

**Titus County Appraisal District**  
**FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**As of December 31, 2011**



**ARNOLD, WALKER, ARNOLD, & Co., P.C.**  
*Certified Public Accountants and Consultants*

Bob J. Arnold, C.P.A., P.F.S.  
Lanny G. Walker, C.P.A., P.F.S.  
Kris Arnold, C.P.A., P.F.S.  
Andrew T. Arnold, C.P.A.  
Melissa J. Godfrey, C.P.A.  
Amy E. Smith, C.P.A.

MEMBER

American Institute Of  
Certified Public Accountants

Texas State Society Of  
Certified Public Accountants

**UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS  
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER  
SUPPLEMENTARY INFORMATION**

Independent Auditor's Report

**Board of Directors  
Titus Count County Appraisal District  
Mount Pleasant, Texas**

We have audited the accompanying financial statements of the government activities and the major fund of Titus Count County Appraisal District as of and for the year ended December 31, 2011, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities and the major fund of Titus Count County Appraisal District, as of December 31, 2011, and the respective changes in financial position, and the respective budgetary comparison for the general fund 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 January 23, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 2 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,

*Arnold, Walker, Arnold & Co., P.C.*  
Arnold, Walker, Arnold & Co., P.C.

January 23, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Titus County Appraisal District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities and performance for the year ended December 31, 2011. The information presented here should be read in conjunction with the independent auditor's report and the District's financial statements.

### FINANCIAL HIGHLIGHTS

The District's total net assets were \$781 thousand at December 31, 2011. During the year, the District's revenues exceeded expenses by \$90 thousand.

The total cost of all the District's activities was \$837 thousand.

The general fund balance increased by \$90 thousand. The fund balance is \$205 thousand at December 31, 2011. The District budgets adequately each year to carry out its operations.

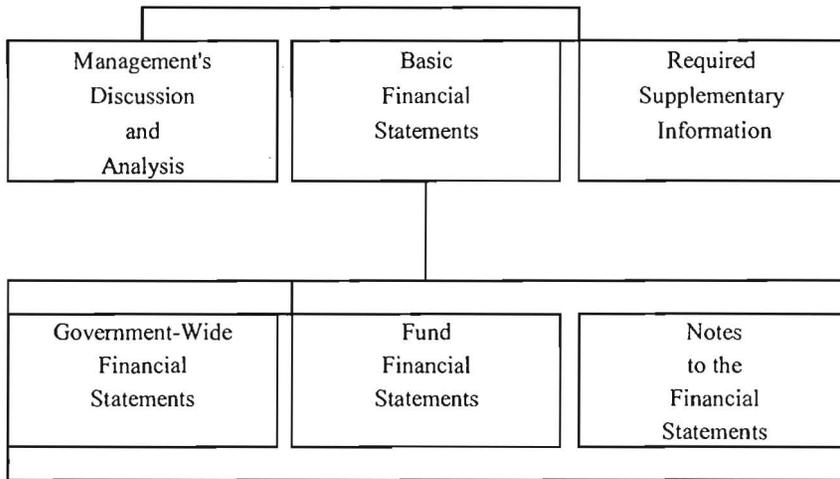
The District returned \$71 thousand to participating entities during the year.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts--*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide information about the District's activities as a whole and present a longer-term view of the District's property and debt obligations. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

Figure A-1. Required Components of the District's Annual Financial Report



Summary ↔ Detail

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the District's Government-wide Fund Financial Statements		
<i>Type of Statements</i>	Government-wide	Governmental Funds
<i>Scope</i>	Entire District's government (except fiduciary funds) and the District's component units	The activities of the District that are not proprietary or fiduciary
<i>Required financial statements</i>	*Statement of net assets	*Balance sheet
	*Statement of activities	*Statement of revenues, Expenditures & changes in fund balances
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon after

## Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's *net assets* and how they have changed. Net assets-the difference between the District's assets and liabilities-is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include the *Governmental activities*. Assessing and collecting fees for services finance most of these activities.

## Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds*-not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.

The District has one fund:

- *Governmental funds*-Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. The District's combined net assets were approximately \$781 thousand at December 31, 2011.

Table A-1  
The District's Net Assets  
(in thousands of dollars)

	Governmental Activities	
	2011	2010
Current and other assets	397	350
Capital and non-current assets	732	798
<b>TOTAL ASSETS</b>	<b>1,129</b>	<b>1,148</b>
Long-term liabilities	155	166
Other liabilities	193	235
<b>TOTAL LIABILITIES</b>	<b>348</b>	<b>401</b>
Invested in capital assets net of related debt	576	632
Restricted	-	-
Unrestricted	205	115
<b>TOTAL NET ASSETS</b>	<b>781</b>	<b>747</b>

Net assets invested in capital assets net of related debt reflects the book value of the District's capital assets in excess of the debt which financed those assets. The \$205 thousand of unrestricted net assets represents resources available to fund the programs of the District for the next fiscal year.

Total net assets increased \$34 thousand after refunds of \$71 thousand to participating entities.

Changes in net assets.

The District's total revenues were \$942 thousand. \$936 thousand of this was from appraisal and collection fees.

The total cost of all programs was \$837 thousand. Approximately 56% of this was for salaries and benefits.

Table A-2  
The District's Changes in Net Assets  
(in thousands of dollars)

	Governmental Activities	
	2011	2010
<b>Revenues</b>		
<u>Program Revenues</u>		
Charges for Services	936	906
Operating Grants and Contributions	-	-
<u>General Revenues</u>		
Investment earnings	-	-
Other	6	6
<b>Total Revenues</b>	<b>942</b>	<b>912</b>
<b>Expenses</b>		
Tax appraisal and collection	828	874
Debt service-interest	9	11
<b>Total Expenses</b>	<b>837</b>	<b>885</b>
<b>Increase in Net Assets</b>	<b>105</b>	<b>27</b>
<b>Beginning Net Assets</b>	<b>747</b>	<b>918</b>
<b>Refund to entities prior year budget surplus</b>	<b>(71)</b>	<b>(198)</b>
<b>Ending Net Assets</b>	<b>781</b>	<b>747</b>

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District reported fund balance in its governmental funds of approximately \$205 thousand at December 31, 2011.

### General Fund Budgetary Highlights

The budget was not amended this year. Overall, the District stayed under budget.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Table A-4  
District's Capital Assets  
(in thousands of dollars)

	Governmental Activities	
	2011	2010
Computers and software	360	360
Office equipment	7	7
Land	154	154
Building	488	488
Totals at historical cost	<u>1,009</u>	<u>1,009</u>
Total accumulated depreciation	<u>(277)</u>	<u>(211)</u>
Net capital assets	<u><u>732</u></u>	<u><u>798</u></u>

### Long-Term Debt

Table A-5  
District's Debt  
(in thousands of dollars)

	Governmental Activities	
	2011	2010
Loans payable	<u>155</u>	<u>166</u>

No new debt was obtained during the current year.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's Board and management considered many factors when setting the 2012 budget. Growth and economic conditions were considered. Both continue to be good with some continued growth in population and some continued business expansion. No significant increases were budgeted. Appraisal and reappraisal continued at a fast pace. It is anticipated that the equity position will continue to remain about the same.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Chief Appraiser's office.

BASIC FINANCIAL STATEMENTS

Titus County Appraisal District  
STATEMENT OF NET ASSETS  
As of December 31, 2011

	Governmental Activities
<b>ASSETS</b>	
Current assets	
Cash	364,499
Accounts receivable	-
Prepaid expense	32,212
Total current assets	<u>396,711</u>
Capital assets	
Land	154,000
Building, net of accumulated depreciation	441,798
Office and computer equipment, net of accumulated depreciation	135,928
Total capital assets	<u>731,726</u>
Total Assets	<u><u>1,128,437</u></u>
<b>LIABILITIES</b>	
Current liabilities	
Current maturities of long-term debt	10,130
Accounts payable and accrued expenses	24,601
Deferred revenue	167,314
Total current liabilities	<u>202,045</u>
Long-term liabilities	
Long-term debt, net of current maturities	145,254
Total Liabilities	<u><u>347,299</u></u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	576,342
Unrestricted	204,796
Total Net Assets	<u><u>781,138</u></u>

The accompanying notes are an integral part of this statement.

Titus County Appraisal District  
STATEMENT OF ACTIVITIES  
For the year ended December 31, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Primary Government:</b>				
<b>GOVERNMENTAL ACTIVITIES</b>				
Tax appraisal and collection	828,335	935,988	-	107,653
Debt service interest on long-term debt	9,095	-	-	(9,095)
Total governmental activities	837,430	935,988	-	98,558
 General Revenues				
Miscellaneous				6,625
Total General Revenues				6,625
 Other Sources (Uses)				-
 Changes in Net Assets				105,183
Net Assets -- Beginning				747,432
Refund to entities prior years budget surplus				(71,477)
Net Assets -- Ending				781,138

The accompanying notes are an integral part of this statement.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Titus County Appraisal District  
BALANCE SHEET  
GENERAL FUND  
As of December 31, 2011

	<u>General Fund</u>
<b>ASSETS</b>	
Cash	364,499
Accounts receivable	-
Prepaid expense	<u>32,212</u>
Total assets	<u><u>396,711</u></u>
<b>LIABILITIES</b>	
Accounts payable	15,505
Payroll taxes and benefits payable	9,096
Deferred revenue	<u>167,314</u>
Total liabilities	<u><u>191,915</u></u>
<b>FUND BALANCE</b>	
Fund balance-unreserved	<u>204,796</u>
Total fund balance	<u><u>204,796</u></u>
Total liabilities and fund balance	<u><u>396,711</u></u>

The accompanying notes are an integral part of this statement.

Titus County Appraisal District  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS  
 BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
 As of December 31, 2011

<b>Total Fund Balances - Governmental Funds</b>	204,796
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$1,009,162 and the accumulated depreciation was \$211,323. In addition, long-term liabilities are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in their governmental activities is to increase net assets.	632,205
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide statements. The net effect of including the 2011 capital outlays and debt principal payments is to increase net assets.	10,250
The 2011 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	<u>(66,113)</u>
<b>Net Assets, of Governmental Activities</b>	<u><u>781,138</u></u>

The accompanying notes are an integral part of this statement.

Titus County Appraisal District  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCE--BUDGET AND ACTUAL  
 GENERAL FUND  
 For the year ended December 31, 2011

	Budget*	Actual	Variance Favorable (Unfavorable)
<b>REVENUE</b>			
Appraisal and collection fees	935,988	935,988	-
Interest income and other	-	6,625	6,625
<b>Total revenue</b>	<b>935,988</b>	<b>942,613</b>	<b>6,625</b>
<b>EXPENDITURES</b>			
Current:			
Salaries and benefits	575,203	467,557	107,646
Board of review	6,000	4,168	1,832
Legal and advertisements	22,900	14,387	8,513
Audit	8,000	8,075	(75)
Appraisal services	55,000	47,970	7,030
Maintenance	12,575	7,538	5,037
Computer programming	31,250	35,943	(4,693)
Utilities	16,500	18,488	(1,988)
Travel, per diem, hotels	12,200	11,713	487
Transportation allowance	31,800	26,150	5,650
Insurance	5,650	1,737	3,913
Postage and delivery	13,000	14,239	(1,239)
Mapping maintenance	16,865	10,225	6,640
Aerial photography	20,000	19,906	94
Deed processing	21,795	21,793	2
Other	50,250	42,757	7,493
Capital Outlay	17,000	9,576	7,424
Debt Service			
Principal	9,000	10,250	(1,250)
Interest	11,000	9,095	1,905
<b>Total expenditures</b>	<b>935,988</b>	<b>781,567</b>	<b>154,421</b>
Excess (deficiency) of revenues over expenditures	-	161,046	161,046
<b>Other Sources/(Uses)</b>			
Loan proceeds	-	-	-
<b>Total other sources/(uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess of revenues and other sources over (under) expenditures and other uses</b>	<b>-</b>	<b>161,046</b>	<b>161,046</b>
<b>Fund balance at beginning of year</b>	<b>115,227</b>	<b>115,227</b>	<b>-</b>
<b>Refund to entities</b>	<b>-</b>	<b>(71,477)</b>	<b>(71,477)</b>
<b>Fund balance at end of year</b>	<b>115,227</b>	<b>204,796</b>	<b>89,569</b>

\*The original budget was not amended, original and final are same.

The accompanying notes are an integral part of this statement.

Titus County Appraisal District  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 for the year ended December 31, 2011

<b>Total Net Change in Fund Balances - Governmental Funds</b>	89,569
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements but should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2011 capital outlays and debt principal payments is to increase net assets.	10,250
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	<u>(66,113)</u>
Change in Net Assets of Governmental Activities	<u><u>33,706</u></u>

The accompanying notes are an integral part of this statement.

Titus County Appraisal District  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Titus County Appraisal District is a governmental unit under the applicable laws and regulations of the State of Texas. It is governed by a Board of Directors appointed by the entities for which the District appraises and collects taxes. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Institute of Certified Public Accountants.

**A. REPORTING ENTITY**

The District has the authority to make decisions and significantly influence operations. It has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

At December 31, 2011, the District has appraisal agreements with thirteen entities and collection agreements with seven entities. The collection activity is transacted through a separate escrow collection account which is not included in these financial statements. This account is used as a clearing account only and is audited and reported on separately from this audit.

**B. FORMATION**

Titus County Appraisal District was formed under a Senate Bill for the purpose of reappraisal of all property in Titus County. The assessed valuation determined by the Appraisal District will be used by all taxing entities in the District. Funding for the District comes from each taxing entity each year based on an approved budget.

**C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the District's activities. *Governmental activities* include programs supported primarily by taxes, charges for services, grants and other intergovernmental revenues. Business type activities include operations that rely to a significant extent on fees and charges for support. The District has no business type activities. All of the District's support comes from the entities that the District appraises and collects taxes for except for a small amount of interest income and miscellaneous other income. A budget is adopted each year by the Board and is also approved by the entities.

The Statement of Activities demonstrates how other people or entities that participate in the programs the District operates have shared in the payment of those costs. The "charges for services" column includes payments made by the entities for appraising and collecting taxes and miscellaneous charges to customers such as copying documents. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. The District had no grants and contributions this year. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions.

The fund financial statements provide reports on the financial condition and results of operations of the District's one fund category. The District has only one fund, the general fund, and it is a major fund, there are no proprietary funds.

**D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT**

The government-wide financial statements use 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 the related cash flows, appraisal and collection fees are recognized in the year for which they are budgeted.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due.

**E. FUND ACCOUNTING**

The District reports the following major governmental fun:

1. **The General Fund** – The general fund is the District's operating fund. It accounts for all financial resources of the District.

**F. FUND ACCOUNTING**

- Capital assets, which includes building, office equipment, and furniture and fixtures are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Building, office equipment, and furniture and fixtures are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building	40
Office equipment	5-7
Furniture and fixtures	7

- In recent years, the District has refunded the amount of unspent budgeted revenues to the entities that pay the appraisal and collection fees.

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS**

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including notes payable, are not due and payable in the current period and are not reported as liabilities in the funds.

<u>Capital Assets at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Assets</u>
Land	154,000	-	154,000	
Buildings	487,502	(33,516)	453,986	
Office equipment, furniture and fixtures	367,660	(177,807)	189,853	
Change in Net Assets	<u>1,009,162</u>	<u>(211,323)</u>	<u>797,839</u>	<u>797,839</u>
			<u>Payable at the Beginning of the Year</u>	
<u>Long-term Liabilities at the Beginning of the year</u>			<u>165,634</u>	
Notes payable				
Change in Net Assets				<u>(165,634)</u>
Net Adjustment to Net Assets				<u>632,205</u>

**III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Formal budgetary integration is employed as a management control device during the year for the general fund. This budget is adopted on a basis consistent with generally accepted accounting principles. The budget was not amended during the year.

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. COLLATERALIZATION OF DEPOSITS**

At December 31, 2011, all deposits were properly collateralized by a federally insured depository. The bank balance totaled \$365,000. FDIC coverage of \$250,000 is available to cover deposits. There are approximately \$350,000 of securities pledged to cover deposits at December 31, 2011. The District has no investments.

The Cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

- Category 1 -Deposits which are insured or collateralized with securities held by the entity or by its agent in the entity's name.
- Category 2 -Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3 -Deposits which are not collateralized.

Based on these three levels of risk, all of the District's cash deposits are classified as category 2.

**B. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at December 31, 2011, were as follows:

	<u>Charges for Services</u>	<u>Other</u>	<u>Total Receivables</u>
<b>Governmental Activities:</b>			
General Fund	-	-	-
Amounts not scheduled for collection during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>

Payments for appraisal and collection fees for the first quarter of 2011 are due by December 31, 2011. No allowance for uncollectible is necessary.

Payables at December 31, 2011, were as follows:

	<u>Accounts Payable</u>	<u>Accrued Payroll Benefits</u>	<u>Total Payables</u>
<b>Governmental Activities:</b>			
General Fund	15,505	9,096	24,601
Amounts not scheduled for collection during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>

**C. CAPITAL ASSET ACTIVITY**

Capital asset activity for the District for the year ended December 31, 2011, was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Governmental Activities:				
Land	154,000	-	-	154,000
Building	487,502	-	-	487,502
Office and computer equipment, furniture and fixtures	367,660	-	-	367,660
Less Accumulated Depreciation	<u>(211,323)</u>	<u>(66,113)</u>	<u>-</u>	<u>(277,436)</u>
Governmental Activities Capital Assets, Net	<u>797,839</u>	<u>(66,113)</u>	<u>-</u>	<u>731,726</u>

**D. NOTE PAYABLE**

The District borrowed \$190,000 in January, 2008 to complete renovation of the new office building acquired in the previous year. This is being paid back in 180 monthly payments of \$1,612 including interest at the rate of 6%. Debt activity for the year ended December 31, 2011 was as follows:

	Amounts Outstanding 1/1/2011	Issued	Retired	Outstanding 12/31/2011	Due Within One Year
Notes payable	<u>165,634</u>	<u>-</u>	<u>(10,250)</u>	<u>155,384</u>	<u>10,130</u>

Requirements of the governmental activities are:

Year Ended August 31	General Obligations		
	Principal	Interest	Total Requirements
2012	10,130	9,214	19,344
2013	10,790	8,554	19,344
2014	11,465	7,879	19,344
2015	12,182	7,161	19,343
2016	12,926	6,418	19,344
2017-2021	77,916	16,991	94,907
2022-2024	<u>19,975</u>	<u>724</u>	<u>20,699</u>
	<u>155,384</u>	<u>56,941</u>	<u>212,325</u>

**E. DEFERRED REVENUE**

Appraisal and collection fees are billed quarterly to the entities. The first quarter of 2012 fees are due by December 31, 2011. This is deferred and then recognized in 2012 for the 2012 budget.

**F. RETIREMENT PLAN**

The District provides retirement benefits for all full time employees after six months service through a money purchase pension plan. Up to 7% of eligible employees salaries is withheld and paid in to the plan. The District matches this up to 5.15%. District contributions to the plan for 2011 were \$19,747.

**G. RISK MANAGEMENT**

The District is exposed to various risks of loss to torts of theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2011, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**H. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 23, 2012, the date which the financial statements were available to be issued.

INTERNAL CONTROL SECTION



**ARNOLD, WALKER, ARNOLD, & Co., P.C.**  
*Certified Public Accountants and Consultants*

Bob J. Arnold, C.P.A., P.F.S.  
Lanny G. Walker, C.P.A., P.F.S.  
Kris Arnold, C.P.A., P.F.S.  
Andrew T. Arnold, C.P.A.  
Melissa J. Godfrey, C.P.A.  
Amy E. Smith, C.P.A.

MEMBER  
American Institute Of  
Certified Public Accountants  
Texas State Society Of  
Certified Public Accountants

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*

**Board of Directors**  
**Titus County Appraisal District**  
**Mt. Pleasant, Texas**

Members of the Board:

We have audited the financial statements of the governmental activities and the major fund of the Titus County Appraisal District as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Titus County Appraisal District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's 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 District'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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Respectfully Submitted,

*Arnold, Walker, Arnold & Co., P.C.*

Arnold, Walker, Arnold & Co., P.C.

January 23, 2012

Titus County Appraisal District  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the year ended December 31, 2011

Type of Report on Financial Statements:	Unqualified
Control Deficiencies:	None
Material Weaknesses Involving Control Deficiencies:	None
Noncompliance Material to the Financial Statements:	None
Questioned Costs:	None

Titus County Appraisal District  
SCHEDULE OF STATUS OF PRIOR FINDINGS  
For the year ended December 31, 2011

N/A

CORRECTIVE ACTION PLAN  
For the year ended December 31, 2011

N/A