484
Capital outlay	50,761	-	84,979	135,740
Total Expenditures	1,078,226	278,637	94,835	1,451,698
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	75,489	23,141	(65,811)	32,819
FUND BALANCES AT BEGINNING OF YEAR	872,681	156,237	157,052	1,185,970
FUND BALANCES AT END OF YEAR	$ 948,170	$ 179,378	$ 91,241	$ 1,218,789

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, 2010

Net change in fund balances - total governmental funds	$	32,819
Governmental funds report all capital outlays as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense. This is the amount by which capital outlays, $135,740, exceeded depreciation, $63,804, in the current period.		71,936
Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. This is the decrease in the deferred revenue in the governmental funds.		108,624
Some expenses reported in the Statement of Activities do not require the use of current financial resources and these expenses are not reported as expenditures in governmental funds.		
Increase in compensated absences liability		(1,107)
Decrease in capital lease liability		39,067
Change in net assets of governmental activities	$	251,339

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, 2010

		TOTAL AGENCY FUNDS
ASSETS		
Cash	$	308,656
Total Assets	$	308,656
LIABILITIES		
Accounts payable	$	153,031
Due to other governmental entities		151,095
Deposits		4,530
Total Liabilities	$	308,656

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Armstrong County's (the County) financial statements are prepared in accordance with generally accepted accounting principles (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)

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.

Revenues susceptible to accrual include property taxes, fines, forfeitures, licenses, interest income and charges for service 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.

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continuation

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

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.

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, demand deposits and certificates of deposit. 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.

2. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (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/form other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continuation

E. Assets, Liabilities, and Net Assets - Continuation

2. Receivables and Payables - Continuation

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 unless the half payment option is elected in which one-half the tax is due November30, and the balance the following June 30. Tax collections after February 1 are treated as late payments and are subject to penalty and interest. Uncollected taxes from the current tax roll become delinquent on July 1 and are subject to additional penalties and interest. 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 $13,336.

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 $255,228.

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.

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.

When capital assets are purchased, they are capitalized and depreciated in the government-wide financial statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements. 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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continuation

E. <u>Assets, Liabilities, and Net Assets</u> - Continuation

3. Capital Assets - Continuation

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 $9,772 at December 31, 2010.

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.

In the fund financial statements, the face amount of debt issued is reported as other financing sources.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continuation

E. Assets, Liabilities, and Net Assets - Continuation

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, 2010.

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."

9. Use of Estimates

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

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.

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.

(Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – Continuation

A. <u>Budgetary Information</u> - Continuation

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, except those in grant funds, 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 - DEPOSITS AND INVESTMENTS

Following is a reconciliation of the County’s cash and deposit balances as of December 31, 2010:

Cash and deposit balances consist of:		
Petty cash	$	50
Bank deposits		1,033,657
TexPool deposits		420,732
Total	$	1,454,439
Cash and deposit balances are reported in the basic financial statements as follows:		
Government-wide Statement of Net Assets	$	1,145,783
Fiduciary Funds Statement of Net Assets		308,656
Total	$	1,454,439

Custodial credit risk – deposits. As of December 31, 2010, the carrying amount of the County’s deposits with financial institutions was $1,033,657 and the bank’s balance was $1,113,956. Of the bank balance, $749,313 was insured through the Federal Depository Insurance Corporation (FDIC). The remaining $364,643 was collateralized with securities held by the pledging institution’s agent in the County’s name.

As of December 31, 2010, the County had $420,732 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.

(Continued)

NOTE 3 - CASH - Continuation

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, 2010, 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, 2010, 37% 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 2009 tax roll was $.486684 per $100, which means that the County has a tax margin of $.313316 per $100 and could raise up to $416,169 additional revenue from the 2009 assessed valuation of $132,827,150 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.

(Continued)

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, 2010 follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 23,108	$ -	$ -	$ 23,108
Buildings and improvements	515,370	76,539	-	591,909
Equipment	1,070,358	59,201	-	1,129,559
Total capital assets cost	1,608,836	135,740	-	1,744,576
Less accumulated depreciation for:				
Buildings and improvements	342,017	14,971	-	356,988
Equipment	837,259	48,833	-	886,092
Total accumulated depreciation	1,179,276	63,804	-	1,243,080
Total capital assets net	$ 429,560	$ 71,936	$ -	$ 501,496

Depreciation expense for the year ended December 31, 2010 was charged to the functions/programs of the primary government as follows:

Governmental activities:	
Government administration	$ 19,262
Facilities management	2,596
Criminal justice system	2,547
Public safety	18,175
Highways and streets	21,224
Total Depreciation Expense	$ 63,804

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 601 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 5.93% 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. The required contribution was determined as part of the December 31, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2009 included (a) 8.0% investment rate of return (net of administrative expenses), and (b) projected salary increases of 5.4%. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten year period. The unfunded actuarial accrued liability is being amortized over a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2009 was 12.34 years. For the County’s accounting year ending December 31, 2009 the annual pension cost for the TCDRS plan for its employees was $31,007, and the actual contributions were $31,007.

Funded Status and Funding Progress

As of December 31, 2009, the most recent actuarial valuation date, the plan was 108.39% funded. The actuarial accrued liability for benefits was $1,227,296, and the actuarial value of assets was $1,330,327, resulting in overfunded actuarial accrued liability (UAAL) of $(103,031). The covered payroll (annual payroll of active employees covered by the plan) was $573,066, and the ratio of the UAAL to the covered payroll was -17.98%.

(Continued)

NOTE 6 - RETIREMENT PLAN - Continuation

ACTUARIAL VALUE INFORMATION

Actuarial valuation date	12/31/07	12/31/08	12/31/09
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of payroll, open	Level percentage of payroll, 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, 2010	$ 31,007	100%	$ -
December 31, 2009	24,709	100%	-
December 31, 2008	22,752	100%	-

(Continued)

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)
12/31/09	$ 1,330,327	$ 1,227,296	$ (103,031)	108.39%	$ 573,066	-17.98%

* 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, 2010.

There were no interfund transfers for the year ended December 31, 2010.

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, County Judge, and Home Economic Agent in the General Fund and Highways and Streets Precinct 3 in the Road and Bridge Lateral Fund. Existing fund balances were adequate to cover the excess of expenditures over budget.

NOTE 10 - CAPITAL LEASE

The government had entered into a lease agreement as lessee for financing the acquisition of a Caterpillar motor grader. This lease agreement qualified as a capital lease for accounting purposes and, therefore, was recorded at the present value of the 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	(70,830)
Total	$ 126,835

The lease obligation was fully paid in 2010.

NOTE 11 - LONG-TERM DEBT

	Balance January 1, 2010	Additions	Deletions	Balance December 31, 2010	Due Within One Year
Capital lease	$ 39,067	$ -	$ 39,067	$ -	$ -
Estimated liability for compensated absences	8,667	16,322	15,215	9,774	9,774
Total	$ 47,734	$ 16,322	$ 54,282	$ 9,774	$ 9,774

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, 2010

	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET-
	ORIGINAL	FINAL	ACTUAL AMOUNTS	POSITIVE (NEGATIVE)
REVENUES				
Taxes	$ 406,210	$ 406,210	$ 443,617	$ 37,407
Licenses and fees	220,400	220,400	226,050	5,650
Intergovernmental	232,600	232,600	201,172	(31,428)
Fines and forfeitures	300,100	300,100	264,530	(35,570)
Other	11,190	11,190	18,346	7,156
Total Revenues	1,170,500	1,170,500	1,153,715	(16,785)
EXPENDITURES				
Current:				
Government Administration				
County Judge	40,227	43,262	40,429	2,833
Dues	3,848	4,053	4,013	40
Other Administration	61,750	61,975	61,055	920
Total Government Administration	105,825	109,290	105,497	3,793
Financial Administration				
Treasurer	63,802	60,978	58,559	2,419
Tax Assessor/Collector	158,566	158,566	158,770	(204)
Total Financial Administration	222,368	219,544	217,329	2,215
Facilities Management				
Courthouse Maintenance	58,247	37,812	36,051	1,761
Activity Building	6,832	6,832	4,127	2,705
Election Administration	8,000	10,900	10,855	45
Total Financial Administration	73,079	55,544	51,033	4,511
Criminal Justice System				
County & District Clerk	61,787	61,787	61,222	565
Justice of the Peace	54,584	54,584	54,432	152
County Judge	41,928	41,928	42,299	(371)
Other Judicial	32,296	32,296	22,157	10,139
District & County Jury	4,900	4,900	1,155	3,745
Juvenile Services	700	700	400	300
Total Criminal Justice System	196,195	196,195	181,665	14,530
Public Safety				
Sheriff Department	171,084	175,594	170,478	5,116
Department of Public Safety	2,490	2,490	2,007	483

(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, 2010

Continuation	BUDGETED AMOUNTS ORIGINAL	BUDGETED AMOUNTS FINAL	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
Public Safety - continuation				
Emergency Management	$ 41,050	$ 41,050	$ 37,774	$ 3,276
Other Public Safety	16,000	16,000	16,000	-
Total Public Safety	230,624	235,134	226,259	8,875
Corrections and Rehabilitation				
Housing and Booking	175,293	189,517	176,012	13,505
Supervision	1,800	1,800	-	1,800
Total Corrections and Rehabilitation	177,093	191,317	176,012	15,305
Health and Human Services				
Indigent Health Care	45,883	45,883	5,755	40,128
Court Ordered Indigent Health Care	10,100	10,100	5,115	4,985
Total Health and Human Services	55,983	55,983	10,870	45,113
Community and Economic Development				
Parks and Recreation	950	950	850	100
Library	17,147	18,201	17,359	842
Home Economic Agent	13,941	13,941	13,958	(17)
County Agricultural Agent	35,165	35,165	26,633	8,532
Total Community and Economic Development	67,203	68,257	58,800	9,457
Capital Outlay	-	50,997	50,761	236
Total Expenditures	1,128,370	1,182,261	1,078,226	104,035
NET CHANGES IN FUND BALANCE	42,130	(11,761)	75,489	87,250
FUND BALANCE AT BEGINNING OF YEAR	872,681	872,681	872,681	-
FUND BALANCE AT END OF YEAR	$ 914,811	$ 860,920	$ 948,170	$ 87,250

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, 2010

	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET- POSITIVE
	ORIGINAL	FINAL	ACTUAL AMOUNTS	(NEGATIVE)
REVENUES				
Taxes	$ 214,017	$ 214,017	$ 249,285	$ 35,268
Licenses and fees	21,000	21,000	20,897	(103)
Intergovernmental	28,900	28,900	28,934	34
Other	2,800	2,800	2,662	(138)
Total Revenues	266,717	266,717	301,778	35,061
EXPENDITURES				
Current:				
Highways and Streets				
Precinct 1	58,167	58,167	47,804	10,363
Precinct 2	57,052	57,052	52,128	4,924
Precinct 3	60,558	60,558	61,269	(711)
Precinct 4	59,759	59,759	57,531	2,228
Landfill	13,626	13,626	8,290	5,336
Conservation	500	500	0	500
All Precincts	14,855	14,855	11,131	3,724
Debt Service:				
Capital lease payment	41,000	41,000	40,484	516
Total Expenditures	305,517	305,517	278,637	26,880
NET CHANGE IN FUND BALANCE	-	-	23,141	23,141
FUND BALANCE AT BEGINNING OF YEAR	156,237	156,237	156,237	-
FUND BALANCE AT END OF YEAR	$ 156,237	$ 156,237	$ 179,378	$ 23,141

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, 2010

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)
12/31/07	$ 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
12/31/09	1,330,327	1,227,296	(103,031)	108.39	573,066	-17.98

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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, 2010, which collectively comprise the County's basic financial statements and have issued our report thereon dated July 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 21, 2011

ARMSTRONG COUNTY, TEXAS
SCHEDULE OF FINDINGS
December 31, 2010

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.