

HARRISON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2010**

HARRISON COUNTY, TEXAS

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Honorable County Judge
and County Commissioners
Harrison County, Texas

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Harrison County, Texas, as of and for the year ended September 30, 2010, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Harrison County, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Harrison County, Texas, as of September 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Road and Bridge Special Revenue 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 June 23, 2011, on our consideration of the Harrison County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Harrison County, Texas' financial statements as a whole. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and is not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Pattillo, Brown + Hill, L.L.P.

June 23, 2011

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

Management's Discussion and Analysis

As Management of Harrison County, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended September 30, 2010. This information is not intended to be a complete statement of the County's financial condition. We recommend and encourage readers to consider the information presented here in conjunction with the accompanying financial statements and disclosures.

FINANCIAL HIGHLIGHTS

- The County's net assets, as indicated in the government-wide financial statements, are \$20,141,507. This is a decrease of \$4,882,247, which is a decrease of 19.5%. This decrease is comprised of a loss of \$5,263,634 from operations and an increase of \$381,387 from a prior period adjustment to beginning net assets.
- Total net assets are comprised of: 1) capital assets, net of related debt, of \$17,562,380, including property and equipment, net of accumulated depreciation; 2) debt covenants, grantors, or statute restricts net assets of \$134,855; and 3) the County's unrestricted net assets at year-end are \$2,444,272.
- Total governmental long-term debt of the County increased by \$3,280,519. This was mainly due to another year of the ARC of the County's OPEB liability.
- The unreserved fund balance in the General Fund, as shown in the fund financial statements on page 13, is \$6,301,512 or 38% of General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The *Statement of Net Assets* and the *Statement of Activities* provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start on page 13. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also compare actual revenue collection and expenditures to budget. Notes to the financial statements are included to provide additional financial information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. This statement combines and consolidates governmental fund current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other non-financial factors should also be taken into consideration, such as changes in the County's property tax base and the condition of the County's assets.

The Statement of Activities presents information showing how the County's net assets changed during the fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not used compensated absences). Both the statement of net assets and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

Fund Financial Statements

Funds are established to account for money designated for specific purposes by the Commissioners' Court or by grantors such as the State of Texas. The fund financial statements differ from the government-wide statements in that they focus on significant funds rather than the County as a whole. Major funds are presented separately. The fund financial statements for major funds begin on page 13. Fund data for nonmajor funds is included in combining statements starting on page 44. The basic funds are classified by type: each type used by the County is described in the following paragraphs.

- **Governmental funds** – Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting that measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information shows the amount of financial resources available in the near future to finance County programs.

In addition to the major governmental funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances, budgetary comparison statements are included for the General Fund and major Special Revenue Funds. These schedules compare actual revenue and expenditures with adopted and amended budgets.

- **Proprietary funds** – When the County charges customers for the full cost of the services provided to County units or to outside third parties, the services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The County uses Internal Service Funds (the other component of proprietary funds) to report activities that provide supplies and services for the County's other programs and activities. The County has one Internal Service Fund that reports the activities of the County's self-funded health insurance program.

Notes to the Financial Statements

The notes are presented immediately following the basic financial statements, beginning on page 23 to provide additional information to facilitate the understanding of the government-wide and fund financial statements. The notes explain accounting policies and disclose additional information concerning capital assets, long-term liabilities and the County's retirement plan.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The County as a Whole

Our analysis of the County as a whole focuses on net assets and changes in net assets. Under Governmental Accounting Standards Board (GASB) standards, 2003 was the first year in which full accrual entity-wide statements were required. The Statement of Activities reports annual expenses by major function along with the charges for services and grant proceeds available to support each function. This presentation shows the cost of services that must be offset by general revenues such as property taxes.

The Summary of Net Assets lists assets in the order of liquidity, beginning with cash and ending with capital assets. Receivables include unpaid property taxes and unpaid court costs and fines assessed by the courts. Each receivable is reported net of an allowance for uncollectibles account. Historical collection data for property taxes shows an average annual collection rate of 98 percent. Total land, buildings, infrastructure, equipment, and improvements (including construction in progress of \$11,788,823 are \$18,731,915. This amount is net of accumulated depreciation of \$18,023,305. We have to conclude that many assets (such as vehicles, office equipment, mobile equipment, etc.) exist with limited useful life that must be replaced in the near future. Liabilities are reported by current (payable in one year) and long-term classifications. Information concerning long-term debt is detailed on pages 35 – 37 in the notes to the financial statements. Net assets at year-end are \$20,141,507; a total of \$134,855 is restricted for specific purposes, as required by state law or grantor requirements; \$17,562,380 represents the County's investment in capital assets, net of related debt, and \$2,444,272 in unrestricted net assets is available for funding general operations. Unrestricted net assets decreased by \$2,885,584 (54%), total assets increased \$158,582 (1%), and total net assets decreased by \$4,882,247 (20%).

HARRISON COUNTY'S NET ASSETS (In Thousands)

	Governmental Activities	
	2010	2009
Current and other assets	\$ 24,939	\$ 23,820
Capital assets	18,732	19,693
Total assets	<u>43,671</u>	<u>43,513</u>
Current liabilities	10,998	8,890
Noncurrent liabilities	12,531	9,599
Total liabilities	<u>23,529</u>	<u>18,489</u>
Net assets:		
Invested in capital assets, net of related debt	17,562	19,449
Restricted	135	245
Unrestricted	<u>2,444</u>	<u>5,330</u>
Total net assets	<u>\$ 20,142</u>	<u>\$ 25,024</u>

The Changes in Net Assets itemizes the basic source of revenue and expenses as to the services provided. Total revenue for governmental activities was \$25,852,861. Total governmental expenses were \$31,116,495 resulting in a decrease in net assets of \$5,263,634. More details about the increase are discussed in the Financial Analysis of the County Funds.

HARRISON COUNTY'S CHANGES IN NET ASSETS
(In Thousands)

	Governmental Activities	
	2010	2009
Revenues:		
Program revenues:		
Charges for services	\$ 4,874	\$ 5,506
Capital grants and contributions	134	1,412
Operating grants and contributions	1,304	1,285
General revenues:		
Property taxes	18,931	19,492
Interest	49	133
Gain on sale of assets	16	-
Other	544	631
Total revenues	<u>25,853</u>	<u>28,459</u>
Expenses:		
General administration	7,432	7,992
Judicial	2,251	2,063
Legal	1,147	1,169
Elections	274	240
Financial administration	1,968	2,135
Public facilities	867	862
Public safety	10,005	9,245
Public transportation	5,213	3,575
License and weights division	23	32
Health and welfare	1,314	1,439
Culture and recreation	74	75
Conservation	217	198
Preservation and restoration	24	25
Public service	77	82
Interest on long-term debt	230	243
Total expenses	<u>31,116</u>	<u>29,375</u>
Change in net assets	(5,264)	(916)
Net assets - beginning	25,024	26,023
Prior period adjustment	381	(83)
Net assets - ending	<u>\$ 20,142</u>	<u>\$ 25,024</u>

Revenues and expenses for governmental activities are compared below showing the relation between the cost of services and the revenue generated from users of the service. This table also shows how much general revenue (property taxes) and grants are needed to provide each service. For the past several years, the County has seen a slight increase in property tax rates but has relied mostly on the growth in the County to generate additional revenues. The service provided by the courts' and clerks' offices in the County are funded partially by revenue generated by fines and fees assessed by the courts. The County has a collection department that focuses on maximizing the collection of the fines and fees that are assessed by the courts.

The main reason for the increase in expenses in the General Administration, Judicial and Public Safety functions is the addition of the County's liability for OPEB. FY 2009 was the first year for inclusion in the financial statements. The addition of this liability increased expenses and decreased net assets by \$3,370,640.

HARRISON COUNTY'S GOVERNMENTAL ACTIVITIES
(In Thousands)

	Charges	% of	Functional	Percent	Funded by	
	for Services		Expenses		of Total	Other Revenues
	2010	Total	2010		Amount	Percent
General administration	\$ 1,795	6.9%	\$ 7,432	23.9%	\$ (5,637)	(75.8%)
Judicial	1,482	5.7%	2,251	7.2%	(769)	(34.2%)
Legal	74	0.3%	1,147	3.7%	(1,073)	(93.6%)
Elections	-	- %	274	0.9%	(274)	(100.0%)
Financial administration	1,105	4.3%	1,968	6.3%	(863)	(43.9%)
Public facilities	-	- %	867	2.8%	(867)	(100.0%)
Public safety	411	1.6%	10,005	32.2%	(9,594)	(95.9%)
Public transportation	7	0.0%	5,213	16.8%	(5,206)	(99.9%)
License and weights division	-	- %	23	0.1%	(23)	(100.0%)
Health and welfare	-	- %	1,314	4.2%	(1,314)	(100.0%)
Culture and recreation	-	- %	74	0.2%	(74)	(100.0%)
Conservation	-	- %	217	0.7%	(217)	(100.0%)
Preservation and restoration	-	- %	24	0.1%	(24)	(100.0%)
Public service	-	- %	77	0.2%	(77)	(100.0%)
Interest on long-term debt	-	- %	230	0.7%	(230)	(100.0%)
Total	4,874	18.8%	\$ 31,116	100.0%	(26,242)	
OPERATING GRANTS AND CONTRIBUTIONS	1,304	5.0%			1,304	
CAPITAL GRANTS AND CONTRIBUTIONS	134	0.5%			134	
GENERAL REVENUES	19,540	75.6%			19,540	
TOTAL REVENUES	\$ 25,853	100.0%				
CHANGE IN NET ASSETS					\$(5,264)	

Capital Assets and Debt Administration

Capital Assets – Capital assets decreased by approximately \$(961,000) primarily due to depreciation expense exceeding the amount of capital additions.

HARRISON COUNTY'S CAPITAL ASSETS AT YEAR-END
(In Thousands)

	Governmental Activities	
	2010	2009
Land, buildings and improvements	\$ 2,109	\$ 2,058
Autos and trucks	1,411	1,289
Heavy equipment	1,797	1,973
Other equipment, furniture and fixtures	252	271
Construction in progress	11,789	10,571
Infrastructure	1,374	3,531
Total capital assets, net	\$ 18,732	\$ 19,693

Outstanding Debt

The table below reports the outstanding balances of debt for 2010 and 2009 for governmental activities. In 2002, the County financed a large capital improvement project with certificates of obligation. The County's overall debt increased due to the issuance of debt for the purpose of purchasing several County vehicles and the continued increase in the County's OPEB obligation. Detailed information concerning the County's long-term debt is available in the notes to the financial statements on pages 35 – 37.

HARRISON COUNTY'S LONG-TERM DEBT AT YEAR-END

	Governmental Activities	
	2010	2009
General obligation debt	\$ 4,575	\$ 4,850
Capital leases	952	872
Net OPEB obligation	6,781	3,371
Compensated absences	<u>1,032</u>	<u>967</u>
Total long-term debt	<u>\$ 13,340</u>	<u>\$ 10,060</u>

FINANCIAL ANALYSIS OF THE COUNTY FUNDS

Governmental Funds

The governmental fund statements presented on pages 13 – 22 include the General Fund and Road and Bridge Fund which comprise the County's major funds and all other governmental funds combined. These statements focus on short-term transactions and the impact they have on financial resources for future financial requirements. The total fund balances at year-end for all governmental funds is \$13,408,799, a decrease of \$(615,011) from the prior year. This represented a (4%) decrease in total fund balances.

The General Fund is the primary day-to-day operating fund that finances services such as the courts and law enforcement. Approximately 87% of the revenue to support these services is generated by ad valorem taxes. General Fund operations resulted in an increase in fund balance of \$647,584. The ending fund balance of \$6,301,512 is below the level that the County Commissioners' Court would like to have and steps have been taken and will be taken in the future to increase the County's General Fund balance to a level that will sustain County operations for a 90 – 120-day period. This represents an increase of 11% over fiscal year 2009 fund balance.

The Road and Bridge Fund is reported as a major governmental fund, because it represents a material percentage of the total revenue and expenditures of all governmental funds. The result of operations was a decrease in fund balance of \$133,499. This fund balance was reduced by Commissioners' Court because unrestricted fund balances will be retained in the General Fund rather than individual funds.

The Jail Construction Fund is reported as a major governmental fund, because it represents a material percentage of the total assets and other financing sources of all governmental funds. The net change in operations was a decrease in fund balance of \$1,304,123. This balance was due to the issuance of the certificates of obligation in FY 2009 but construction that will not be complete until a later fiscal year.

All other governmental funds are combined to form the nonmajor governmental fund category; the funds included in the combination are itemized in the combining statements on pages 44 – 49 of this report. Combined fund balances decreased by \$206,360.

Proprietary Funds

As stated previously, the County's proprietary fund statements report the activities of the County's self-funded health insurance plan. The plan provides health, dental and life insurance for all fulltime and retired County employees and their dependents. The plan has experienced an increase each year in the amount of money needed to cover claims and the fixed costs related to the administration of the plan. The County has absorbed these cost increases, and the amount paid by the employee for dependent coverage has not increased in several years. This correlates with national trends involving insurance provided for employees.

Budgetary Highlights

Budgetary statements of revenues, expenditures, and changes in fund balance for the General Fund and the Road and Bridge Fund are on pages 17 – 18. The statements report the budget and the actual amounts for each category. The variance is the difference between actual and the final budget. The County's Commissioners' Court, prior to the beginning of the fiscal year, adopted the original budget and the Court approves amendments to the budget during the year. During the current year, the original General Fund expenditure budget was decreased by \$(126,147); the majority of that decrease was for reduced funding requirements for the general administration function of the County.

The original General Fund budget planned for revenues to exceed expenditures by \$158,411 . However, actual expenditures were \$1,193,158 less than what was budgeted. Since actual revenues exceeded expenditure by \$653,425, the County continues to build a surplus. The increase in surplus was due to a conservative approach to expenditures and an increase in revenues primarily due to increased charges for services.

The original Road and Bridge Fund budget planned for expenditures to exceed revenues by \$4,050.

The original Jail Construction Fund budget planned for expenditures to exceed revenues by \$5,605,061. Actual expenditures exceeded revenues by \$1,304,123.

BUDGET FOR 2010 – 2011 AND LATER

For the 2010-2011 FY the County adopted a property tax rate of \$.3169 per hundred dollars of taxable value. This rate was less than the effective rate but due to the surplus in the General Fund of \$5,642,108 the Court felt the County could make up this loss of revenue. Harrison County must adopt a balanced budget worst case or a budget that will allow for increases in the surplus best case.

For the 2010-2011 FY, the Maintenance and Operations section of the expenditure budget was \$1,796 less than the budget for the previous year. The increase in health care costs continue to be a concern of the Commissioners' Court and the Court continues to look for any cost saving ideas that they feel will help in balancing the County's budget.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the County's finances for all those with an increase in the County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to:

Marc Palmer
County Auditor
Harrison County Courthouse
200 W. Houston, Room 326
Marshall, Texas 75670
(903) 935-8405

**BASIC
FINANCIAL STATEMENTS**

HARRISON COUNTY, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2010

	Primary Government Governmental Activities	Component Unit Industrial Development Authority
ASSETS		
Cash and cash equivalents	\$ 21,768,960	\$ 1,479,636
Receivables, net:		
Property taxes	1,505,459	-
Accounts receivable	369,265	-
Due from other governments	634,296	-
Due from agency funds	385,666	-
Prepaid expenditures	179,946	-
Unamortized bond issuance costs	95,768	-
Capital assets, net of accumulated depreciation		
Land, buildings and improvements	4,869,984	-
Autos and trucks	3,701,383	-
Heavy equipment	3,860,536	-
Other equipment, furniture and fixtures	1,031,088	-
Construction in progress	11,788,823	-
Infrastructure	11,503,406	-
Accumulated depreciation	(18,023,305)	-
Total capital assets	18,731,915	-
Total assets	43,671,275	1,479,636
LIABILITIES		
Accounts payable	1,375,969	-
Accrued wages payable	565,899	-
Accrued interest payable	43,970	-
Due to other governments	1,358,564	-
Unearned revenue	6,844,551	-
Other liabilities:		
Due within one year	809,597	-
Due in more than one year	12,531,218	-
Total liabilities	23,529,768	-
NET ASSETS		
Invested in capital assets, net of related debt	17,562,380	-
Restricted for:		
Debt service	134,855	-
Unrestricted	2,444,272	1,479,636
Total net assets	\$ 20,141,507	\$ 1,479,636

The accompanying notes are an integral part of these financial statements.

HARRISON COUNTY, TEXAS

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2010

		Program Revenues			Changes Net Assets Primary Government	Component Unit Industrial Development Authority
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		
PRIMARY GOVERNMENT						
General administration	\$ 7,431,999	\$ 1,794,927	\$ -	\$ -	\$(5,637,072)	\$ -
Judicial	2,251,253	1,481,970	-	-	(769,283)	-
Legal	1,146,827	74,577	132,175	-	(940,075)	-
Elections	273,949	-	-	34,024	(239,925)	-
Financial administration	1,968,042	1,104,759	-	-	(863,283)	-
Public facilities	866,738	-	-	100,000	(766,738)	-
Public safety	10,005,499	411,560	864,406	-	(8,729,533)	-
Public transportation	5,213,074	6,820	80,567	-	(5,125,687)	-
License and weights division	22,828	-	-	-	(22,828)	-
Health and welfare	1,314,319	-	217,185	-	(1,097,134)	-
Culture and recreation	73,859	-	-	-	(73,859)	-
Conservation	217,062	-	9,441	-	(207,621)	-
Preservation and restoration	23,969	-	-	-	(23,969)	-
Public service	76,750	-	-	-	(76,750)	-
Interest and other charges	230,327	-	-	-	(230,327)	-
Total primary government governmental activities	<u>\$ 31,116,495</u>	<u>\$ 4,874,613</u>	<u>\$ 1,303,774</u>	<u>\$ 134,024</u>	<u>(24,804,084)</u>	<u>-</u>
COMPONENT UNIT						
Industrial development authority	<u>\$ 239,594</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>(239,594)</u>
General revenues						
Property taxes					18,893,124	-
Miscellaneous taxes					38,251	-
Interest earnings					49,246	-
Miscellaneous					543,941	-
Gain (loss) on sales of assets					15,888	-
Tax credits					-	1,719,230
Total general revenues					<u>19,540,450</u>	<u>1,719,230</u>
Change in net assets					(5,263,634)	1,479,636
Net assets, beginning					25,023,754	-
Prior period adjustments					<u>381,387</u>	<u>-</u>
Net assets, ending					<u>\$ 20,141,507</u>	<u>\$ 1,479,636</u>

The accompanying notes are an integral part of these financial statements.

HARRISON COUNTY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2010

	General	Road and Bridge	Jail Construction	Other Governmental	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 13,810,314	\$ -	\$ 4,730,020	\$ 3,164,988	\$ 21,705,322
Receivables, net					
Property taxes	1,505,459	-	-	-	1,505,459
Accounts receivable	52,527	35,541	-	6,670	94,738
Due from other governments	63,750	19,508	-	551,038	634,296
Due from other funds	808,570	145,270	-	96,736	1,050,576
Prepaid expenses	178,381	809	-	756	179,946
 Total assets	 \$ 16,419,001	 \$ 201,128	 \$ 4,730,020	 \$ 3,820,188	 \$ 25,170,337
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 120,641	\$ 173,039	\$ 528,765	\$ 108,767	\$ 931,212
Accrued wages payable	405,831	87,432	-	72,636	565,899
Due to other funds	-	125,695	-	539,215	664,910
Due to other governments	1,358,564	-	-	-	1,358,564
Deferred revenue	8,232,453	-	-	8,500	8,240,953
Total liabilities	10,117,489	386,166	528,765	729,118	11,761,538
Fund balances					
Reserved for:					
Debt service	-	-	-	178,825	178,825
Capital projects	-	-	4,201,255	57,353	4,258,608
Unreserved, reported in:					
General fund	6,301,512	-	-	-	6,301,512
Special revenue funds	-	(185,038)	-	2,854,892	2,669,854
Total fund balances	6,301,512	(185,038)	4,201,255	3,091,070	13,408,799
 Total liabilities and fund balances	 \$ 16,419,001	 \$ 201,128	 \$ 4,730,020	 \$ 3,820,188	 \$ 25,170,337

The accompanying notes are an integral part of these financial statements.

HARRISON COUNTY, TEXAS

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

SEPTEMBER 30, 2010

Amounts reported for governmental activities in the statement of net assets
are different because:

Total fund balances of governmental funds	\$ 13,408,799
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	18,731,915
The Internal Service Fund is used to charge the costs of health insurance to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net assets.	(381,119)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,670,929
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the funds.	<u>(13,289,017)</u>
Net assets of governmental activities	<u>\$ 20,141,507</u>

The accompanying notes are an integral part of these financial statements.

HARRISON COUNTY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2010

	General	Road and Bridge	Jail Construction	Other Governmental	Total Governmental Funds
REVENUES					
Ad valorem taxes	\$ 14,971,704	\$ 2,213,053	\$ -	\$ 1,774,010	\$ 18,958,767
Miscellaneous taxes	38,251	-	-	-	38,251
Licenses and permits	183,699	1,103,873	-	2,670	1,290,242
Fines and forfeitures	54,298	1,113,186	-	38,066	1,205,550
Governmental	80,904	80,567	-	1,291,232	1,452,703
Charges for services	1,727,283	-	-	636,633	2,363,916
Investment earnings	27,540	1,860	11,543	8,023	48,966
Miscellaneous	53,255	10	-	490,676	543,941
Total revenues	<u>17,136,934</u>	<u>4,512,549</u>	<u>11,543</u>	<u>4,241,310</u>	<u>25,902,336</u>
EXPENDITURES					
Current expenditures:					
General administration	3,579,160	2,383,293	-	535,737	6,498,190
Judicial	1,395,467	-	-	369,389	1,764,856
Legal	1,140,712	-	-	-	1,140,712
Elections	193,472	-	-	34,024	227,496
Financial administration	1,629,839	-	-	-	1,629,839
Public facilities	866,738	-	-	-	866,738
Public transportation	-	1,923,702	-	350,417	2,274,119
Public safety	6,302,529	-	-	2,217,307	8,519,836
License and weights division	-	22,828	-	-	22,828
Health and welfare	1,052,010	-	-	190,139	1,242,149
Culture and recreation	55,852	-	-	-	55,852
Conservation	190,980	-	-	-	190,980
Public service	76,750	-	-	-	76,750
Capital outlay	-	316,316	1,315,666	352,284	1,984,266
Debt service:					
Principal	-	-	-	454,489	454,489
Interest and other charges	-	-	-	227,808	227,808
Total expenditures	<u>16,483,509</u>	<u>4,646,139</u>	<u>1,315,666</u>	<u>4,731,594</u>	<u>27,176,908</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>653,425</u>	<u>(133,590)</u>	<u>(1,304,123)</u>	<u>(490,284)</u>	<u>(1,274,572)</u>
OTHER FINANCING SOURCES (USES)					
Loan and bond proceeds	259,641	-	-	-	259,641
Sale of capital assets	18,442	91	-	-	18,533
Operating transfer in	-	-	-	285,030	285,030
Operating transfers out	(283,924)	-	-	(1,106)	(285,030)
Total other financing sources (uses)	<u>(5,841)</u>	<u>91</u>	<u>-</u>	<u>283,924</u>	<u>278,174</u>
NET CHANGE IN FUND BALANCES	647,584	(133,499)	(1,304,123)	(206,360)	(996,398)
FUND BALANCES, BEGINNING	5,653,928	(51,539)	5,505,378	2,916,043	14,023,810
PRIOR PERIOD ADJUSTMENT	-	-	-	381,387	381,387
FUND BALANCES, RESTATED	<u>5,653,928</u>	<u>(51,539)</u>	<u>5,505,378</u>	<u>3,297,430</u>	<u>14,405,197</u>
FUND BALANCES, ENDING	<u>\$ 6,301,512</u>	<u>\$ (185,038)</u>	<u>\$ 4,201,255</u>	<u>\$ 3,091,070</u>	<u>\$ 13,408,799</u>

The accompanying notes are an integral part of these financial statements.

HARRISON COUNTY, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2010

Amounts reported for governmental activities in the statement of net assets
are different because:

Net change in fund balances - total governmental funds		\$(996,398)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current year.		
Capital outlay	\$ 2,046,760	
Depreciation expense	(3,005,207)	
		(958,447)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net assets.		454,489
The issuance of debt has no effect on the governmental funds.		(259,641)
Revenues in the statement of activities that do not provide current financial resources and are not reported as revenue in the funds.		(55,134)
Interest expense on long-term debt and contractual obligations is not accrued in the governmental funds.		(2,519)
The net effect of various sales and disposals of capital assets is to decrease net assets.		(2,645)
Delinquent property taxes receivable which do not provide current financial resources are not reported as revenue in the funds.		(65,643)
The increase in accrued compensated absences reported in the statement of activities does not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.		(64,829)
Other post employment benefit expense 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.		(3,410,538)
The Internal Service Fund is used to charge the costs of health insurance to individual funds. The net revenue (expense) of the activity of the Internal Service Fund is reported with governmental activities.		<u>97,671</u>
Changes in net assets of governmental activities		<u>\$(5,263,634)</u>

The accompanying notes are an integral part of these financial statements.

HARRISON COUNTY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Ad valorem taxes	\$ 15,078,285	\$ 15,078,285	\$ 14,971,704	\$(106,581)
Miscellaneous taxes	30,000	30,000	38,251	8,251
Licenses, permits and fees	128,000	128,000	183,699	55,699
Governmental	68,140	68,140	80,904	12,764
Fines and forfeitures	49,800	49,800	54,298	4,498
Charges for services	2,178,250	2,178,250	1,727,283	(450,967)
Investment earnings	300,000	300,000	27,540	(272,460)
Miscellaneous	126,250	126,250	53,255	(72,995)
Total revenues	<u>17,958,725</u>	<u>17,958,725</u>	<u>17,136,934</u>	<u>(821,791)</u>
EXPENDITURES				
General administration	4,023,262	3,965,653	3,579,160	386,493
Judicial	1,435,826	1,444,751	1,395,467	49,284
Legal	1,210,052	1,223,023	1,140,712	82,311
Elections	206,404	212,332	193,472	18,860
Financial administration	1,698,026	1,709,003	1,629,839	79,164
Public facilities	889,906	891,404	866,738	24,666
Public safety	6,219,187	6,268,057	6,302,529	(34,472)
Health and welfare	1,775,068	1,615,860	1,052,010	563,850
Culture and recreation	61,450	61,450	55,852	5,598
Conservation	199,883	199,883	190,980	8,903
Public service	83,750	85,250	76,750	8,500
Total expenditures	<u>17,802,814</u>	<u>17,676,667</u>	<u>16,483,509</u>	<u>1,193,158</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>155,911</u>	<u>282,058</u>	<u>653,425</u>	<u>371,367</u>
OTHER FINANCING SOURCES (USES)				
Loan and bond proceeds	-	-	259,641	259,641
Sale of capital assets	2,500	2,500	18,442	15,942
Operating transfers out	-	-	(283,924)	(283,924)
Total other financing sources (uses)	<u>2,500</u>	<u>2,500</u>	<u>(5,841)</u>	<u>(8,341)</u>
NET CHANGE IN FUND BALANCES	158,411	284,558	647,584	363,026
FUND BALANCES, BEGINNING	<u>5,653,928</u>	<u>5,653,928</u>	<u>5,653,928</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 5,812,339</u>	<u>\$ 5,938,486</u>	<u>\$ 6,301,512</u>	<u>\$ 363,026</u>

The accompanying notes are an integral part of these financial statements.

HARRISON COUNTY, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

ROAD AND BRIDGE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Road and Bridge Fund			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Ad valorem taxes	\$ 2,188,681	\$ 2,188,681	\$ 2,213,053	\$ 24,372
Licenses, permits and fees	1,235,500	1,235,500	1,103,873	(131,627)
Fines and forfeitures	976,000	976,000	1,113,186	137,186
Governmental	89,000	89,000	80,567	(8,433)
Investment earnings	31,000	31,000	1,860	(29,140)
Miscellaneous	<u>1,500</u>	<u>1,500</u>	<u>10</u>	<u>(1,490)</u>
Total revenues	<u>4,521,681</u>	<u>4,521,681</u>	<u>4,512,549</u>	<u>(9,132)</u>
EXPENDITURES				
General administration	2,359,836	2,395,177	2,383,293	11,884
Public transportation	1,800,000	1,992,845	1,923,702	69,143
License and weights division	32,895	22,970	22,828	142
Capital outlay	<u>333,000</u>	<u>316,759</u>	<u>316,316</u>	<u>443</u>
Total expenditures	<u>4,525,731</u>	<u>4,727,750</u>	<u>4,646,139</u>	<u>81,611</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(4,050)</u>	<u>(206,069)</u>	<u>(133,590)</u>	<u>72,479</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	<u>225,000</u>	<u>225,000</u>	<u>91</u>	<u>(224,909)</u>
Total other financing sources (uses)	<u>225,000</u>	<u>225,000</u>	<u>91</u>	<u>(224,909)</u>
NET CHANGE IN FUND BALANCES	220,950	18,931	(133,499)	(152,430)
FUND BALANCES, BEGINNING	<u>(51,539)</u>	<u>(51,539)</u>	<u>(51,539)</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 169,411</u>	<u>\$(32,608)</u>	<u>\$(185,038)</u>	<u>\$(152,430)</u>

The accompanying notes are an integral part of these financial statements.

HARRISON COUNTY, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2010

	<u>Governmental Activities Internal Service Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ <u>63,638</u>
Total assets	<u>63,638</u>
LIABILITIES	
Current liabilities:	
Accounts payable	<u>444,757</u>
Total liabilities	<u>444,757</u>
NET ASSETS	
Unrestricted	(<u>381,119</u>)
Total net assets	<u>\$(381,119)</u>

The accompanying notes are an integral part of these financial statements.

HARRISON COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Governmental Activities
	Internal Service Fund
OPERATING REVENUES	
Charges for services	\$ 3,019,404
Total operating revenues	3,019,404
OPERATING EXPENSES	
Benefit payments	2,922,013
Total operating expenses	2,922,013
OPERATING INCOME	97,391
NONOPERATING REVENUES (EXPENSES)	
Interest income	280
Total nonoperating revenues (expenses)	280
CHANGE IN NET ASSETS	97,671
TOTAL NET ASSETS, BEGINNING	(478,790)
TOTAL NET ASSETS, ENDING	\$(381,119)

The accompanying notes are an integral part of these financial statements.

HARRISON COUNTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Governmental Activities
	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from premiums and contributions	\$ 3,051,186
Payments for claims	(3,012,304)
Net cash provided by operating activities	38,882
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	280
Net cash provided by investing activities	280
NET INCREASE IN CASH	39,162
CASH AND CASH EQUIVALENTS, BEGINNING	24,476
CASH AND CASH EQUIVALENTS, ENDING	\$ 63,638
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income	\$ 97,391
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
(Increase) decrease in receivables	31,782
Increase (decrease) in payables	(90,291)
Total adjustments	(58,509)
Net cash provided by operating activities	\$ 38,882

The accompanying notes are an integral part of these financial statements.

HARRISON COUNTY, TEXAS

STATEMENT OF NET ASSETS

FIDUCIARY FUNDS

SEPTEMBER 30, 2010

	<u>Agency Funds</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 3,354,139
Accounts receivable	180,358
Investments	<u>5,603,172</u>
 Total assets	 \$ <u>9,137,669</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 259,314
Due to other governments	1,255,564
Due to other funds	385,666
Deferred revenue	279,977
Court ordered funds	1,480,316
Court ordered trust and prisoner funds	<u>5,476,832</u>
 Total liabilities	 \$ <u>9,137,669</u>

The accompanying notes are an integral part of these financial statements.

HARRISON COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Harrison County, Texas, was organized in 1842. The County operates under a County Judge-Commissioners' Court type of government. The County provides the following services throughout the County: public safety, public transportation (highways and roads), health and welfare, culture and recreation, conservation (agriculture), public facilities, judicial and legal, elections, and general and financial administrative services.

The financial statements of Harrison County, Texas, 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.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

A. Reporting Entity

In evaluating how to define the County for financial reporting purposes, management has considered all potential component units for which the County may be financially accountable and, as such, should be included within the County's financial statements. The County is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization, or (2) there is a potential for the organization to provide specific financial burden on the County. Additionally, the County is required to consider other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete.

Discretely Presented Component Unit

Harrison County Industrial Development Authority, Inc. (the "Authority") is a Texas nonprofit corporation and an industrial development corporation under the Development Corporation Act of 1979 governed exclusively by the Commissioners' Court of Harrison County, Texas. The Authority's operating budget is subject to approval of the Commissioners' Court. The County is able to impose its will on the Authority. The boards are not substantively the same. The Authority does not provide services to the County.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Discretely Presented Component Unit (Continued)

The accounting and reporting policies of the County relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. The following represents the more significant accounting and reporting policies and practices used by the County.

Separate financial statements for the Harrison County Industrial Development Authority, Inc. are not prepared.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of County. Interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, fees and fines, and intergovernmental revenues, are to be reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. Harrison County has no business-type activities.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. They include all funds of the County except for funds of a fiduciary nature. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes, intergovernmental revenue, and interest associated with the current year are all considered to be susceptible to accrual and so have been recognized as revenues of the current year. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All other revenue items are considered to be measurable and available only when the County receives the cash.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Amounts reported as program revenues include 1) charges to customers, citizens, or applicants for goods, services, privileges, or benefits provided, and revenues from fines, fees, and for forfeitures generated from public safety and judicial County functions, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Major funds represent the County's most important funds and are determined based on percentages of assets, liabilities, revenues, and expenditures/expenses. Governments may also choose to report other funds as major funds if the fund is particularly important to financial statement users. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining section. The County reports the following major governmental funds:

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 **Road and Bridge Fund** is a Special Revenue Fund used to account for monies designated for use in the Road and Bridge Department of the County. Primary sources of revenues include property tax revenue, automobile registration fees, County and District Court Clerk fees, and state allotments of road funds. Revenues are used for public transportation, maintenance and construction purposes.

The **Jail Construction Fund** is a Special Revenue Fund used to account for the design and construction costs of a new jail facility. Primary sources of revenue or resources are property taxes, bond proceeds, and interest income.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Additionally, the County reports the following fund types:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The major fund (Special Service District) is used to account for special levy ad valorem taxes and other activities for the unincorporated area of the County.

The Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on governmental contractual obligations.

The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. The generally accepted accounting principles applicable are those similar to businesses in the private sector. An Internal Service Fund is a type of proprietary fund used to account for the financing of goods or services provided by an activity to other departments or funds of the County on a cost-reimbursement basis. The County uses an Internal Service Fund to account for payments by the County and by the employees for health insurance premiums and for the payment of health insurance claims of County employees. The Internal Service Fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services in connection with the operation of the self-insured health care benefit program.

Fiduciary funds are separately presented in the fund financial statements using the accrual basis of accounting. These assets are being held for the benefit of a third party or in an agency capacity and cannot be used to address activities or obligations of the government. These funds are not incorporated into the government-wide statements. These funds do not present results of operations or have a measurement focus. Agency Funds are accounted for using the modified accrual basis of accounting.

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The County's cash and cash equivalents include cash on hand, demand deposit accounts, and cash management accounts related to demand deposit accounts. The County's investment policy authorizes the County Treasurer to invest County funds with any or all institutions or groups consistent with federal or state law, Chapter 2256 Texas Government Code, and the current Depository Bank Contract. During the year ended September 30, 2010, the County's investments were with its depository bank and MBIA. MBIA Asset Management (MBIA) is a "public funds investment pool," as defined by the Public Funds Investment Act Section 2256.016-2256.019, and the portfolio normally consists of U. S. treasury bills, treasury notes, other government and non-governmental obligations, collateralized certificates of deposit, and repurchase agreements. MBIA Municipal Investors Service is the Trustee, and Bank One, NA is custodian.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds.”

All property taxes receivable are shown net of an allowance for uncollectibles. The allowance is equal to 0.3% of the tax levy for the most recent 5 tax years and 90% of the outstanding balance per year for the prior 5 years, and all amounts over 10 years are deemed uncollectible. The County’s property taxes are levied on October 1, but do not become due until January 31 of the following year. Taxes become past due February 1, and become delinquent July 1. The County’s taxes become a lien on real property on the due date of October 1. This lien is effective until the taxes are paid.

Prepaid Expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets, which include buildings, property, plant, equipment, and infrastructure assets (roads and bridges), are reported in the governmental activities of the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of more than \$5,000 and an increased useful life in excess of one year. Such assets are recorded at historical cost where records are available or at an estimated fair market value at date of acquisition where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The County maintains many items and buildings of historical significance. The County does not capitalize historical treasures or works of art. The County has made this election because 1) the collection is held for reasons other than financial gain; 2) the collection is protected, kept unencumbered, cared for, and preserved; and 3) proceeds from the sale of collection items are used to acquire other items for collections.

Property, plant, and equipment of the County is depreciated using the straight-line method over the fiduciary estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Public domain infrastructure	5-50
Autos, machinery and equipment	5-10

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Compensated Absences

A liability for compensated absences is accrued by the County for all fulltime employees for unused vacation time, compensatory time off, and unused holidays. The County reports 10% of the total estimated liability for compensated absences as a current liability due in one year.

Compensated vacations are granted to all fulltime permanent employees of the County. The number of days for this can range from one (1) to four (4) weeks, depending upon length of continuous service. Unused vacation time can be accrued up to 160 hours, based on length of employment. Accrued time in excess of maximum is lost without payment. Accumulated vacation time is paid upon termination.

Compensatory time off is allowed in certain departments that have exempt employees who work in excess of 40 hours per week. In those departments, compensatory time off can be accrued up to 240 hours for clerical and 480 hours for professional employees. Time earned in excess of maximum accruals is paid as earned. Accumulated compensatory time off is paid upon termination.

Compensatory holiday time off is allowed in certain departments that have exempt employees who are required to work on official holidays. There is no cap on the amount of holiday compensatory time that can be accrued. Accumulated holiday compensatory time off is only paid out upon termination.

The County provides 80 hours of paid sick leave to all employees each year. Unused sick leave can be accumulated up to 360 hours. Accrued sick leave in excess of maximum is lost without payment. Employees are not entitled to payment for unused sick leave upon termination. The County does not accrue a liability for unpaid sick leave.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations of the governmental funds are reported as other liabilities in the statement of net assets. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources and debt payments as expenditures – debt service.

Fund Balance

In the fund financial statements, governmental funds report reserved fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Equity Classifications

Equity is classified as net assets and displayed in three components in the government-wide financial statements.

Invested in capital assets, net of related debt consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets consists of all other net assets that do not meet the definition of “restricted” or “invested” in capital assets net of related debt.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that may affect the amounts reported in the financial statements and the related notes. Accordingly, actual results could differ from these estimates.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end.

The County Judge is the budget officer for the County. The County Judge, Commissioners’ Court, County Auditor, and County department heads meet in budget workshops and prepare a tentative budget to cover all proposed expenditures of the County government for the succeeding fiscal year. The budget is prepared by fund, function, and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. The Commissioners’ Court shall hold a public hearing on the proposed budget. At the conclusion of the public hearing, the Commissioners’ Court shall take action on the proposed budget.

(continued)

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Budgetary Information (Continued)

After final approval of the budget, the Commissioners' Court may spend County funds only in strict compliance with the budget, except in an emergency. The Commissioners' Court may authorize an emergency expenditure as an amendment to the original budget only in a case of grave public necessity to meet an unusual and unforeseen condition that could not have been included in the original budget through the use of reasonably diligent thought and attention. If the Court amends the original budget to meet an emergency, the Court shall file a copy of its order amending the budget with the County Clerk, and the Clerk shall attach the copy to the original budget. Management may not amend the budget without approval from the Commissioners' Court.

Expenditures may not legally exceed budgeted appropriations at the activity level. The budget is amended only by approval of the Commissioners' Court. Proposed amendments are presented to the Commissioners' Court in a public meeting and each amendment must have Commissioners' Court approval. As required by law, such amendments made before the fact, are reflected in the official minutes of the Commissioners' Court meetings, and are not made after fiscal year-end. During the year, the budget was amended as necessary. Significant budget amendments passed during the year ended September 30, 2010, are discussed in the Management Discussion and Analysis (MD&A) starting on page 3 of this report.

Excess of Expenditures over Appropriations

For the year ended September 30, 2010, expenditures exceeded appropriations in the following functions of the General Fund:

Public safety	\$ 34,472
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Deficit Fund Equity

The Internal Service Fund had a deficit fund equity of \$381,119 as of September 30, 2010. The Internal Service Fund had claims in excess of available resources. The deficit net assets for this fund will be made up through increased County and employee premium funding.

The Road and Bridge Fund had a deficit fund equity of \$185,038 as of September 30, 2010. The deficit in net assets for this fund will be made up through increased revenues and a close monitoring of expenditures.

3. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

Investments

As of September 30, 2010, the County had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Primary government:		
Texas Term	\$ 11,714,090	8
MBIA	<u>8,975,451</u>	42
Total fair value	<u>\$ 20,689,541</u>	

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the County to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the County to invest in (1) obligations of the U. S. Treasury, certain U. S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust test procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

Deposits

Interest Rate Risk. In accordance with its investment policy, the County manages its exposure to declines in fair market values by limiting the average dollar-weighted maturity of its portfolio to a maximum of 365 days.

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the County's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government Obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2010, the County's deposit balance in the amount of \$6,912,037 was collateralized with securities held by the pledging financial institution in the County's name, FDIC TAG Accounts, or FDIC insurance.

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments (Continued)

Deposits (Continued)

Credit Risk. It is the County's policy, as defined in the Texas Public Funds Investment Act, to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The County's investments were rated as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>
Texas Term	AAAf	Standard & Poor's
MBIA	AAAm	Standard & Poor's

Analysis of Specific Deposit and Investment Risk

GASB Statement No. 40 requires a determination as to whether the County was exposed to the following specific deposit and investment risks at end of year, and if so, the reporting of certain related disclosures.

Interest Rate Risk. This is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the County manages its exposure to interest rate risk by limiting the maturity of any individual investment owned by the County to three years.

Receivables

Receivables at September 30, 2010, for the County's individual major funds and nonmajor and Internal Service Funds in the aggregate, including the applicable allowances for uncollectibles, are as follows:

	<u>General</u>	<u>Road and Bridge</u>	<u>Nonmajor</u>	<u>Total</u>
Receivables:				
Delinquent taxes	\$ 2,301,851	\$ -	\$ -	\$ 2,301,851
Accounts receivable	52,527	35,541	6,670	94,738
Due from other governments	63,750	19,508	551,038	634,296
Total receivables	<u>2,418,128</u>	<u>55,049</u>	<u>557,708</u>	<u>3,030,885</u>
Less: allowance for uncollectibles	<u>796,392</u>	-	-	<u>796,392</u>
Net total receivables	<u>\$ 1,621,736</u>	<u>\$ 55,049</u>	<u>\$ 557,708</u>	<u>\$ 2,234,493</u>

There are not any significant receivables that are not scheduled for collection within one year of year-end.

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets (Continued)

Capital asset activity for governmental activities for the year ended September 30, 2010, was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 440,255	\$ 156,189	\$ -	\$ 596,444
Construction in progress	<u>10,571,038</u>	<u>1,217,785</u>	<u>-</u>	<u>11,788,823</u>
Total assets not being depreciated	<u>11,011,293</u>	<u>1,373,974</u>	<u>-</u>	<u>12,385,267</u>
Capital assets, being depreciated:				
Buildings and improvements	4,273,540	-	-	4,273,540
Autos and trucks	3,347,393	486,853	(132,863)	3,701,383
Heavy equipment	3,731,911	128,625	-	3,860,536
Equipment, furniture and fixtures	973,780	57,308	-	1,031,088
Infrastructure	<u>11,503,406</u>	<u>-</u>	<u>-</u>	<u>11,503,406</u>
Total capital assets being depreciated	<u>23,830,030</u>	<u>672,786</u>	<u>(132,863)</u>	<u>24,369,953</u>
Less accumulated depreciation:				
Buildings and improvements	2,655,890	105,845	-	2,761,735
Autos and trucks	2,058,082	362,672	(130,218)	2,290,536
Heavy equipment	1,758,685	304,550	-	2,063,235
Equipment, furniture and fixtures	702,856	75,372	-	778,228
Infrastructure	<u>7,972,803</u>	<u>2,156,768</u>	<u>-</u>	<u>10,129,571</u>
Total accumulated depreciation	<u>15,148,316</u>	<u>3,005,207</u>	<u>(130,218)</u>	<u>18,023,305</u>
Total capital assets being depreciated, net	<u>8,681,714</u>	<u>(2,332,421)</u>	<u>(2,645)</u>	<u>6,346,648</u>
Governmental activities capital assets, net	<u>\$ 19,693,007</u>	<u>\$ (958,447)</u>	<u>\$ (2,645)</u>	<u>\$ 18,731,915</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General administration	\$ 2,577
Judicial	3,460
Legal	6,115
Elections	10,803
Financial administration	17,351
Public safety	325,404
Public transportation	2,629,986
Health and welfare	870
Culture and recreation	6,124
Preservation and restoration	202
Conservation	<u>2,315</u>
Total depreciation expense	<u>\$ 3,005,207</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2010, is as follows:

Due to/from Other Funds

	Due from			Total
	<u>Road and Bridge</u>	<u>Other Governmental</u>	<u>Agency</u>	
Due to:				
General	\$ 125,695	\$ 484,031	\$ 198,844	\$ 808,570
Road and bridge	-	-	145,270	145,270
Other governmental	-	55,184	41,552	96,736
Total	<u>\$ 125,695</u>	<u>\$ 539,215</u>	<u>\$ 385,666</u>	<u>\$ 1,050,576</u>

Balances resulted from the time lag between the dates that 1) interfund goods and services are provided on reimbursable expenditures, 2) transactions are recorded in the accounting system, and 3) payment between funds are made.

Interfund Transfers

	Transfers in	
	<u>Other Governmental</u>	<u>Total</u>
Transfers out:		
General	\$ 283,924	\$ 283,924
Other governmental	1,106	1,106
Total	<u>\$ 285,030</u>	<u>\$ 285,030</u>

Transfers from the General Fund are to use restricted revenues to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Deferred Revenues

	<u>09/30/10</u>
Delinquent property taxes	\$ 1,396,402
Protested property taxes	6,836,051
State and federal grants	<u>8,500</u>
Total per fund financial statements	<u>\$ 8,240,953</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

Deferred Revenues (Continued)

Delinquent Tax Receivable, Net

Delinquent tax receivable, net is a “long-term asset” and not available to pay for current period expenditures and is deferred in the fund financial statements. All tax revenues are recorded as revenue for government-wide reporting, therefore the deferred revenues for delinquent taxes is a reconciling item.

Protested Property Taxes

Harrison County contracts with the Harrison County Appraisal District to maintain the property tax roll and assess property tax values. Due to a lawsuit between a taxpayer and Harrison County Appraisal District, Harrison County has received payment for taxes that is being contested. Final outcome of this lawsuit cannot be estimated at this time. The County has chosen to not recognize the tax revenue or interest earned on these funds as revenue in the year received and defer this revenue until the lawsuit is settled. If the taxpayer is successful in the suit, the County will owe 8% interest on the taxes collected and ordered to be returned.

	<u>Tax Collected</u>	<u>Interest Earned</u>	<u>Total</u>
Total deferred revenue due to protested property taxes	\$ <u>6,496,704</u>	\$ <u>339,347</u>	\$ <u>6,836,051</u>

Harrison County normally collects and remits tax for Harrison County Emergency Service District #1. ESD #1 does not wish to receive the collected tax until the lawsuit is settled. Therefore, Harrison County is holding this money plus accrued interest and reporting these funds as a “due to other governments” as of September 30, 2010.

Long-term Debt

Schedule of Contractual Obligations

<u>Series and Original Issue Amount</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding 09/30/10</u>	
Certificates of Obligations - 2006	\$ 5,350,000	08/15/23	4.00% - 4.150%	\$ 4,575,000
Secured Equipment - Note #xxxx001	494,751	03/25/11	4.55%	312,559
Secured Equipment - Note #xxxx002	556,275	02/15/12	3.55%	469,975
Secured Equipment - Note #xxxx003	259,641	02/15/13	3.49%	<u>170,060</u>
Total				\$ <u>5,527,594</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt (Continued)

Harrison County, Texas Certificates of Obligation, Series 2006 – During the year ended September 30, 2006, the County issued debt to raise funds to build a new jail facility. Interest rates are 4.00% to 4.15%, and payments are due semiannually on February 15 and August 15. Under the terms of the contract, the County covenants to include in each of its annual budgets an amount sufficient to make the contract payment each year and to levy and collect taxes from year to year in an amount sufficient to fulfill and fully comply with the terms of the contract.

Secured Equipment Loan #xxxx393, Panola National Bank, Kilgore Texas – On January 5, 2006, Harrison County executed a loan agreement to borrow \$102,000 in order to finance the entire purchase of 33 new copy machines. The equipment was collateralized as security on the loan. Principal and interest payments are due annually, starting on January 31, 2006. Principal and interest payments on this loan are funded from general revenues of the General Fund.

Secured Equipment Loan #xxxx002, BancorpSouth Equipment Finance, Hattiesburg, Mississippi – On January 22, 2009, Harrison County executed a loan agreement to borrow \$556,275 in order to finance the entire purchase of three new pieces of heavy equipment used in the Road and Bridge Department. The stated interest rate is 3.55%. The equipment was collateralized as security on the loan. Principal and interest payments on this loan are funded from general revenues of the Road and Bridge Fund.

Secured Equipment Loan #xxxx003, BancorpSouth Equipment Finance, Hattiesburg, Mississippi – On October 27, 2010, Harrison County executed a loan agreement to borrow \$259,641 in order to finance the entire purchase of 11 new vehicles for the Sheriff's office. The stated interest rate is 3.59%. The vehicles were collateralized as security on the loan. Principal and interest payments on this loan are funded from general revenues of the Sheriff's office.

Long-term Liabilities Activity

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation debt	\$ 4,850,000	\$ -	\$ 275,000	\$ 4,575,000	\$ 275,000
Notes payable	872,442	259,640	179,488	952,594	431,392
Compensated absences	967,214	64,829	-	1,032,043	-
OPEB payable	3,370,640	3,410,538	-	6,781,178	-
	<u>\$ 10,060,296</u>	<u>\$ 3,735,007</u>	<u>\$ 454,488</u>	<u>\$ 13,340,815</u>	<u>\$ 706,392</u>

(continued)

3. **DETAILED NOTES ON ALL FUNDS (Continued)**

Long-term Debt (Continued)

Long-term Liabilities Activity (Continued)

Current year debt service payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
General obligation debt	\$ 275,000	\$ 190,106	\$ 465,106
Notes payable	<u>179,488</u>	<u>35,304</u>	<u>214,792</u>
	<u>\$ 454,488</u>	<u>\$ 225,410</u>	<u>\$ 679,898</u>

Future debt service requirements are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 706,392	\$ 216,617	\$ 923,009
2012	796,202	186,859	983,061
2013	300,000	156,606	456,606
2014	300,000	144,606	444,606
2015	325,000	132,106	457,106
2016-2020	1,825,000	452,541	2,277,541
2021-2023	<u>1,275,000</u>	<u>81,184</u>	<u>1,356,184</u>
Total	<u>\$ 5,527,594</u>	<u>\$ 1,370,519</u>	<u>\$ 6,898,113</u>

4. **OTHER INFORMATION**

Risk Management

Harrison County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the County carries commercial insurance. There have not been significant reductions in insurance carried during the year ended September 30, 2010. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

In addition, Harrison County is a member of the Texas Association of Counties (TAC) Risk Management Pool, a public entity risk pool, participating in property and casualty insurance coverage, automobile insurance coverage, and public official and law enforcement liability coverage. The pool is authorized by Chapter 119, Local Government Code and provides coverage through an interlocal agreement, The Interlocal Cooperation Act – Chapter 791, Texas Government Code). The interlocal agreement provides that the TAC pool will be self-sustaining through member premiums and will reinsure through commercial insurance companies for claims in excess of \$250,000 for each insured event. Premiums paid to the pool during 2010 have been reported as expenditures in the General Fund and Special Revenue Funds.

(continued)

4. **OTHER INFORMATION** (Continued)

Risk Management (Continued)

During the year ended September 30, 2010, employees of the County were covered by a health insurance plan (the "Plan"). The County contributed to the Plan for employees and, employees, at their option, authorized payroll withholding to pay contributions for their dependents. All contributions were paid to an Internal Service Fund maintained by the County for the purpose of self-insuring these health costs. A claims administration agreement (the Agreement) was executed with a third party administrator to provide for the payment of health benefits to the employees of the County. Reinsurance coverage was obtained for a \$100,000 specific deductible and \$900,000 maximum reimbursement per person.

The County was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through HCC Life Insurance Company, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect as stated in the paragraph above. Latest financial statements for HCC Life Insurance Company have been filed with the Texas State Board of Insurance, Austin, Texas, and are public record.

A liability was recorded at year-end for claims incurred prior to September 30, 2010, and paid within 60 days of year-end. A liability has not been estimated for claims incurred but not reported.

An analysis of claims activity is presented below:

	<u>Beginning Balance</u>	<u>Current Year Claims Expenditures</u>	<u>Actual Claims Payments</u>	<u>Ending Balance</u>
09/30/2010	\$ 535,048	\$ 2,874,750	\$(2,965,041)	\$ 444,757
09/30/2009	380,382	3,153,054	(2,998,388)	535,048
09/30/2008	353,980	2,101,472	(2,075,070)	380,382

Contingent Liabilities and Commitments

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 that may be disallowed by the grantor cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County's attorney, the resolution of these matters will not have a materially adverse effect on the financial condition of the County.

(continued)

4. OTHER INFORMATION (Continued)

Pension Plan

Plan Description

The County provides retirement, disability, and death benefits for all of its fulltime 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 602 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 employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are 100% vested after 8 years but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

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 employer, within the actuarial constraints imposed by the TCDRS Act, so that the estimated benefits, that are expected, can be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. It was 9.69% for the months in calendar year 2009, and 10.27% in calendar year 2010. The contribution rate payable by the employee members is the rate of 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

(continued)

4. **OTHER INFORMATION (Continued)**

Pension Plan (Continued)

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/07	12/31/08	12/31/09
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, closed	level percentage of payroll, closed	level percentage of payroll, closed
Amortization period in years	15	15	15
Asset valuation method	SAF: 10-year smoothed value ESF: Fund value	SAF: 10-year smoothed value ESF: Fund value	SAF: 10-year smoothed value ESF: Fund value
Actuarial Assumptions:			
Investment return	8.00%	8.00%	8.00%
Projected salary increases	5.3%	5.3%	5.4%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	0.0%	0.0%	0.0%

**Trend Information for the
Retirement Plan for the Employees of Harrison County**

<u>Accounting Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
09/30/08	\$ 904,207	100%	\$ -
09/30/09	980,480	100%	-
09/30/10	1,010,659	100%	-

Annual Pension Cost

For the employer's accounting year ended September 30, 2010, the annual pension cost for the TCDRS plan for its employees was \$1,010,659 and the actual contributions were \$1,010,659. 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 for the years ended December 31, 2001 through December 31, 2009, the basis for determining the contribution rate for calendar years 2009 and 2010. The December 31, 2009 valuation is the most recent valuation.

(continued)

4. **OTHER INFORMATION** (Continued)

Pension Plan (Continued)

**Schedule of Funding Progress for the Retirement Plan
For the Employees of Harrison County**

Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2007	\$ 23,206,360	\$ 26,181,523	\$ 2,975,163	88.64%	\$ 9,127,957	32.59%
2008	22,888,448	27,805,830	4,917,382	82.32%	9,723,794	50.57%
2009	24,683,370	29,573,819	4,890,449	83.46%	10,198,693	47.95%

Post-retirement Health Care Benefits

The County provides certain health care benefits through a single-employer defined benefit OPEB plan. Regular, full-time employees are eligible to participate in the County's health care plan as a retiree at their own expense. The retiree pays 100% of the premiums for the insurance. Members are eligible at any age with 20 or 30 years of service or at age 60 with 8 years of service or when member's age plus service credit total 75 or 80. Spouses of retirees are also eligible. Currently, the County has 255 active employees and 84 retirees eligible to participate in the plan.

When a regular, full-time employee retires they are eligible to continue to participate in the County's group health insurance plan. Members who terminate employment prior to retirement are not eligible for retiree health care benefits.

Retirees are eligible for health care until they become Medicare eligible. The retiree pays full Medicare premiums. The County's coverage continues as a secondary health care plan.

Retirees who decide to opt-out for the health care plan are eligible to opt back in when coverage from another entity ceases.

(continued)

4. **OTHER INFORMATION (Continued)**

Post-retirement Health Care Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation

The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The County's annual OPEB cost for the current year and the related information is listed below:

Annual Required Contribution (ARC)	\$ 3,632,660
Interest on Net OPEB Obligation	<u>151,679</u>
Annual OPEB Cost	3,784,339
Employer Contributions with Interest	(373,801)
Increase (Decrease) in Net OPEB Obligation	3,410,538
Net OPEB Obligation, beginning of year	<u>3,370,640</u>
 Net OPEB Obligation, end of year	 <u>\$ 6,781,178</u>

Expenses for post-retirement health care benefits are funded on a pay-as-you-go basis.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year (4.5% discount rate, and level percent of pay amortization).

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
09/30/10	\$ 3,784,339	\$ 373,801	7%	\$ 3,410,538
09/30/09	3,632,660	262,020	7%	3,370,640

Funding Status and Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (AAL) (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>
09/30/08	\$ -	\$ 35,154,799	\$ 35,154,799	- %	\$ -

This is the second year of implementation for GASB Statement No. 45 for the County. Only one actuarial evaluation has been required in this time period. Therefore, only one year is available for presentation on the Schedule of Funding Status and Funding Progress.

(continued)

4. **OTHER INFORMATION** (Continued)

Post-retirement Health Care Benefits (Continued)

An Annual OPEB Cost and Net OPEB Obligation (Continued)

The projection of future payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the County and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial methods and significant assumptions used are as follows:

Actuarial Valuation Date	09/30/2009	09/30/2008
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level percent of payroll	Level percent of payroll
Remaining Amortization Period	30 years	30 years
Asset Valuation Method	Market Value	Market Value
Actuarial Assumptions:		
Investment Rate of Return	4.5%	4.5%
Payroll Growth Rate	3%	3%
Projected Salary Increases	4%	4%
General Inflation Rate	3%	3%
Healthcare cost trend rate	10%	10%
The number of active members is assumed to remain constant in the future		

Prior Period Adjustment

Road Reimbursements

The County had previously received money from outside corporations for overweight permit fees when heavy machinery and vehicles use County roads. This amount was being accounted for in a deferred revenue account when amounts had been earned and should have been recorded as revenue in the prior years. The net effect of this adjustment increased beginning fund balance \$381,387 in the Overweight Permit Fund.

**COMBINING AND INDIVIDUAL
FUND FINANCIAL STATEMENTS**

HARRISON COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,988,106	\$ 176,882	\$ -	\$ 3,164,988
Receivables:				
Accounts receivable	6,670	-	-	6,670
Due from other governments	125,986	-	425,052	551,038
Due from other funds	94,644	1,943	149	96,736
Prepaid expenses	756	-	-	756
Total assets	\$ 3,216,162	\$ 178,825	\$ 425,201	\$ 3,820,188
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$ 97,636	\$ -	\$ 11,131	\$ 108,767
Accrued wages payable	72,636	-	-	72,636
Due to other funds	182,498	-	356,717	539,215
Deferred revenue	8,500	-	-	8,500
Total liabilities	361,270	-	367,848	729,118
Fund equity:				
Fund balance:				
Reserved for debt service	-	178,825	-	178,825
Reserved for capital projects	-	-	57,353	57,353
Unreserved, undesignated	2,854,892	-	-	2,854,892
Total fund equity	2,854,892	178,825	57,353	3,091,070
Total liabilities and fund equity	\$ 3,216,162	\$ 178,825	\$ 425,201	\$ 3,820,188

HARRISON COUNTY, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES				
Ad valorem taxes	\$ 1,159,959	\$ 570,205	\$ 43,846	\$ 1,774,010
Licenses and permits	2,670	-	-	2,670
Governmental revenue	1,191,232	-	100,000	1,291,232
Charges for services	636,633	-	-	636,633
Fines and forfeitures	38,066	-	-	38,066
Investment earnings	6,876	688	459	8,023
Miscellaneous	490,676	-	-	490,676
Total revenues	<u>3,526,112</u>	<u>570,893</u>	<u>144,305</u>	<u>4,241,310</u>
EXPENDITURES				
Current expenditures:				
General administration	535,737	-	-	535,737
Judicial	369,389	-	-	369,389
Elections	34,024	-	-	34,024
Public safety	2,217,307	-	-	2,217,307
Public transportation	350,417	-	-	350,417
Health and welfare	190,139	-	-	190,139
Capital outlay	13,861	-	338,423	352,284
Debt service				
Principal	-	454,489	-	454,489
Interest and other charges	-	227,808	-	227,808
Total expenditures	<u>3,710,874</u>	<u>682,297</u>	<u>338,423</u>	<u>4,731,594</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(184,762)</u>	<u>(111,404)</u>	<u>(194,118)</u>	<u>(490,284)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfer in	6,419	-	278,611	285,030
Operating transfer out	<u>(1,106)</u>	<u>-</u>	<u>-</u>	<u>(1,106)</u>
Total other financing sources (uses)	<u>5,313</u>	<u>-</u>	<u>278,611</u>	<u>283,924</u>
NET CHANGE IN FUND BALANCES	<u>(179,449)</u>	<u>(111,404)</u>	<u>84,493</u>	<u>(206,360)</u>
FUND BALANCES, BEGINNING	2,652,954	290,229	(27,140)	2,916,043
PRIOR PERIOD ADJUSTMENT	<u>381,387</u>	<u>-</u>	<u>-</u>	<u>381,387</u>
FUND BALANCES, RESTATED	<u>3,034,341</u>	<u>290,229</u>	<u>(27,140)</u>	<u>3,297,430</u>
FUND BALANCES, ENDING	<u>\$ 2,854,892</u>	<u>\$ 178,825</u>	<u>\$ 57,353</u>	<u>\$ 3,091,070</u>

HARRISON COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

SEPTEMBER 30, 2010

	<u>Jury</u>	<u>Bail Bond Board</u>	<u>Drug Forfeitures</u>	<u>Emergency Operating Center</u>	<u>Airport Maintenance</u>	<u>Tax Collector VIT</u>
ASSETS						
Cash and cash equivalents	\$ 43,307	\$ 112,070	\$ 8,044	\$ 6,680	\$ 260,171	\$ 64,561
Receivables:						
Accounts receivable	-	-	-	-	6,550	-
Due from other governments	-	-	-	-	9,049	-
Due from other funds	965	-	-	-	-	196
Prepaid expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 44,272</u>	<u>\$ 112,070</u>	<u>\$ 8,044</u>	<u>\$ 6,680</u>	<u>\$ 275,770</u>	<u>\$ 64,757</u>
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 18,102	\$ -
Accrued wages payable	5,048	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>5,048</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,102</u>	<u>-</u>
Fund equity:						
Fund balance:						
Unreserved, undesignated	<u>39,224</u>	<u>112,070</u>	<u>8,044</u>	<u>6,680</u>	<u>257,668</u>	<u>64,757</u>
Total fund equity	<u>39,224</u>	<u>112,070</u>	<u>8,044</u>	<u>6,680</u>	<u>257,668</u>	<u>64,757</u>
Total liabilities and fund equity	<u>\$ 44,272</u>	<u>\$ 112,070</u>	<u>\$ 8,044</u>	<u>\$ 6,680</u>	<u>\$ 275,770</u>	<u>\$ 64,757</u>

<u>Justice Technology</u>	<u>Law Library</u>	<u>Juvenile Services</u>	<u>County Grant</u>	<u>Records Management</u>	<u>Security</u>	<u>Tobacco Settlement</u>	<u>District Attorney Special</u>
\$ 269,911	\$ 134,152	\$ 310,069	\$ 115,153	\$ 648,254	\$ 114,183	\$ 403,510	\$ 162,675
-	-	-	-	-	-	-	120
-	-	15,202	101,735	-	-	-	-
2,894	3,780	58,880	-	19,692	5,104	-	-
-	-	756	-	-	-	-	-
<u>\$ 272,805</u>	<u>\$ 137,932</u>	<u>\$ 384,907</u>	<u>\$ 216,888</u>	<u>\$ 667,946</u>	<u>\$ 119,287</u>	<u>\$ 403,510</u>	<u>\$ 162,795</u>
\$ 6,281	\$ 25,419	\$ -	\$ 36,951	\$ 8,215	\$ -	\$ -	\$ 443
-	-	61,285	2,973	-	1,443	-	1,887
-	-	55,185	127,313	-	-	-	-
-	-	2,964	5,536	-	-	-	-
<u>6,281</u>	<u>25,419</u>	<u>119,434</u>	<u>172,773</u>	<u>8,215</u>	<u>1,443</u>	<u>-</u>	<u>2,330</u>
<u>266,524</u>	<u>112,513</u>	<u>265,473</u>	<u>44,115</u>	<u>659,731</u>	<u>117,844</u>	<u>403,510</u>	<u>160,465</u>
<u>266,524</u>	<u>112,513</u>	<u>265,473</u>	<u>44,115</u>	<u>659,731</u>	<u>117,844</u>	<u>403,510</u>	<u>160,465</u>
<u>\$ 272,805</u>	<u>\$ 137,932</u>	<u>\$ 384,907</u>	<u>\$ 216,888</u>	<u>\$ 667,946</u>	<u>\$ 119,287</u>	<u>\$ 403,510</u>	<u>\$ 162,795</u>

(continued)

HARRISON COUNTY, TEXAS

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

(Continued)

SEPTEMBER 30, 2010

	<u>District Court Technology</u>	<u>County Court Technology</u>	<u>Case Manager</u>	<u>District Clerk Preservation</u>	<u>County Clerk Preservation</u>	<u>6th Court of Appeal</u>
ASSETS						
Cash and cash equivalents	\$ 2,804	\$ 517	\$ 1,753	\$ 5,442	\$ 3,361	\$ 2,225
Receivables:						
Accounts receivable	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-
Due from other funds	333	125	1,030	650	460	535
Prepaid expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 3,137</u>	<u>\$ 642</u>	<u>\$ 2,783</u>	<u>\$ 6,092</u>	<u>\$ 3,821</u>	<u>\$ 2,760</u>
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,225
Accrued wages payable	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,225</u>
Fund equity:						
Fund balance:						
Unreserved, undesignated	<u>3,137</u>	<u>642</u>	<u>2,783</u>	<u>6,092</u>	<u>3,821</u>	<u>535</u>
Total fund equity	<u>3,137</u>	<u>642</u>	<u>2,783</u>	<u>6,092</u>	<u>3,821</u>	<u>535</u>
Total liabilities and fund equity	<u>\$ 3,137</u>	<u>\$ 642</u>	<u>\$ 2,783</u>	<u>\$ 6,092</u>	<u>\$ 3,821</u>	<u>\$ 2,760</u>

<u>Overweight Permit</u>	<u>Totals</u>
\$ 319,264	\$ 2,988,106
-	6,670
-	125,986
-	94,644
<u>-</u>	<u>756</u>
<u>\$ 319,264</u>	<u>\$ 3,216,162</u>
\$ -	\$ 97,636
-	72,636
-	182,498
<u>-</u>	<u>8,500</u>
<u>-</u>	<u>361,270</u>
<u>319,264</u>	<u>2,854,892</u>
<u>319,264</u>	<u>2,854,892</u>
<u>\$ 319,264</u>	<u>\$ 3,216,162</u>

HARRISON COUNTY, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Jury</u>	<u>Bail Bond Board</u>	<u>Drug Forfeitures</u>	<u>Emergency Operating Center</u>	<u>Airport Maintenance</u>	<u>Tax Collector VIT</u>
REVENUES						
Ad valorem taxes	\$ 199,305	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	2,670	-	-	-	-
Governmental revenue	16,660	-	3,960	-	-	-
Charges for services	4,354	-	-	-	6,820	1,146
Fines and forfeitures	-	-	-	-	-	-
Investment earnings	126	90	13	17	694	278
Miscellaneous	-	50,000	-	-	163,443	-
Total revenues	<u>220,445</u>	<u>52,760</u>	<u>3,973</u>	<u>17</u>	<u>170,957</u>	<u>1,424</u>
EXPENDITURES						
Current expenditures:						
General administration	-	-	-	-	152,994	1,168
Judicial	211,517	-	-	-	-	-
Elections	-	-	-	-	-	-
Public safety	-	-	7,204	-	-	-
Public transportation	-	-	-	-	11,061	-
Health and welfare	-	-	-	-	-	-
Capital outlay	-	-	-	-	12,344	-
Total expenditures	<u>211,517</u>	<u>-</u>	<u>7,204</u>	<u>-</u>	<u>176,399</u>	<u>1,168</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>8,928</u>	<u>52,760</u>	<u>(3,231)</u>	<u>17</u>	<u>(5,442)</u>	<u>256</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>8,928</u>	<u>52,760</u>	<u>(3,231)</u>	<u>17</u>	<u>(5,442)</u>	<u>256</u>
FUND BALANCE, BEGINNING	30,296	59,310	11,275	6,663	263,110	64,501
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-	-
FUND BALANCE, RESTATED	<u>30,296</u>	<u>59,310</u>	<u>11,275</u>	<u>6,663</u>	<u>263,110</u>	<u>64,501</u>
FUND BALANCE, ENDING	<u>\$ 39,224</u>	<u>\$ 112,070</u>	<u>\$ 8,044</u>	<u>\$ 6,680</u>	<u>\$ 257,668</u>	<u>\$ 64,757</u>

<u>Justice Technology</u>	<u>Law Library</u>	<u>Juvenile Services</u>	<u>County Grant</u>	<u>Records Management</u>	<u>Security</u>	<u>Tobacco Settlement</u>	<u>District Attorney Special</u>
\$ -	\$ -	\$ 960,654	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	624,010	485,810	-	-	29,082	31,710
44,628	45,478	191,540	-	229,681	71,213	-	24,766
-	-	-	-	-	-	-	38,066
665	356	1,127	61	1,881	263	938	364
-	-	-	-	-	-	-	-
<u>45,293</u>	<u>45,834</u>	<u>1,777,331</u>	<u>485,871</u>	<u>231,562</u>	<u>71,476</u>	<u>30,020</u>	<u>94,906</u>
30,973	-	-	-	350,602	-	-	-
-	77,295	-	-	-	80,577	-	-
-	-	-	34,024	-	-	-	-
-	-	1,838,528	267,117	-	-	-	104,458
-	-	-	-	-	-	-	-
-	-	-	190,139	-	-	-	-
-	-	1,517	-	-	-	-	-
<u>30,973</u>	<u>77,295</u>	<u>1,840,045</u>	<u>491,280</u>	<u>350,602</u>	<u>80,577</u>	<u>-</u>	<u>104,458</u>
<u>14,320</u>	<u>(31,461)</u>	<u>(62,714)</u>	<u>(5,409)</u>	<u>(119,040)</u>	<u>(9,101)</u>	<u>30,020</u>	<u>(9,552)</u>
-	-	-	6,177	-	242	-	-
(1,106)	-	-	-	-	-	-	-
<u>(1,106)</u>	<u>-</u>	<u>-</u>	<u>6,177</u>	<u>-</u>	<u>242</u>	<u>-</u>	<u>-</u>
<u>13,214</u>	<u>(31,461)</u>	<u>(62,714)</u>	<u>768</u>	<u>(119,040)</u>	<u>(8,859)</u>	<u>30,020</u>	<u>(9,552)</u>
253,310	143,974	328,187	43,347	778,771	126,703	373,490	170,017
-	-	-	-	-	-	-	-
<u>253,310</u>	<u>143,974</u>	<u>328,187</u>	<u>43,347</u>	<u>778,771</u>	<u>126,703</u>	<u>373,490</u>	<u>170,017</u>
<u>\$ 266,524</u>	<u>\$ 112,513</u>	<u>\$ 265,473</u>	<u>\$ 44,115</u>	<u>\$ 659,731</u>	<u>\$ 117,844</u>	<u>\$ 403,510</u>	<u>\$ 160,465</u>

(continued)

HARRISON COUNTY, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

**NONMAJOR SPECIAL REVENUE FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>District Court Technology</u>	<u>County Court Technology</u>	<u>Case Manager</u>	<u>District Clerk Preservation</u>	<u>County Clerk Preservation</u>	<u>6th Court of Appeal</u>
REVENUES						
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Governmental revenue	-	-	-	-	-	-
Charges for services	3,137	642	2,783	6,090	3,820	535
Fines and forfeitures	-	-	-	-	-	-
Investment earnings	-	-	-	2	1	-
Miscellaneous	-	-	-	-	-	-
Total revenues	<u>3,137</u>	<u>642</u>	<u>2,783</u>	<u>6,092</u>	<u>3,821</u>	<u>535</u>
EXPENDITURES						
Current expenditures:						
General administration	-	-	-	-	-	-
Judicial	-	-	-	-	-	-
Elections	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Public transportation	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,137</u>	<u>642</u>	<u>2,783</u>	<u>6,092</u>	<u>3,821</u>	<u>535</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>3,137</u>	<u>642</u>	<u>2,783</u>	<u>6,092</u>	<u>3,821</u>	<u>535</u>
FUND BALANCE, BEGINNING	-	-	-	-	-	-
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-	-
FUND BALANCE, RESTATED	-	-	-	-	-	-
FUND BALANCE, ENDING	<u>\$ 3,137</u>	<u>\$ 642</u>	<u>\$ 2,783</u>	<u>\$ 6,092</u>	<u>\$ 3,821</u>	<u>\$ 535</u>

<u>Overweight Permit</u>	<u>Totals</u>
\$ -	\$ 1,159,959
-	2,670
-	1,191,232
-	636,633
-	38,066
-	6,876
<u>277,233</u>	<u>490,676</u>
<u>277,233</u>	<u>3,526,112</u>
-	535,737
-	369,389
-	34,024
-	2,217,307
339,356	350,417
-	190,139
-	<u>13,861</u>
<u>339,356</u>	<u>3,710,874</u>
<u>(62,123)</u>	<u>(184,762)</u>
-	6,419
-	<u>(1,106)</u>
-	<u>5,313</u>
<u>(62,123)</u>	<u>(179,449)</u>
-	2,652,954
<u>381,387</u>	<u>381,387</u>
<u>381,387</u>	<u>3,034,341</u>
<u>\$ 319,264</u>	<u>\$ 2,854,892</u>

HARRISON COUNTY, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

JAIL CONSTRUCTION FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Jail Construction			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Investment earnings	\$ 150,000	\$ 150,000	\$ 11,543	\$(138,457)
Total revenues	<u>150,000</u>	<u>150,000</u>	<u>11,543</u>	<u>(138,457)</u>
EXPENDITURES				
Capital outlay	5,755,061	5,755,061	1,315,666	4,439,395
Total expenditures	<u>5,755,061</u>	<u>5,755,061</u>	<u>1,315,666</u>	<u>4,439,395</u>
NET CHANGE IN FUND BALANCES	(5,605,061)	(5,605,061)	(1,304,123)	4,300,938
FUND BALANCES, BEGINNING	<u>5,505,378</u>	<u>5,505,378</u>	<u>5,505,378</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$(99,683)</u>	<u>\$(99,683)</u>	<u>\$ 4,201,255</u>	<u>\$ 4,300,938</u>

The accompanying notes are an integral part of these financial statements.

HARRISON COUNTY, TEXAS

COMBINING STATEMENT OF ASSETS AND LIABILITIES

AGENCY FUNDS

SEPTEMBER 30, 2010

	County Treasurer	County Clerk	District Attorney	District Clerk
ASSETS				
Cash and cash equivalents	\$ 211,446	\$ 396,174	\$ 13,465	\$ 1,235,305
Accounts receivable	-	-	-	-
Investments	-	847,558	-	4,605,614
Total assets	\$ 211,446	\$ 1,243,732	\$ 13,465	\$ 5,840,919
LIABILITIES				
Accounts payable	\$ -	\$ 22,151	\$ 13,465	\$ 4,058
Due to other governments	211,425	5,613	-	8,579
Due to other funds	21	79,560	-	31,512
Deferred revenue	-	-	-	-
Court ordered funds	-	288,850	-	1,191,156
Court ordered trust and prisoner funds	-	847,558	-	4,605,614
Total liabilities	\$ 211,446	\$ 1,243,732	\$ 13,465	\$ 5,840,919

<u>Justices of the Peace</u>	<u>Juvenile Center</u>	<u>Sheriff</u>	<u>Tax Assessor- Collector</u>	<u>Fines Collection</u>	<u>Totals</u>
\$ 152,694	\$ 1,822	\$ 199,179	\$ 1,093,841	\$ 50,213	\$ 3,354,139
-	-	180,358	-	-	180,358
<u>-</u>	<u>-</u>	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>5,603,172</u>
<u>\$ 152,694</u>	<u>\$ 1,822</u>	<u>\$ 379,537</u>	<u>\$ 1,243,841</u>	<u>\$ 50,213</u>	<u>\$ 9,137,669</u>
\$ 2,511	\$ 593	\$ 196,018	\$ 17,482	\$ 3,036	\$ 259,314
61,592	40	-	956,386	11,929	1,255,564
88,281	1,189	1,428	148,427	35,248	385,666
-	-	158,431	121,546	-	279,977
310	-	-	-	-	1,480,316
<u>-</u>	<u>-</u>	<u>23,660</u>	<u>-</u>	<u>-</u>	<u>5,476,832</u>
<u>\$ 152,694</u>	<u>\$ 1,822</u>	<u>\$ 379,537</u>	<u>\$ 1,243,841</u>	<u>\$ 50,213</u>	<u>\$ 9,137,669</u>

**INTERNAL CONTROL
AND COMPLIANCE SECTION**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable County Judge
and County Commissioners
Harrison County, Texas

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Harrison County, Texas, as of and for the year ended September 30, 2010, which collectively comprise the Harrison County, Texas' basic financial statements and have issued our report thereon dated June 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harrison County, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harrison County, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Harrison County, Texas' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency, Finding 2010-1, described in the accompanying Schedule of Findings and Responses to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harrison County, Texas' 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*.

Harrison County, Texas' response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit Harrison County, Texas' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Commissioners' Court, others within the entity, 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.

Pattillo, Brown + Hill, L.L.P.

June 23, 2011

HARRISON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

**Findings Relating to the Financial Statements Which are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards**

Item 2010-1

Condition: During the audit, we noted instances where revenues and expenses were being netted together.

Effect: Without recording revenues and expenses in the proper accounts, revenues and expenditures may be incorrectly stated on the financial statements.

Cause: The County booked revenues and expenses in a deferred revenue account for road and bridge reimbursements from outside companies in order to monitor amount allocated to repairs.

Recommendation: The County should ensure that all revenues and expenditures that occur for the county should be recorded properly and reservations are created in fund balance to account for designated revenue streams.

Management's Response: The County will set up a new fund for funds received for road repairs and begin allocating revenue and expenditures properly to their respective line items.

Contact Person Responsible
for Corrective Action: Marc Palmer, County Auditor

Anticipated Completion
Date: Corrections to netted revenue and expenditures will be corrected on or before October 1, 2010.

HARRISON COUNTY, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

**Findings Relating to the Financial Statements Which are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards**

<u>Finding 2009-01:</u>	Fines and Fees Receivable
<u>Condition and Criteria:</u>	The receivable balance at the Justice of the Peace and District Clerk offices are not properly stated.
<u>Effect:</u>	A significant amount of fines and fees which should be noted as paid, time served, or dismissed remain outstanding in the County's system.
<u>Cause:</u>	Fines and fees that have been paid, dismissed, and time served is not noted accordingly in the County's system. In addition, the Justice of the Peace offices do not have signed judgments for all cases to support the amount due.
<u>Recommendation:</u>	The offices should retain signed judgments, and receivable balances should agree to this supporting documentation. For all cases currently in the system, the County should verify that the balances outstanding are accurate by reviewing judgments, receipts, and dismissal orders. Any incorrect balances should be updated in the system.
<u>Management's Response:</u>	The fiscal year 2009 statements will have the proper receivable balances available.
<u>Contact Person Responsible for Corrective Action:</u>	Marc Palmer, County Auditor
<u>Anticipated Completion Date:</u>	September 30, 2010
<u>Current Status:</u>	This matter has been resolved.

(continued)

HARRISON COUNTY, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2010

Findings and Questioned Costs Related to State Awards

<u>Finding 2009-02:</u>	Suspension and debarment
<u>Condition and Criteria:</u>	<p>We identified instances in which documentation verifying a vendor's suspension or debarment status could not be provided by the County. We verified that the vendors included in our sample were not suspended or debarred.</p> <p>According to the State of Texas Uniform Grant Management Standards, recipients of state awards are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. The County should have control procedures in place to verify that each entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the <i>Excluded Parties List System (EPLS)</i> maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.</p>
<u>Effect:</u>	The County may purchase goods or services from vendors who are suspended or debarred.
<u>Cause:</u>	The County does not have controls in place to prevent it from contracting with or purchasing goods or services from parties that are suspended or debarred.
<u>Recommendation:</u>	We recommend the County implement a policy to verify that each entity it contracts with or purchases goods or services from is not suspended, debarred or otherwise excluded. This verification may be accomplished by checking the <i>Excluded Parties List System (EPLS)</i> maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. Additionally, management or representatives of management should periodically conduct independent reviews of procurements and contracting activities to determine whether policies and procedures are being followed as intended.
<u>Management's Response:</u>	The purchasing department now has access to the suspended and debarred vendor list to make sure the County does not enter into contracts with these vendors.
<u>Contact Person Responsible for Corrective Action:</u>	Amy Holdeman, Purchasing Agent
<u>Anticipated Completion Date:</u>	The purchasing department is now reviewing this list on a regular basis.
<u>Current Status:</u>	This matter has been resolved.



To the Honorable County Judge and
Commissioners' Court
Harrison County, Texas

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Harrison County, Texas for the year ended September 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards *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 March 3, 2011. 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 Harrison County, Texas 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 fiscal year ended September 30, 2010. 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. The most sensitive estimates affecting the County's financial statements were:

Management's estimate of the useful lives of capital assets is based on the expected lifespan of the asset in accordance with standard guidelines. We evaluated the key factors and assumptions used to develop the estimate of useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate for the OPEB was based upon actuarial studies performed by the actuarial firm, Gabriel, Roeder, Smith and Company. We evaluated the key factors and assumptions used to develop the estimates of the OPEB obligation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for uncollectible receivables is based on historical collections. We evaluated the key factors and assumptions used to develop the allowance for uncollectible receivables in determining that it is reasonable in relation to the financial statements taken as a whole.

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 each opinion unit's 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 June 23, 2011.

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.

Additionally, we wanted to make you aware of significant changes that will affect next year's financial reporting process. Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for fiscal year 2011. GASB has changed the long-standing definitions of fund balance and fund types to address concerns that state and local governmental entities are inconsistently reporting fund balance and that fund types are not properly used or understood. To prepare, learn the new definitions and consider the accounting policy and expenditure tracking implications.

Based on the requirements of GASB 54, fund balance will now be composed of three main categories with subcategories of *non-spendable* and *unrestricted*, as shown below which is similar to how it will be presented on the balance sheet:

Non-spendable Fund Balance

- Not in a spendable form (e.g., prepaid items, inventory)
- Legally or contractually required to be maintained intact (e.g., donations when principal cannot be spent)

Restricted Fund Balance

- Externally imposed, imposed by law or enabling legislation

Unrestricted Fund Balance

- Committed – Board action taken to commit funding
- Assigned – Intention to use funds such as through the budget identification, also remaining balance in all funds except General Fund is assigned to the fund's purpose.
- Unassigned – Residual in General Fund, may also have a negative unassigned in other funds only if a deficit occurs.

Additionally, GASB 54 gives some new definitions to fund types. Most significant is that Special Revenue Funds are established to account for "proceeds from specific revenue sources" that are either restricted or committed.

Entities should perform the following to properly implement GASB Statement No. 54:

- Gain an understanding of the changed focus in reporting fund balance, and the purpose and concepts of GASB 54.
- Set a policy of the order of spending from restricted, committed, assigned or unassigned balances.
- Draft a fund balance policy that identifies the highest level of decision-making authority needed to commit a balance and the person authorized to assign a balance.
- Reevaluate minimum fund balance requirements.
- Ensure account code structure is able to track categories of fund balance.
- Review fund structure and define any necessary changes in presentation.
- Ensure account code structure is able to track categories of fund balance.

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

Pattillo, Brown + Hill, L.L.P.

June 23, 2011