

NOTES TO FINANCIAL STATEMENTS -- Continued  
DENTON COUNTY, TEXAS

**Note 1 - Summary of Significant Accounting Policies**

The financial statements of Denton County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**A. Reporting Entity**

Denton County was formed in 1846 and is a political subdivision of the State of Texas. The County is governed by the Commissioners' Court which is composed of four County Commissioners and the County Judge. All members of the governing body are elected officials.

The County provides a variety of services as required by law. These include public safety, administration of the courts system, health services, maintenance and construction of roads and bridges and general administration.

Denton County's Comprehensive Annual Financial Report presents the financial position, results of operations and cash flows of the applicable fund types and account groups governed by the Commissioners' Court. Generally accepted accounting principles require all funds and account groups that are controlled by or are dependent on the Commissioners' Court to be included in the County's Comprehensive Annual Financial Report. Control or dependence was determined on the basis of selection of governing authority, ability to influence operations and accountability over fiscal matters. This financial report includes only Denton County as no other governmental entities meet the criteria for inclusion.

## Note 1 - Summary of Significant Accounting Policies (Continued)

### B. Fund Accounting

Denton County uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets or liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

In the County's accounting system, funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

**Governmental funds** are used to account for all or most of a government's general activities. Governmental funds include the following fund types:

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

The special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes (not major capital projects).

The debt service fund accounts for the servicing of general long-term debt not being financed by other funds.

The capital projects funds account for the acquisition of fixed assets or the construction of major capital projects that are being financed by proceeds from long term debt issues.

**Proprietary funds** are used to account for operations that are financed in a manner similar to those found in the private sector, where the determination of net income is appropriate for sound financial administration. The county employs the following type of proprietary fund:

An internal service fund is used to account for the financing of services provided by one department or agency of the county to other county departments or agencies on a cost reimbursement basis.

**Fiduciary funds** are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. Agency funds generally are

**Note 1 - Summary of Significant Accounting Policies (Continued)**

used to account for assets that the government holds on behalf of others as their agent.

**C. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes are considered available when collected and thus delinquent taxes paid 30 days subsequent to yearend are accrued and recognized as revenue at yearend.

Those revenues susceptible to accrual are property taxes, intergovernmental revenues, fees for services and interest revenue. Fines levied by courts are not susceptible to accrual because generally they are not available until received in cash.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exceptions to the general rule are principal and interest on general long-term debt which are recognized when due.

The County reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the County before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the County has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The proprietary fund is accounted for on a flow of economic resources measurement focus. The accrual basis of accounting is used, recognizing revenues in the accounting period in which they are earned and recognizing expenses in the accounting period in which they are incurred. The

NOTES TO FINANCIAL STATEMENTS -- Continued  
DENTON COUNTY, TEXAS

**Note 1 - Summary of Significant Accounting Policies (Continued)**

County applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 to the proprietary fund unless those FASB pronouncements conflict with GASB statements.

**D. Budgets**

With the exception of the accounting treatment for capital leases, budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the General, Special Revenue and Debt Service funds. All annual appropriations lapse at fiscal yearend. Project-length financial plans are adopted for all capital projects funds.

Encumbrance accounting, under which funds are reserved for purchase orders, contracts, and other commitments, is employed in the General, Special Revenue and Capital Projects funds. As of September 30, 2001, encumbrances of approximately \$690,000 lapsed and were subject to re-appropriation in the budget of the subsequent year.

**E. Cash and Investments**

Cash includes only amounts in demand deposit accounts as well as short-term investments.

State statutes authorize the County to invest in bank certificates of deposit, obligations of the United States or its agencies, obligations of the State of Texas, obligations of other political subdivisions having at least an "A" credit rating, commercial paper, repurchase agreements, and local government investment pools.

Investments are stated at fair value including the investments in the Texas Local Government Investment Pool and the Lone Star Investment Pool.

**F. Short-term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

## **Note 1 - Summary of Significant Accounting Policies (Continued)**

### **G. Inventories**

Inventories are valued at cost using the first-in, first-out method. Inventories in the General Fund consist of expendable office supplies, fuels and vehicle parts held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

### **H. Fixed Assets**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records are available and at their estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

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

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government. Assets in the general fixed assets account group are not depreciated.

### **I. Accumulated Compensated Absences**

County employees earn vacation leave in varying amounts and earn sick leave at the rate of one day per month. Unused vacation leave may be accumulated up to 20 days and is paid upon termination of employment. Sick leave accrued prior to October 1987, is also paid upon termination. Accruals of sick leave subsequent to that date are not paid according to a policy of the Commissioners' Court. Also, in accordance with the Fair Labor Standards Act as it applies to local governments, non-exempt county employees are granted compensatory time for hours worked beyond their regular working hours. Accumulated compensatory time is also paid upon termination of employment.

The County has recognized a liability for accumulated vacation leave where the employees' rights to receive benefits are attributable to services already rendered, and it is probable that the County will compensate the employees through either paid time off or cash payments at termination. The County has recognized a liability for that portion of accumulated sick leave that

## **Note 1 - Summary of Significant Accounting Policies (Continued)**

NOTES TO FINANCIAL STATEMENTS -- Continued  
DENTON COUNTY, TEXAS

will be compensated with cash payments at termination. The estimated cost of accumulated compensated absences is recorded in the accompanying financial statements in the general long-term liabilities account group. The amount expected to be paid from current resources is not significant.

**J. Long-term Obligations**

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

**K. Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. All interfund transfers are reported as operating transfers.

**L. Total Columns on Combined Statements**

The total columns on the Combined Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**M. Comparative Data**

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the County's financial position and operations. However, comparative (i.e., presentation of prior year totals by fund type) data have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS -- Continued  
DENTON COUNTY, TEXAS

**Note 2 – Legal Compliance – Budget**

Denton County adheres to the following schedule and procedures in the preparation and adoption of its annual budget:

- \* Department heads submit departmental annual budget requests to the County Budget Officer by the first week in May.
- \* The County Auditor prepares an estimate of available resources for the upcoming fiscal year by the first week in May.
- \* The County Budget Officer then compiles the initial budget requests, holds preliminary hearings with elected officials and department heads concerning their requests and prepares a proposed budget within the financial parameters established by the Commissioners' Court.
- \* The proposed budget is presented to the Commissioners' Court for their review in an open meeting.
- \* The Commissioners' Court then conducts work sessions to finalize the budget.
- \* Public hearings are conducted as required when the proposed budget is finalized.
- \* The Commissioners' Court must adopt the annual budget by a majority vote by October 1. The budget must contain adequate available resources to support annual appropriations.
- \* During the fiscal year, the Commissioners Court may adopt a supplemental budget for the purposes of appropriating and expending grant money and debt proceeds for their intended purposes.

Governmental funds for which annual operating budgets are legally adopted are the General Fund, the Debt Service Fund and Special Revenue Funds, except the Voter Registration Fund, the Sheriff's Training Fund, the Vehicle Inventory Tax Interest Fund, the District Attorney Check Fee Fund, the Criminal Investigation Fund, the Public Health Grant Fund, the Texas Juvenile Probation Commission Fund, the Juvenile Community Corrections Fund, the Texas Narcotics Control Program Grant Fund, the Women's, Infants and Children's Fund. For each budgeted fund, budgetary control is maintained at the expenditure object level. This is the level at which expenditures may not legally exceed appropriations. The County Auditor is required to monitor the expenditures of the various funds. County management may approve budget transfers between line items within a department's budget provided that the aggregate impact on any line item is \$1,000 or less. All amendments which alter the total budgeted amounts of a fund or which affect more than one department must be approved by the Commissioners Court. It is the amended budget that is presented in the budget versus actual financial statement disclosure. All annual appropriations lapse at yearend.

**Note 2 - Legal Compliance - Budget (Continued)**

NOTES TO FINANCIAL STATEMENTS -- Continued  
DENTON COUNTY, TEXAS

During the 2001 fiscal year, additional appropriations totaling \$6,178,610 were made to the General and Special Revenue Funds. This amount includes the re-appropriation of prior year encumbrances.

To provide for a more meaningful budgetary comparison, the County's financial schedules of revenues and expenditures-budget versus actual recognize only the actual lease payments made on new capital leases, rather than recognizing the full acquisition price of the capital lease as both an expenditure and an other source of financing.

The following summary reconciles operations for the year from the GAAP basis to the budgetary basis of reporting:

	<u>General Fund</u>	<u>Special Revenue Funds</u>
<u>Revenues</u>		
GAAP Basis	\$60,645,040	\$18,612,241
Unbudgeted Fund Revenues	-	(\$3,577,307)
Revenues on Budgetary Basis	<u>\$60,645,040</u>	<u>\$15,034,934</u>
<u>Expenditures</u>		
GAAP Basis	\$61,007,104	\$18,811,067
Unbudgeted Fund Expenditures	-	(3,517,735)
Capital Lease Acquisitions	(967,937)	(-)
Expenditures on Budgetary Basis	<u>\$60,039,167</u>	<u>\$15,293,332</u>

**Note 3 - Deposits and Investments**

Deposits. Deposits include amounts in demand accounts and bank certificates of deposit. At year end the carrying amount of the County's deposits was \$36,645,991 and the bank balance was \$39,084,509. Of the bank balance, \$225,500 was covered by federal depository insurance and the entire remainder was covered by collateral pledged to the County by the County's depository bank and held by an independent third party bank as the County's agent in the County's name.

NOTES TO FINANCIAL STATEMENTS -- Continued  
DENTON COUNTY, TEXAS

**Note 3 - Deposits and Investments – (Continued)**

Investments. Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the County or its agent in the County's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the County's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the County's name.

At yearend, the County's investments consisted of funds totaling \$9,558,102 invested in repurchase agreements with a fair value of \$9,558,102. These are all category 1 investments.

Additional investments at yearend not subject to categorization were amounts invested in either the Texas Local Government Investment Pool or the MBIA Investment Pool. At yearend the value of pool shares and the fair value of the investments in the Texas Local Government Investment Pool was \$37,353,566 and the value of pool shares and the fair value of County investments in the MBI Investment Pool was \$2,370,404. Regulatory oversight for the operations of these external investment pools is found in the Public Funds Investment Act of the State of Texas. Required oversight for pools includes compliance with investment guidelines, annual independent audits and the establishment of oversight boards.

It is the policy of the County to report all investments with a maturity at time of purchase of less than one year at amortized cost.

**Note 4 - Property Taxes**

Property taxes attach as liens on property as of January 1. Taxes are levied on October 1 and become delinquent on February 1. County property tax revenues are recognized when levied to the extent that they result in available spendable resources. Property taxes for the County are limited by statute to 80 cents per \$100 of assessed value for general government services. An unlimited amount may be levied for payment of interest and principal on long-term debt; however, the County's indebtedness is limited by statute to 25% of assessed value of real property. For 2000, the County's tax rate for general governmental services was 19.789 cents per \$100 of assessed value.

Delinquent taxes receivable as disclosed in the financial statement represent all uncollected property taxes for the last twenty years. Property taxes that are more than 20 years delinquent and are not subject to an existing lawsuit for collection must be removed from the delinquent tax roll. Based on the County's collection history, no allowance for uncollectables has been included in the financial statements.

NOTES TO FINANCIAL STATEMENTS -- Continued  
DENTON COUNTY, TEXAS

**Note 5 - Fixed Assets**

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	Balance <u>10/1/2000</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>9/30/2001</u>
Land and Buildings	\$63,614,448	\$ 3,157,358	-	\$66,771,806
Machinery and Equipment	\$27,189,498	\$ 4,330,359	\$ 672,640	\$30,847,217
Construction in Progress	<u>\$ 6,797,925</u>	<u>\$12,382,320</u>	<u>\$ 3,157,358</u>	<u>\$16,022,887</u>
	<u>\$97,601,871</u>	<u>\$ 19,870,037</u>	<u>\$3,829,998</u>	<u>\$113,641,910</u>

Sources of investments in fixed assets are as follows:

Balance October 1, 1984	\$ 9,672,545
From Bond Proceeds	76,887,677
From Current Revenues	<u>27,081,688</u>
Balance September 30, 2001	<u>\$113,641,910</u>

The County has entered into contracts for the construction of facilities and infrastructure as follows:

	<u>Project Authorization</u>	<u>Expended To Date</u>	<u>Commitment</u>	<u>Further Financing Required</u>
1992 Road Projects	\$ 20,375,000	\$ 15,054,002	\$	- None
1994 Road Projects	\$ 4,700,000	\$ 2,023,610	\$	- None
1996 Road Projects	\$ 4,200,000	\$ 3,904,154	\$	- None
1999 Road Projects	\$ 24,922,064	\$ 14,588,963	\$	- None
Jail Expansion	\$ 19,023,941	\$ 13,625,873	\$ 5,398,068	None
1999 Tax Note Fund	\$ 2,141,294	\$ 1,825,617	\$	- None
2000 Road Projects	\$ 24,000,000	\$ 2,925,090	\$	- None
2000 Tax Note Fund	\$ 1,850,000	\$ 1,538,850	\$	- None
2001 Tax Note Fund	\$ 10,000,000	\$ 4,238,035	\$ 5,761,965	None

**Note 6 - Risk Management**

NOTES TO FINANCIAL STATEMENTS -- Continued  
 DENTON COUNTY, TEXAS

Denton County is exposed to various risks of loss relating to general liability, the accidental loss of real and personal property, damage to County assets, errors and omissions and personnel risks which relate to workers compensation. The county carries commercial insurance in order to manage the above listed risks. Amounts of coverage for the above types of risk have not been subject to a significant reduction in the past year.

The County has established a limited risk management program for employees' and their dependents' medical and dental insurance coverage. Employees' premiums are paid by the General, Special Revenue and some Agency funds into the Insurance Internal Service fund. These premiums are recorded as expenditures in the paying funds and are available to pay claims, excess coverage insurance and administrative costs of the program. During fiscal 2001 a total of \$6,011,179 was paid in benefits, excess coverage premiums and administrative costs. The excess coverage insurance covers the plan against individual claims in excess of \$75,000 per employee per year. Estimated claims payable, based upon claims filed and estimated unfiled claims at year end, were \$611,155 of September 30, 2001. Changes in the balances of claims liabilities during the past year are as follows:

	<b>2001</b>	<b>2000</b>
Unpaid claims, beginning of fiscal year	\$ 462,524	\$ 453,337
Incurred claims (including incurred but not reported)	\$5,597,240	\$4,123,711
Claim payments	(\$5,448,609)	(\$4,114,524)
Unpaid claims, end of fiscal year	<u>\$ 611,155</u>	<u>\$ 462,524</u>

For the past three fiscal years, no settlements have exceeded insurance coverage.

**Note 7 - Operating Leases**

During the fiscal year, Denton County was committed under various leases for office space. These leases were considered for accounting purposes to be operating leases. Lease expenditures for the year ended September 30, 2001 totaled \$329,424. By their contract terms, each of these leases may terminate at the fiscal yearend. Expenditures totaling approximately \$340,000 are expected in the coming year for operating leases.

**Note 8 – Capital Lease Commitments**

The County has entered into capital lease agreements for certain computer and road construction equipment. These assets, with a recorded value of approximately \$1,968,950 are included as equipment in the General Fixed Asset Account Group. The lease agreements are classified as capital leases because title passes to the County at the end of the lease terms, and they are included as other payables in the General Long Term Liabilities account group.

NOTES TO FINANCIAL STATEMENTS -- Continued  
DENTON COUNTY, TEXAS

**Note 8 – Capital Lease Commitments – (Continued)**

The present value of future minimum capital lease payments at September 30, 2001 is as follows:

<u>YEAR</u>	<u>AMOUNT</u>
2002	\$ 653,921
2003	\$ 489,632
2004 & thereafter	\$ 534,698
Total minimum lease payments	\$1,678,251
Less: Amount representing interest	<u>( 177,733)</u>
Present value of net future minimum lease payments	<u>\$1,500,518</u>

**Note 9 - Long-Term Debt**

General Long-Term Debt consists of various issues of General Obligation Bonds, certificates of Obligation and Tax Notes; the County's accrued liability for compensated absences; and other payables such as capital leases and judgments payable. General Obligation Bonds, Certificates of Obligation and Tax Notes are direct obligations of the County with the County's full faith and credit pledged towards payment of those obligations. General Obligation Bonds are issued after approval by the public at open elections. Certificates of Obligation and Tax Notes are issued by the vote of the Commissioners' Court as allowed under the state laws governing debt issuance. Principal and interest payments on the County's bonded debt are secured solely by ad valorem taxes levied on all taxable property within the County.

General Obligation Bond and Certificate of Obligation indentures require the County to compute, at the time taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity or at least 2% of the principal as a sinking fund, whichever is greater.

NOTES TO FINANCIAL STATEMENTS -- Continued  
DENTON COUNTY, TEXAS

**Note 9 – Long-Term Debt – (Continued)**

A summary of long-term debt of the County is as follows:

<u>Description</u>	<u>Balance at</u> <u>10/01/00</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at</u> <u>09/30/01</u>
\$25,375,000 1992 Permanent Improvement Bonds due in varying amounts through 2012 at an average interest rate of 6.47%	\$ 2,790,000	\$ -	\$ 1,350,000	\$ 1,440,000
\$1,500,000 1993 Certificates of Obligation due in varying amounts through 2003 at an average interest rate of 3.96%.	580,000	-	185,000	395,000
\$28,260,000 1994 General Obligation and Refunding Bonds due in varying amounts through 2014 at an average interest rate of 5.11%	25,890,000	-	390,000	25,500,000
\$22,800,000 1996 Permanent Improvement Bonds, due in varying amounts through 2016 at an average interest rate of 5.33%	19,500,000	-	100,000	19,400,000
\$1,480,000 1997 Permanent Improvement Bonds, due in varying amounts through 2017 at an average interest rate of 5.336%	1,390,000	-	50,000	1,340,000
\$6,260,000 1997 Tax Notes, due in varying amounts through 2003 at an average interest rate of 4.47%	3,345,000	-	1,065,000	2,280,000

NOTES TO FINANCIAL STATEMENTS -- Continued  
DENTON COUNTY, TEXAS

**Note 9 – Long Term Debt (Continued)**

\$3,800,000 1999 Certificates of Obligation, due in varying amounts through 2014 at an average interest rate of 4.37%	3,800,000	-	200,000	3,600,000
\$8,020,000 1999 Permanent Improvement Bonds, due in varying amounts through 2019 at an average interest rate of 4.68%	8,020,000	-	275,000	7,745,000
\$26,567,570 1999 Permanent Improvement & Refunding Bonds, due in varying amounts through 2019 at an average interest rate of 5.12%	26,567,570	-	-	26,567,570
\$13,255,000 1999A Certificates of Obligation, due in varying amounts through 2020 at an average interest rate of 5.60%	13,255,000	-	-	13,255,000
\$2,040,000 1999 Tax Notes due in varying amounts through 2007 at an average interest rate of 4.70%	2,040,000	-	-	2,040,000
\$24,000,000 2000 Permanent Improvement Bonds due in varying varying amounts through 20206 at an average interest rate of 5.45%	-	24,000,000	-	24,000,000
\$1,850,000 2000 Tax Notes due in varying amounts through 2007 at an average interest rate of 4.65%	-	1,850,000	-	1,850,000

NOTES TO FINANCIAL STATEMENTS -- Continued  
DENTON COUNTY, TEXAS

**Note 9 – Long Term Debt (Continued)**

\$10,000,000 2001 Tax Notes  
due in varying amounts through  
2007 at an interest  
rate of 4.50%

- 10,000,000 - 10,000,000

Total General Obligation

Bonds Payable	107,177,570	35,850,000	3,615,000	139,412,570
Compensated Absences	2,242,255	854,464	268,837	2,827,882
Other Payables	<u>948,142</u>	<u>967,937</u>	<u>415,561</u>	<u>1,500,518</u>
TOTAL	<u>\$ 110,367,967</u>	<u>\$ 37,672,401</u>	<u>\$ 4,299,398</u>	<u>\$ 143,740,970</u>

The debt service requirements on the aforementioned bonded debt are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2002	\$ 6,170,000	\$ 7,747,776	\$ 13,917,776
2003	7,430,000	6,706,044	14,136,044
2004	6,910,000	6,347,754	13,257,754
2005	7,235,000	5,996,290	13,231,290
2006	7,580,000	5,629,021	13,209,021
Thereafter	<u>104,087,570</u>	<u>51,881,980</u>	<u>155,969,550</u>
Total	<u>\$ 139,412,570</u>	<u>\$ 84,308,865</u>	<u>\$ 223,721,435</u>

NOTES TO FINANCIAL STATEMENTS -- Continued  
DENTON COUNTY, TEXAS

**Note 9 – Long-Term Debt – (Continued)**

In March 1994, Denton County advance refunded a portion of its 1992 Permanent Improvement Bond series with a general obligation refunding bond issue that also included an issue of new permanent improvement bonds. The County issued \$4,700,000 of permanent improvement bonds and \$23,460,000 of general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust with an escrow agent for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the general long-term debt account group. This advance refunding was undertaken to reduce total debt service payments over the next nine years by \$674,975 and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$489,171. At the end of the current fiscal year, a total of \$20,605,000 of defeased bonds remained outstanding. This represents the entire amount of bonds that were defeased.

In March 1999, Denton County advance refunded a portion of its 1996 permanent improvement bonds as part of a \$26,567,571 permanent improvement and refunding bond issue. The County issued \$1,967,571 of general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust with an escrow agent for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the general long-term debt account group. This advance refunding was undertaken to extend the maturity dates on the bonds in order to provide cash flow savings of \$1,757,625 over the next three years. The refunding caused a net increase in the County's total cash flow requirements for debt service of \$1,244,437, and an economic loss (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$350,151. At the end of the current fiscal year, \$1,575,000 in defeased bonds remained outstanding.

NOTES TO FINANCIAL STATEMENTS -- Continued  
DENTON COUNTY, TEXAS

**Note 9 – Long-Term Debt – (Continued)**

At September 30, 2000, the County also had \$5,125,000 in permanent improvement bonds that were authorized but unissued. The bonds are part of a total of \$34 million of bonds that were approved in November, 1991, to be used for Road & Bridge improvements. At year-end there was no definite timetable for issuance of the remainder of these authorized but unissued bonds.

Also, as of September 30, 2000, the County had a total of \$36,720,000 in unissued permanent improvement bonds that were authorized in a January 1999 bond election. The total amount authorized in the election was \$85,320,000 for road improvements. \$24,600,000 in bonds were issued in March, 1999 in connection with the partial refunding discussed above. An additional \$24,000,000 of the bonds were issued in December 2000. The County plans to issue the remaining bonds in equal amounts over the next four years.

In December 2000 the County issued \$1.85 million in tax notes to fund the acquisition of an existing building that will be renovated into office space for various county departments and to provide funding to finish out the fourth floor of the county courts building.

In February 2001 Denton County issued \$10,000,000 in tax notes to fund the necessary engineering services to expedite the construction of State Highway 121 in southern Denton County. Affected cities along SH 121 have contractually agreed to provide funding for the debt service on these notes.

**Note 10 - Other Required Individual Fund Disclosures**

Generally accepted accounting principles require disclosure, as part of the Combined Statements - Overview, of certain information concerning individual funds including the following:

- A. Individual fund interfund receivable and payable balances at September 30, 2001 were as follows:

NOTES TO FINANCIAL STATEMENTS -- Continued  
DENTON COUNTY, TEXAS

**Note 10 - Other Required Individual Fund Disclosures – (Continued)**

Fund	Interfund Receivable	Interfund Payable
General Fund	\$2,340,939	\$50,657
Special Revenue Funds:		
Road and Bridge Fund		
Juvenile Probation Fund	214,403	490,617
Indigent Care Fund	25,314	47,176
Public Health Fund	69,301	2,045
Sheriff's Training Fund		
Records Management Fund		
DA Check Fee Fund		
Criminal Investigation Fund		
Health Grants Fund	2,045	45,187
TJPC Fund	49,502	111,218
Juvenile Community Corr. Fund		53,185
TNCP Grant Fund	657	
Women, Infants and Children Fund		132,999
Health Care Relief Fund		
Debt Service Fund	1,494,654	550,000
Internal Service Fund:		
Medical Insurance Fund		1,211,000
Capital Project Funds:		
1999 Road Projects Fund	59,045	
1997 Tax Note Project Fund		294
1999 Tax Note Project Fund		62,085
1999 Certificate of Ob. Fund		620,921
2000 Road Projects Fund		870,399
Agency Funds:		
Pretrial Services Fund	168	275
Texas Adult Probation Fund	2,795	8,245
Community Corrections Fund	275	2,684
Electronic Supervision Fund		111
<b>TOTAL</b>	<b>\$4,259,098</b>	<b>\$4,259,098</b>

NOTES TO FINANCIAL STATEMENTS -- Continued  
DENTON COUNTY, TEXAS

**Note 10 – Other Required Individual Fund Disclosures – (Continued)**

B. Expenditures in excess of budget and deficits in fund balances and retained earnings as of September 30, 2001. No funds had expenditures in excess of appropriations. The Medical Insurance The TJPC Grant Special Revenue Fund had a negative fund balance of \$1,999, and the Internal Service Fund had a \$1,171,983 deficit in retained earnings at year end.

**Note 11 - Contingent Liabilities**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The County is a defendant in various other lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of management the resolution of these matters will not have a material adverse effect on the financial condition of the government.

**Note 12 - Employee Retirement System**

**A. Plan Description**

Denton County provides pension, 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 509 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, within the options available in the state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years but must leave their accumulated deposits in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

**Note 12 - Employee Retirement System – (Continued)**

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 deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

**B. Funding Policy**

Denton County has elected the annually determined contribution rate (Variable-Rate) plan provisions of the TDCRS 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 7.20% for the months of the accounting year in 2000, and 7.14% for the months of the accounting year in 2001.

The deposit rate payable by the employee members of the plan for calendar year 2001 is the rate of 6% as adopted by the governing body of the County. The employee deposit rate and the employer contribution rate may be changed by the Commissioners Court of the County within the options available in the TCDRS Act.

**C. Annual Pension Cost**

For Denton County's accounting year ending September 30, 2001, the annual pension cost for the TCDRS plan for its employees was \$3,108,124 and the actual contributions were \$3,108,124.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 1998 and December 31, 1999, the basis for determining the contribution rates for calendar years 2000 and 2001. The December 31, 2000 actuarial valuation is the most recent valuation.

NOTES TO FINANCIAL STATEMENTS -- Continued  
DENTON COUNTY, TEXAS

**Note 12 - Employee Retirement System – (Continued)**

**D. Actuarial Valuation Information**

Actuarial valuation date	12/31/1998	12/31/1999	12/31/2000
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percent- age of payroll, Open	Level percent- age of payroll, Open	Level percent- age of payroll, Open
Amortization period in years	20	20	20
Asset valuation method	Long-term appreciation with adjustment	Long-term appreciation with adjustment	Long-term appreciation with adjustment
Actuarial Assumptions:			
Investment return (1)	8.00%	8.00%	8.00%
Projected salary increases(1)	5.90%	5.90%	5.90%
Inflation	4.00%	4.00%	4.00%
Cost of living adjustments	0.00%	0.00%	0.00%

(1) includes inflation at the stated rate

**E. Trend Information**

Accounting Year Ending	Annual Pension Cost (APC)	Percentage Of ABC Contributed	Net Pension Obligation
September 30, 1999	\$2,400,918	100%	\$ 0
September 30, 2000	\$2,812,906	100%	\$ 0
September 30, 2001	\$3,108,124	100%	\$ 0

**F. Transition Disclosure**

It was determined in accordance with GASB Statement No. 27 that the pension liability was zero at the transition to that statement effective at the beginning of this accounting year, because all actuarially required contributions for the accounting years beginning in 1987 up to the beginning of this accounting year have been paid. There was no previously reported pension liability before the transition. Therefore, the difference between the pension liability at transition and the previously reported pension liability is zero.

NOTES TO FINANCIAL STATEMENTS -- Continued  
DENTON COUNTY, TEXAS

**Note 12 - Employee Retirement System – (Continued)**

**G. Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (1) g	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/1998	\$37,132,341	\$43,103,765	\$5,971,424	86.15%	\$30,491,813	21.08%
12/31/1999	\$43,355,724	\$50,029,301	\$6,673,577	86.66%	\$35,060,285	19.03%
12/31/2000	\$49,494,392	\$56,481,916	\$6,987,524	87.63%	\$38,733,225	18.04%

(1) The annual covered payroll is based on the employee contributions received by TDCRS for the year ending with the valuation date.