

KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS
Limited Liability Company

Lake Jackson Office:
8 West Way Court
Lake Jackson, Texas 77566
(979) 297-4075 Fax: (979) 297-6648
(800) 399-4075

Houston Office:
10260 Westheimer, Suite 410
Houston, Texas 77042
(281) 974-3416 Fax: (281) 974-3764

February 28, 2013

The Honorable County Judge
and County Commissioners and Juvenile Board Members
Johnson County, Texas

We have audited the combined financial statements – regulatory basis (Combined Balance Sheet, Combined Statement of Revenues, Expenditures and Changes in Fund Balance, and Combined Statement of Revenues, Expenditures and Changes in Fund Balance by Contract – Budget and Actual) of Johnson County's Texas Juvenile Justice Department Grant Funds as of and for the year ended August 31, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 1, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Johnson County's Texas Juvenile Probation Grant Funds are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended August 31, 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

www.kmkwllc.com – Email: kmkw@kmkwllc.com

Members: American Institute of Certified Public Accountants, Texas Society of Certified Public Accountants,
Partnering for CPA Practice Success

The Honorable County Judge
and County Commissioners and Juvenile Board
Johnson County, Texas
February 28, 2013
Page 2

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 28, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the County Judge, Members of Commissioners Court, Juvenile Board Members and management of the County and is not intended to be and should not be used by anyone other than these specified parties.

Kennebec, Masters & Hunsford, LLC

**JOHNSON COUNTY
TEXAS JUVENILE
JUSTICE DEPARTMENT AUDIT**
Cleburne, Texas

For The Year Ended
August 31, 2012

KENNEMER, MASTERS & LUNSFORD, LLC
CERTIFIED PUBLIC ACCOUNTANTS
8 WEST WAY COURT
LAKE JACKSON, TX 77566
(979) 297-4075

**JOHNSON COUNTY
TEXAS JUVENILE JUSTICE DEPARTMENT AUDIT
Cleburne, Texas**

For The Year Ended August 31, 2012

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report - Unqualified Opinion on Combined Financial Statements - Regulatory Basis	5-6
Independent Auditor's Report - Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	7-8
Combined Balance Sheet – Regulatory Basis.....	10
Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Regulatory Basis	11
Combined Statement of Revenues, Expenditures and Changes in Fund Balance by Contract – Budget and Actual – Regulatory Basis	12-14
Notes to Texas Juvenile Justice Department Combined Financial Statements	15-16
Schedule of Findings and Questioned Costs	17
Schedule of Prior Findings and Questioned Costs.....	18

KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

Lake Jackson Office:
8 West Way Court
Lake Jackson, Texas 77566
(979) 297-4075 Fax: (979) 297-6648
(800) 399-4075

Houston Office:
10260 Westheimer, Suite 410
Houston, Texas 77042
(281) 974-3416 Fax: (281) 974-3764

Independent Auditor's Report Unqualified Opinion on Combined Financial Statements - Regulatory Basis

February 28, 2013

Juvenile Probation Board
Johnson County, Texas

We have audited the balance sheet - regulatory basis, combined statement of revenues, expenditures and changes in fund balance - regulatory basis, and combined statement of revenues, expenditures and changes in fund balance - budget and actual - regulatory basis for the year ended August 31, 2012 of the Texas Juvenile Justice Department Grant Funds of Johnson County, Texas (the "County"). These financial statements are the responsibility of the County's management. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

As discussed more fully in Note 1, the Johnson County Juvenile Probation Department prepares its financial statement using accounting practices prescribed or permitted by the Texas Juvenile Justice Department, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statement of the variances between those regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. The financial statement was prepared on the same basis of accounting used for reporting to the Texas Juvenile Justice Department, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

www.kmkwllc.com – Email: kmkw@kmkwllc.com

As discussed in Note 1, the financial statements present the results of operation of the County's TJJD Grant Funds only and is not intended to present fairly the results of operations of the County in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the revenue it earned and expenditures incurred compared to budgeted revenues and expenditures of the County's TJJD Grant Funds for the year ended August 31, 2012, in conformity with the basis of accounting described in Note 1-B.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 28, 2013 on our consideration of the Johnson County Juvenile Probation Department's internal control over financial reporting and on our tests of its compliance with certain 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole for the year ended August 31, 2012. The supplemental information as listed on the table of contents, representing individual grant activity, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the audit procedures applied in the audit of the financial statements, and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management of the County Juvenile Board and for filing with the Texas Juvenile Justice Department and is not intended to be and should not be used by anyone other than these specified parties.

Kennemer, Masters & Rungford, LLC

KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

Lake Jackson Office:
8 West Way Court
Lake Jackson, Texas 77566
(979) 297-4075 Fax: (979) 297-6648
(800) 399-4075

Houston Office:
10260 Westheimer, Suite 410
Houston, Texas 77042
(281) 974-3416 Fax: (281) 974-3764

Independent Auditor's Report

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

February 28, 2013

Juvenile Probation Board
Johnson County, Texas

We have audited the combined financial statements of Johnson County Juvenile Probation Department's Texas Juvenile Justice Department Grant Funds for the year ended August 31, 2012, and have issued our report thereon dated February 28, 2013. 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 Johnson County Juvenile Probation Department'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 Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 was not designed to 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.

www.kmkwllc.com – Email: kmkw@kmkwllc.com

Juvenile Probation Board
Johnson County, Texas
February 28, 2013
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Johnson County Juvenile Probation Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements; and, general financial and JJAEP assurances, 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. Compliance with laws, regulations, contracts, grants, and requirements of the Texas Juvenile Justice Department Audit Requirements is the responsibility of the management of the Department. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

This report is intended solely for the information of the management of Johnson County Juvenile Probation Department and the Texas Juvenile Justice Department and is not intended to be and should not be used by anyone other than these specified parties.

Kennemer, Masters & Hunsford, LLC

JOHNSON COUNTY, TEXAS
TEXAS JUVENILE JUSTICE DEPARTMENT GRANT FUNDS
COMBINED BALANCE SHEET - REGULATORY BASIS
 August 31, 2012

	<u>TJJD</u> <u>A-2011-126</u>	<u>TJJD</u> <u>A-2012-126</u>	<u>TJJD</u> <u>C-2012-126</u>	<u>TJJD</u> <u>P-2012-126</u>	<u>Combined</u> <u>Total</u>
<u>Assets</u>					
Cash and temporary investments	\$ 9,000	\$ 56,002	\$	\$	\$ 65,002
Accounts receivable		2,816			2,816
Prepaid expenditures		36			36
Total assets	<u>\$ 9,000</u>	<u>\$ 58,854</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 67,854</u>
<u>Liabilities and Fund Balance</u>					
Liabilities:					
Accounts payable and accrued interest	\$	\$ 25,905	\$	\$	\$ 25,905
Accrued salaries and benefits		27,187			27,187
Due to other funds		5,474			5,474
Total liabilities	-0-	58,566	-0-	-0-	58,566
Fund Balance:					
Total fund balance	<u>9,000</u>	<u>288</u>			<u>9,288</u>
Total liabilities and fund balance	<u>\$ 9,000</u>	<u>\$ 58,854</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 67,854</u>

See notes to the financial statements.

JOHNSON COUNTY, TEXAS

*TEXAS JUVENILE JUSTICE DEPARTMENT GRANT FUNDS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - REGULATORY BASIS
 For the Year Ended August 31, 2012*

	<u>TJJD A-2011-126</u>	<u>TJJD A-2012-126</u>	<u>TJJD C-2012-126</u>	<u>TJJD P-2012-126</u>	<u>Combined Total</u>
Revenues:					
Texas Juvenile Justice Department Grant	\$	\$ 751,503	\$ 74,708	\$ 152,470	\$ 978,681
Interest		288			288
Total revenues	<u>-0-</u>	<u>751,791</u>	<u>74,708</u>	<u>152,470</u>	<u>978,969</u>
Expenditures:					
Salaries and fringe benefits		591,889			591,889
Operating expenses		13,600			13,600
Non-residential services	7,500	20,045	74,708	152,470	254,723
Residential services		125,969			125,969
Total expenditures	<u>7,500</u>	<u>751,503</u>	<u>74,708</u>	<u>152,470</u>	<u>986,181</u>
Excess of revenues over (under) expenditures	(7,500)	288	-0-	-0-	(7,212)
Other Financing Sources (Uses):					
Transfers out					-0-
Fund Balance:					
Beginning of year		<u>16,500</u>			<u>16,500</u>
End of year	<u>\$ 9,000</u>	<u>\$ 288</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 9,288</u>

See notes to the financial statements.

JOHNSON COUNTY, TEXAS

TEXAS JUVENILE JUSTICE DEPARTMENT GRANT FUNDS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BY CONTRACT - BUDGET AND ACTUAL - REGULATORY BASIS

For the Year Ended August 31, 2012

	TJJD A-2012-126		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Texas Juvenile Justice Department Grant Funds	\$ 751,503	\$ 751,503	\$ -0-
Total revenues	<u>751,503</u>	<u>751,503</u>	<u>-0-</u>
Expenditures:			
Salaries and fringe benefits	\$ 593,147	\$ 591,889	\$ 1,258
Travel	1,350		1,350
Operating expenses	16,466	13,600	2,866
Non-residential services	20,045	20,045	-0-
Residential services	<u>120,495</u>	<u>125,969</u>	(5,474)
Total expenditures	<u>751,503</u>	<u>751,503</u>	<u>-0-</u>
Excess of revenues over (under) expenditures	-0-	-0-	-0-
Fund Balance:			
Beginning of year			<u>-0-</u>
End of year	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

See notes to the financial statements.

TJJD C-2012-126			TJJD P-2012-126		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 74,708	\$ 74,708	\$ -0-	\$ 152,470	\$ 152,470	\$ -0-
74,708	74,708	-0-	152,470	152,470	-0-
\$	\$	\$ -0-	\$	\$	\$ -0-
		-0-			-0-
		-0-			-0-
74,708	74,708	-0-	152,470	152,470	-0-
		-0-			-0-
74,708	74,708	-0-	152,470	152,470	-0-
		-0-			-0-
-0-	-0-	-0-	-0-	-0-	-0-
		-0-			-0-
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

(Continued)

JOHNSON COUNTY, TEXAS

TEXAS JUVENILE JUSTICE DEPARTMENT GRANT FUNDS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN

FUND BALANCE BY CONTRACT - BUDGET AND ACTUAL - REGULATORY BASIS - Continued

For the Year Ended August 31, 2012

	Combined Total		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Texas Juvenile Justice Grant Funds	\$ 978,681	\$ 978,681	\$ -0-
Total revenues	<u>978,681</u>	<u>978,681</u>	<u>-0-</u>
Expenditures:			
Salaries and fringe benefits	\$ 593,147	\$ 591,889	\$ 1,258
Travel	1,350		1,350
Operating expenses	16,466	13,600	2,866
Non-residential services	247,223	247,223	-0-
Residential services	<u>120,495</u>	<u>125,969</u>	<u>(5,747)</u>
Total expenditures	<u>978,681</u>	<u>978,681</u>	<u>-0-</u>
Excess of revenues over (under) expenditures	-0-	-0-	-0-
Fund Balance:			
Beginning of year			-0-
End of year	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

See notes to the financial statements.

JOHNSON COUNTY, TEXAS
TEXAS JUVENILE JUSTICE DEPARTMENT (TJJD)
Notes to TJJD Combined Financial Statements
For The Year Ended August 31, 2012

NOTE 1 - Summary of Significant Accounting Policies

A. Entity - The Texas Juvenile Justice Department Grant Funds of Johnson County, Texas (the "Funds") were established to account for juvenile probation services funded by the Texas Juvenile Justice Department in Johnson County, Texas.

The Funds provide separate accountability as required under the State Financial Assistance Contract, by the Texas Juvenile Justice Department. The Funds are used to account for each separate program, matching funds and all related expenditures incurred.

B. Basis of Accounting - The financial statements were prepared in conformity with the accounting practices prescribed by the TJJD, which prescribe policies and procedures for county probation departments, which is a comprehensive basis of accounting other than generally accepted accounting principles. These accounting practices include the following:

- The financial statements are reported using the accrual basis of accounting. Revenues are recorded when all eligibility requirements have been met and expenditures are recorded when incurred.
- The accompanying financial statements do not represent financial statements prepared in accordance with provisions for governmental funds as prescribed by the Governmental Accounting Standards Board.
- The accompanying financial statements are prepared in a format to facilitate uniform financial reporting by county probation departments.

NOTE 2 - Reconciliation of Accrued Interest

Idle funds were maintained in an interest bearing account. The reconciliation of accrued interest earned on funds received from the Commission is as follows:

	Interest Earned TJJD Funds <u>F/Y 2012</u>
Accrued Interest:	
Beginning balance, September 1, 2011	\$ -0-
Interest accrued on funds received for the period of 9/01/11 - 8/31/12	<u>288</u>
Total accrued interest at August 31, 2012	<u>288</u>
Minus interest expenditures F/Y 2012	<u>-0-</u>
Ending balance, August 31, 2012	<u>\$ 288</u>

JOHNSON COUNTY, TEXAS
TEXAS JUVENILE JUSTICE DEPARTMENT (TJJD)
Notes to TJJD Combined Financial Statements
For The Year Ended August 31, 2012

NOTE 3 - Operating Cost For a Secure Juvenile Facility Operated by Johnson County

The Johnson County Juvenile Probation Department does not operate a secure juvenile facility.

NOTE 4 - Financial Match Requirements

To receive Texas Juvenile Justice Department state funds, the juvenile probation departments are required to certify that the amount of local or county funds expended for juvenile services is at least equal to or greater than the amount spent in the 2006 county fiscal year excluding construction and capital outlay expenses. A confirmation of local funds for the year ending August 31, 2012 is required and presented below.

	Local Funding Expended (Less construction and capital outlay)
	<hr/>
FY 2012	\$ 1,004,128
FY 2006	\$ 767,069

The juvenile probation department certified the financial match requirements were fulfilled for the year ending August 31, 2012.

NOTE 5 - GRANT A - FUND BALANCE

During the prior year, Johnson County was approved to receive additional funding to implement a virtual school program in the amount of \$ 16,500. An amendment to the state financial assistance contract was executed through Grant A 2011-126 that states that these funds shall be expended no later than December 31, 2012. The County did not expend these funds as of August 31, 2012. As such, Grant A has a fund balance of \$ 9,000 at August 31, 2012.

JOHNSON COUNTY, TEXAS
TEXAS JUVENILE JUSTICE DEPARTMENT (TJJD)
Schedule of Findings and Questioned Costs
For The Year Ended August 31, 2012

None.

JOHNSON COUNTY, TEXAS
TEXAS JUVENILE JUSTICE DEPARTMENT (TJJD)
Schedule of Prior Findings and Questioned Costs
For The Year Ended August 31, 2012

None.