

**HARRISON COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2012**

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**HARRISON COUNTY, TEXAS**

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# **FINANCIAL SECTION**

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## 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, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. 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, 2012, 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 27, 2013, 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, the Schedule of Funding Progress-Texas County and District Retirement System and the Schedule of Funding Progress-post-retirement Health Care Benefit Plan on pages 3 through 10 and pages 45 through 46 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 nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the financial statements. The combining nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards 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 27, 2013

**MANAGEMENT'S  
DISCUSSION AND ANALYSIS**

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## 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, 2012. 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 \$17,994,568. This is a decrease of \$970,948, which is a decrease of 5.0%. This decrease is comprised of a loss of \$970,948 from operations. The decrease was primarily caused by the FY 2012 portion of the OPEB expense for the County. The amount of OPEB expense for the year was \$1,793,154.
- Total net assets are comprised of: 1) capital assets, net of related debt, of \$20,837,694, including property and equipment, net of accumulated depreciation; 2) debt covenants, grantors, or statute restricts net assets of \$2,519,239; and 3) the County's unrestricted net assets at year-end are \$(5,362,365).
- Total governmental long-term debt of the County increased by \$2,080,575. This was mainly due to another year of the APC of the County's OPEB liability.
- The unassigned fund balance in the General Fund, as shown in the fund financial statements on page 13, is \$4,848,710 or 28% 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 47. 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 \$7,084 are \$26,973,434. This amount is net of accumulated depreciation of \$18,412,518. 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 36 – 38 in the notes to the financial statements. Net assets at year-end are \$17,994,568; a total of \$2,519,239 is restricted for specific purposes, as required by state law or grantor requirements; \$20,837,694 represents the County’s investment in capital assets, net of related debt, and \$(5,362,365) in unrestricted net assets is available for funding general operations. Unrestricted net assets decreased by \$337,550, total assets decreased \$296,508, and total net assets decreased by \$970,948.

**HARRISON COUNTY’S NET ASSETS  
(in Thousands)**

	Governmental Activities	
	2012	2011
Current and other assets	\$ 12,010	\$ 11,515
Capital assets	<u>26,973</u>	<u>27,765</u>
Total assets	<u>38,983</u>	<u>39,280</u>
Current liabilities	2,895	4,607
Noncurrent liabilities	<u>18,094</u>	<u>15,708</u>
Total liabilities	<u>20,989</u>	<u>20,315</u>
Net assets:		
Invested in capital assets, net of related debt	20,838	21,778
Restricted	2,519	2,212
Unrestricted	<u>( 5,362)</u>	<u>( 5,025)</u>
Total net assets	<u>\$ 17,995</u>	<u>\$ 18,965</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 \$28,096,442. Total governmental expenses were \$29,067,390 resulting in a decrease in net assets of \$970,948. 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	
	2012	2011
Revenues:		
Program revenues:		
Charges for services	\$ 5,211	\$ 5,121
Capital grants and contributions	-	35
Operating grants and contributions	1,864	2,045
General revenues:		
Property taxes	20,870	19,604
Interest	24	28
Other	128	183
Total revenues	28,096	27,016
Expenses:		
General administration	7,220	9,123
Judicial	1,688	2,011
Legal	1,467	1,575
Elections	252	243
Financial administration	2,112	1,942
Public facilities	904	921
Public safety	9,625	10,210
Public transportation	3,963	2,758
Health and welfare	1,228	1,197
Culture and recreation	63	75
Conservation	186	195
Preservation and restoration	11	20
Public service	82	94
Interest on long-term debt	267	236
Total expenses	29,067	30,600
Change in net assets	( 971)	( 3,584)
Net assets - beginning	18,966	20,142
Prior period adjustment	-	2,408
Net assets - ending	\$ 17,995	\$ 18,966

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 collections 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 2012 was the fourth year for inclusion in the financial statements. The addition of this liability increased expenses and decreased net assets by \$1,793,154.

**HARRISON COUNTY'S GOVERNMENTAL ACTIVITIES**  
(in Thousands)

	Charges	% of	Functional	Percent	Funded by	
	for Services		Expenses		Other Revenues	
	2012	Total	2012	of Total	Amount	Percent
General administration	\$ 1,862	6.6%	\$ 7,220	24.8%	\$( 5,357)	( 74.2%)
Judicial	1,467	5.2%	1,688	5.8%	( 221)	( 13.1%)
Legal	41	0.1%	1,467	5.0%	( 1,426)	( 97.2%)
Elections	57	0.2%	252	0.9%	( 195)	( 77.3%)
Financial administration	1,109	3.9%	2,112	7.3%	( 1,003)	( 47.5%)
Public facilities	-	- %	904	3.1%	( 904)	( 100.0%)
Public safety	482	1.7%	9,625	33.1%	( 9,142)	( 95.0%)
Public transportation	191	0.7%	3,963	13.6%	( 3,772)	( 95.2%)
Health and welfare	-	- %	1,228	4.2%	( 1,228)	( 100.0%)
Culture and recreation	-	- %	63	0.2%	( 63)	( 100.0%)
Conservation	-	- %	186	0.6%	( 186)	( 100.0%)
Preservation and restoration	-	- %	11	0.0%	( 11)	( 100.0%)
Public service	-	- %	82	0.3%	( 82)	( 100.0%)
Interest on long-term debt	-	- %	267	0.9%	( 267)	( 100.0%)
<b>Total</b>	<b>5,209</b>	<b>18.5%</b>	<b>\$ 29,067</b>	<b>100.0%</b>	<b>( 23,857)</b>	
<b>OPERATING GRANTS AND CONTRIBUTIONS</b>	<b>1,864</b>	<b>6.6%</b>			<b>1,864</b>	
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	<b>-</b>	<b>- %</b>			<b>-</b>	
<b>GENERAL REVENUES</b>	<b>21,021</b>	<b>74.8%</b>			<b>21,021</b>	
<b>TOTAL REVENUES</b>	<b>\$ 28,094</b>	<b>100.0%</b>				
<b>CHANGE IN NET ASSETS</b>					<b>\$( 972)</b>	

**Capital Assets and Debt Administration**

*Capital Assets* – Capital assets decreased by approximately \$(792,000) primarily due to depreciation expense exceeding the amount of capital additions.

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

	Governmental Activities	
	2012	2011
Land, buildings and improvements	\$ 19,712	\$ 10,283
Autos and trucks	1,329	1,467
Heavy equipment	2,616	2,017
Other equipment, furniture and fixtures	295	354
Construction in progress	7	10,157
Infrastructure	3,014	3,487
<b>Total capital assets, net</b>	<b>\$ 26,973</b>	<b>\$ 27,765</b>

## Outstanding Debt

The table below reports the outstanding balances of debt for 2012 and 2011 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 36 – 38.

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

	Governmental Activities	
	2012	2011
General obligation debt	\$ 4,025	\$ 4,300
Capital leases	2,207	1,782
Net OPEB obligation	11,383	9,590
Compensated absences	<u>1,189</u>	<u>1,050</u>
Total long-term debt	<u>\$ 18,804</u>	<u>\$ 16,722</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 \$8,422,118, an increase of \$2,161,785 from the prior year. This represented a 34.5% increase in total fund balances. This increase was mainly in the general fund. The reason for the increase was the County recognizing disputed property tax collections as revenue in FY 2012. Deferred revenue was decreased in FY 2012 on advice of legal counsel. Approximately \$500 thousand of potentially disputed taxes were recorded as revenue in fiscal year 2012.

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 \$1,373,409. The ending fund balance of \$5,114,771 is in the acceptable level that the County Commissioners' Court would like to have, and steps will continue to be in place in order to maintain an acceptable General Fund balance to sustain County operations for a 90 – 120-day period. This represents an increase of 36.7% over fiscal year 2011 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 an increase in fund balance of \$454,583. This fund balance was mainly increased through sales of equipment.

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 47 – 56 of this report. Combined fund balances increased by \$333,793 .

## **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 and life insurance for all fulltime and retired County employees and their dependents that qualify. 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.

## **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 increased by \$368,112 .

The original General Fund budget planned for expenditures to exceed revenues by \$388,683. However, actual expenditures were \$1,872,643 less than what was budgeted. Since actual revenues exceeded expenditures by \$1,724,261, the County had a gain in FY 2012.

The original Road and Bridge Fund budget planned for expenditures to exceed revenues by \$(94,360)

## **BUDGET FOR 2012 – 2013 AND LATER**

For the 2012-2013 FY the County adopted a property tax rate of \$.3169 per hundred dollars of taxable value. Harrison County must adopt a balanced budget worst case or a budget that will allow for increases in the surplus best case.

## **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:

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

**BASIC  
FINANCIAL STATEMENTS**

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# HARRISON COUNTY, TEXAS

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2012

	Primary Government Governmental Activities	Component Unit Industrial Development Authority
<b>ASSETS</b>		
Cash and cash equivalents	\$ 9,314,901	\$ 1,363,313
Investments	-	123,771
Receivables, net:		
Property taxes	1,501,393	-
Accounts receivable	359,322	-
Due from other governments	268,343	-
Due from agency funds	323,901	-
Prepaid expenditures	146,122	-
Unamortized bond issuance costs	95,768	-
Capital assets, net of accumulated depreciation		
Land, buildings and improvements	23,299,643	-
Autos and trucks	4,153,940	-
Heavy equipment	5,101,533	-
Other equipment, furniture and fixtures	1,183,716	-
Construction in progress	7,084	-
Infrastructure	11,640,036	-
Accumulated depreciation	( 18,412,518)	-
Total capital assets	<u>26,973,434</u>	<u>-</u>
Total assets	<u>38,983,184</u>	<u>1,487,084</u>
<b>LIABILITIES</b>		
Accounts payable	1,389,309	-
Accrued wages payable	236,804	-
Accrued interest payable	84,585	-
Unearned revenue	474,952	-
Other liabilities:		
Due within one year	709,452	-
Due in more than one year	18,093,514	-
Total liabilities	<u>20,988,616</u>	<u>-</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	20,837,694	-
Restricted for:		
Debt service	239,565	-
Capital projects	193,978	-
Special purposes	2,085,696	-
Unrestricted	( 5,362,365)	1,487,084
Total net assets	<u>\$ 17,994,568</u>	<u>\$ 1,487,084</u>

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

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# HARRISON COUNTY, TEXAS

## STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2012

		Program Revenues		Changes Net Assets Primary Government	Component Unit Industrial Development Authority
Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities		
<b>PRIMARY GOVERNMENT</b>					
General administration	\$ 7,219,578	\$ 1,862,313	\$ 226,904	\$( 5,130,361)	\$ -
Judicial	1,687,962	1,466,935	-	( 221,027)	-
Legal	1,466,915	41,582	108,705	( 1,316,628)	-
Elections	251,776	57,142	-	( 194,634)	-
Financial administration	2,111,528	1,108,969	-	( 1,002,559)	-
Public facilities	904,453	-	427,058	( 477,395)	-
Public safety	9,625,499	483,273	945,111	( 8,197,115)	-
Public transportation	3,962,863	190,729	92,588	( 3,679,546)	-
Health and welfare	1,227,848	-	56,908	( 1,170,940)	-
Culture and recreation	62,950	-	-	( 62,950)	-
Conservation	186,062	-	7,129	( 178,933)	-
Preservation and restoration	11,172	-	-	( 11,172)	-
Public service	81,950	-	-	( 81,950)	-
Interest and other charges	266,834	-	-	( 266,834)	-
Total primary government governmental activities	\$ 29,067,390	\$ 5,210,943	\$ 1,864,403	( 21,992,044)	-
<b>COMPONENT UNIT</b>					
Industrial development authority	\$ -	\$ -	\$ -		-
General revenues					
Property taxes				20,840,663	-
Miscellaneous taxes				29,109	-
Interest earnings				23,628	86,121
Miscellaneous				127,696	-
Total general revenues				21,021,096	86,121
Change in net assets				( 970,948)	86,121
Net assets, beginning				18,965,516	1,400,963
Net assets, ending				\$ 17,994,568	\$ 1,487,084

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

# HARRISON COUNTY, TEXAS

## BALANCE SHEET

### GOVERNMENTAL FUNDS

SEPTEMBER 30, 2012

	General	Road and Bridge	Other Governmental	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 5,870,252	\$ 749,783	\$ 2,613,392	\$ 9,233,427
Receivables, net				
Property taxes	1,501,393	-	-	1,501,393
Accounts receivable	19,872	9,592	69,350	98,814
Due from other governments	58,789	24,391	185,163	268,343
Due from other funds	151,239	137,930	35,865	325,034
Prepaid expenditures	140,811	-	5,311	146,122
Total assets	<u>\$ 7,742,356</u>	<u>\$ 921,696</u>	<u>\$ 2,909,081</u>	<u>\$ 11,573,133</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 567,767	\$ 195,922	\$ 269,198	\$ 1,032,887
Accrued wages payable	182,264	32,565	21,975	236,804
Due to other funds	-	-	1,133	1,133
Deferred revenue	1,877,554	-	2,637	1,880,191
Total liabilities	<u>2,627,585</u>	<u>228,487</u>	<u>294,943</u>	<u>3,151,015</u>
Fund balances				
Nonspendable	140,811	-	-	140,811
Restricted				
Debt service	-	-	324,150	324,150
Capital projects	-	-	193,978	193,978
Bail bond services	-	-	166,522	166,522
Airport maintenance	-	-	188,602	188,602
Court technology and security	-	-	391,332	391,332
VIT escrow	-	-	71,453	71,453
Law library	-	-	77,240	77,240
Grants	-	-	39,331	39,331
District Attorney services	-	-	100,843	100,843
Records management and preservation	-	-	498,813	498,813
Public transportation	-	474,276	-	474,276
Other	-	-	77,284	77,284
Committed for:				
Jury services	-	-	69,656	69,656
Juvenile services	-	-	414,934	414,934
Assigned for:				
Court maintenance	42,750	-	-	42,750
Computer equipment	82,500	-	-	82,500
Road damage repairs	-	218,933	-	218,933
Unassigned	4,848,710	-	-	4,848,710
Total fund balances	<u>5,114,771</u>	<u>693,209</u>	<u>2,614,138</u>	<u>8,422,118</u>
Total liabilities and fund balances	<u>\$ 7,742,356</u>	<u>\$ 921,696</u>	<u>\$ 2,909,081</u>	<u>\$ 11,573,133</u>

**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, 2012

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

Total fund balances of governmental funds	\$ 8,422,118
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	26,973,434
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.	( 274,948)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,665,747
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the funds.	( <u>18,791,783</u> )
Net assets of governmental activities	\$ <u>17,994,568</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, 2012**

	General	Road and Bridge	Other Governmental	Total Governmental Funds
<b>REVENUES</b>				
Ad valorem taxes	\$ 16,421,699	\$ 1,893,482	\$ 2,424,631	\$ 20,739,812
Miscellaneous taxes	29,109	-	-	29,109
Licenses and permits	106,496	1,118,911	2,650	1,228,057
Fines and forfeitures	37,897	1,107,169	17,521	1,162,587
Intergovernmental	341,269	92,588	1,491,731	1,925,588
Charges for services	1,765,923	138,069	862,261	2,766,253
Investment earnings	16,092	2,143	5,307	23,542
Miscellaneous	97,637	-	30,060	127,697
Total revenues	18,816,122	4,352,362	4,834,161	28,002,645
<b>EXPENDITURES</b>				
Current expenditures:				
General administration	3,614,604	2,180,360	627,107	6,422,071
Judicial	1,104,504	-	365,356	1,469,860
Legal	1,385,339	-	71,995	1,457,334
Elections	223,220	-	10,273	233,493
Financial administration	1,949,861	-	-	1,949,861
Public facilities	904,453	-	-	904,453
Public transportation	-	3,324,286	17,325	3,341,611
Public safety	6,431,475	-	1,911,020	8,342,495
Health and welfare	1,164,201	-	46,889	1,211,090
Culture and recreation	57,364	-	-	57,364
Conservation	174,890	-	-	174,890
Public service	81,950	-	-	81,950
Capital outlay	-	-	574,782	574,782
Debt service:				
Principal	-	-	1,005,905	1,005,905
Interest and other charges	-	-	230,830	230,830
Total expenditures	17,091,861	5,504,646	4,861,482	27,457,989
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	1,724,261	( 1,152,284)	( 27,321)	544,656
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan and bond proceeds	-	1,155,058	-	1,155,058
Sale of capital assets	10,262	451,809	-	462,071
Operating transfer in	-	-	361,114	361,114
Operating transfers out	( 361,114)	-	-	( 361,114)
Total other financing sources (uses)	( 350,852)	1,606,867	361,114	1,617,129
<b>NET CHANGE IN FUND BALANCES</b>	1,373,409	454,583	333,793	2,161,785
<b>FUND BALANCES, BEGINNING</b>	3,741,362	238,626	2,280,345	6,260,333
<b>FUND BALANCES, ENDING</b>	\$ 5,114,771	\$ 693,209	\$ 2,614,138	\$ 8,422,118

**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, 2012

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

Net change in fund balances - total governmental funds	\$ 2,161,785
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	\$ 1,158,587
Depreciation expense	<u>( 1,946,768)</u>
	( 788,181)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net assets.	1,005,905
The issuance of debt has no effect on the governmental funds.	( 1,155,058)
Revenues in the statement of activities that do not provide current financial resources and are not reported as revenue in the funds.	( 7,140)
Interest expense on long-term debt and contractual obligations is not accrued in the governmental funds.	( 36,004)
The net effect of various sales and disposals of capital assets is to decrease net assets.	( 3,012)
Delinquent property taxes receivable which do not provide current financial resources are not reported as revenue in the funds.	100,851
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.	( 138,268)
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.	( 1,793,154)
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>( 318,672)</u>
Changes in net assets of governmental activities	<u><u>\$ ( 970,948)</u></u>

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

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**HARRISON COUNTY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	General			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>REVENUES</b>				
Ad valorem taxes	\$ 15,859,009	\$ 15,859,009	\$ 16,421,699	\$ 562,690
Miscellaneous taxes	30,000	30,000	29,109	( 891)
Licenses, permits and fees	103,000	103,000	106,496	3,496
Intergovernmental	127,300	342,739	341,269	( 1,470)
Fines and forfeitures	51,300	51,300	37,897	( 13,403)
Charges for services	1,774,250	1,774,250	1,765,923	( 8,327)
Investment earnings	102,600	102,600	16,092	( 86,508)
Miscellaneous	110,250	112,543	97,637	( 14,906)
Total revenues	<u>18,157,709</u>	<u>18,375,441</u>	<u>18,816,122</u>	<u>440,681</u>
<b>EXPENDITURES</b>				
General administration	4,050,658	4,304,311	3,614,604	689,707
Judicial	1,488,137	1,466,312	1,104,504	361,808
Legal	1,198,776	1,404,607	1,385,339	19,268
Elections	208,827	229,772	223,220	6,552
Financial administration	2,025,817	2,006,675	1,949,861	56,814
Public facilities	968,475	956,610	904,453	52,157
Public safety	6,494,109	6,541,749	6,431,475	110,274
Health and welfare	1,829,171	1,722,502	1,164,201	558,301
Culture and recreation	62,550	62,550	57,364	5,186
Conservation	182,422	181,966	174,890	7,076
Public service	87,450	87,450	81,950	5,500
Total expenditures	<u>18,596,392</u>	<u>18,964,504</u>	<u>17,091,861</u>	<u>1,872,643</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 438,683)</u>	<u>( 589,063)</u>	<u>1,724,261</u>	<u>2,313,324</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	50,000	50,000	10,262	( 39,738)
Operating transfers out	-	-	( 361,114)	( 361,114)
Total other financing sources (uses)	<u>50,000</u>	<u>50,000</u>	<u>( 350,852)</u>	<u>( 400,852)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>( 388,683)</u>	<u>( 539,063)</u>	<u>1,373,409</u>	<u>1,912,472</u>
<b>FUND BALANCES, BEGINNING</b>	<u>3,741,362</u>	<u>3,741,362</u>	<u>3,741,362</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 3,352,679</u>	<u>\$ 3,202,299</u>	<u>\$ 5,114,771</u>	<u>\$ 1,912,472</u>

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

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**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, 2012**

	Road and Bridge Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>REVENUES</b>				
Ad valorem taxes	\$ 1,869,818	\$ 1,869,818	\$ 1,893,482	\$ 23,664
Licenses, permits and fees	1,200,200	1,200,200	1,118,911	( 81,289)
Fines and forfeitures	1,095,000	1,095,000	1,107,169	12,169
Intergovernmental	79,000	79,000	92,588	13,588
Charges for services	-	-	138,069	138,069
Investment earnings	7,500	7,500	2,143	( 5,357)
Miscellaneous	2,500	2,500	-	( 2,500)
Total revenues	<u>4,254,018</u>	<u>4,254,018</u>	<u>4,352,362</u>	<u>98,344</u>
<b>EXPENDITURES</b>				
General administration	2,353,276	2,265,165	2,180,360	84,805
Public transportation	2,445,102	2,443,402	3,324,286	( 880,884)
Total expenditures	<u>4,798,378</u>	<u>4,708,567</u>	<u>5,504,646</u>	<u>( 796,079)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 544,360)</u>	<u>( 454,549)</u>	<u>( 1,152,284)</u>	<u>( 697,735)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan and bond proceeds	-	-	1,155,058	1,155,058
Sale of capital assets	450,000	450,000	451,809	1,809
Total other financing sources (uses)	<u>450,000</u>	<u>450,000</u>	<u>1,606,867</u>	<u>1,156,867</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>( 94,360)</u>	<u>( 4,549)</u>	<u>454,583</u>	<u>459,132</u>
<b>FUND BALANCES, BEGINNING</b>	<u>238,626</u>	<u>238,626</u>	<u>238,626</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 144,266</u>	<u>\$ 234,077</u>	<u>\$ 693,209</u>	<u>\$ 459,132</u>

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

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**HARRISON COUNTY, TEXAS**

**STATEMENT OF NET ASSETS**

**PROPRIETARY FUNDS**

**SEPTEMBER 30, 2012**

	<u>Governmental Activities</u> <u>Internal Service Fund</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ <u>81,474</u>
Total assets	<u>81,474</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	<u>356,422</u>
Total liabilities	<u>356,422</u>
<b>NET ASSETS</b>	
Unrestricted	<u>( 274,948)</u>
Total net assets	<u><u>\$ ( 274,948)</u></u>

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

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**HARRISON COUNTY, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Governmental Activities</u> <u>Internal Service Fund</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 3,137,989
Total operating revenues	<u>3,137,989</u>
<b>OPERATING EXPENSES</b>	
Benefit payments	<u>3,456,747</u>
Total operating expenses	<u>3,456,747</u>
<b>OPERATING LOSS</b>	( 318,758)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	<u>86</u>
Total nonoperating revenues (expenses)	<u>86</u>
<b>CHANGE IN NET ASSETS</b>	( 318,672)
<b>TOTAL NET ASSETS, BEGINNING</b>	<u>43,724</u>
<b>TOTAL NET ASSETS, ENDING</b>	<u><u>\$ ( 274,948)</u></u>

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

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**HARRISON COUNTY, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Governmental Activities
	Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from premiums and contributions	\$ 3,498,272
Payments for claims	( 3,419,562)
Net cash provided by operating activities	78,710
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	86
Net cash provided by investing activities	86
<b>NET INCREASE IN CASH</b>	78,796
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	2,678
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	\$ 81,474
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating loss	\$( 318,758)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
(Increase) decrease in receivables	360,283
Increase (decrease) in payables	37,185
Total adjustments	397,468
Net cash provided by operating activities	\$ 78,710

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

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**HARRISON COUNTY, TEXAS**

**STATEMENT OF NET ASSETS**

**FIDUCIARY FUNDS**

**SEPTEMBER 30, 2012**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 3,667,406
Investments	<u>4,324,828</u>
 Total assets	 <u>\$ 7,992,234</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 79,137
Due to other governments	1,239,352
Due to other funds	323,901
Deferred revenue	273,061
Court ordered funds	1,867,017
Court ordered trust and prisoner funds	<u>4,209,766</u>
 Total liabilities	 <u>\$ 7,992,234</u>

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

# HARRISON COUNTY, TEXAS

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

### 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 County's most significant accounting policies are described below.

#### 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**

The 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. It is managed by a nine-member board appointed by the Commissioners' Court of Harrison County, Texas. The state legislation under which the Authority was established authorizes the Commissioners' Court to remove the board members of the Authority for cause or at will. The Authority's board and the Commissioners' Court are not substantively the same, and the Authority does not provide services entirely, or almost entirely, to the County.

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### A. Reporting Entity (Continued)

The Authority's fiscal year is the calendar year. The amounts reported under the component unit column of the government-wide financial statements are as of and for the year ended December 31, 2012. Since the Authority's fiscal year ends within the first quarter of the County's subsequent fiscal year, this financial statement presentation is in accordance with GASB Statement No. 14.

### 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 nonfiduciary activities of the County. All fiduciary activities are reported only in the fund financial statements. Governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions. The primary government, which consists entirely of the governmental activities, is reported separately from the discretely presented component units for which the primary government is financially accountable.

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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide 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 are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, miscellaneous taxes, and certain fees of office associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

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 accounted for in another fund.

The **Road and Bridge Fund** is a Special Revenue Fund used to account for monies restricted or intended 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.

(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 governmental 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 **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 applicable generally accepted accounting principles are similar to those applied by 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 made by the County and by its 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 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. Within the fiduciary funds, the County only reports the agency fund type. Agency funds have no measurement focus but they utilize the accrual basis of accounting for reporting assets and liabilities.

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, 2012, 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.

The Harrison County Industrial Development Authority, a discretely presented component unit, is not subject to the Public Funds Investment Act, but is instead governed by the Uniform Prudent Investor Act found in Chapter 117 of the Texas Property Code.

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Authority's investment policy allows for investments in common and preferred stock of U.S. Corporations traded on nationally recognized exchanges, stock and stock index mutual funds, U.S. Treasury and federal agency securities, U.S. corporate debt instruments (bonds, notes, convertible securities, and mutual funds), various international investments limited to 10% of total invested funds, commercial paper issued by corporations with an average credit quality rating of BBB or higher, certificates of deposit insured by the FDIC, interest-bearing savings and checking accounts, and money market funds.

The Authority's investments are reported at fair value based on quoted market prices.

#### **Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are reported 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, and become due on January 31 of the following year. Taxes become past due February 1, and become delinquent July 1. The County's taxes attach as an enforceable lien on real property on January 1 of the year levied.

#### **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 a 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.

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

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

**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. This benefit can range from one to four 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 are reported as 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.

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

#### **Fund Balance Classification**

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by resolution of the Commissioners' Court, the County's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Commissioners' Court removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the County's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the County Auditor.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of committed or assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the County considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned.

(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 their 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.

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.

#### 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, 2012, 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, 2012, expenditures exceeded appropriations in the following functions of the Road and Bridge Fund:

Public transportation	\$( 880,884)
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### **Deficit Fund Equity**

The Case Manager Fund had a deficit fund equity of \$443 as of September 30, 2012. The deficit in this fund will be made up through revenues being greater than expenditures in FY 2013.

### 3. DETAILED NOTES ON ALL FUNDS

#### Deposits and Investments

As of September 30, 2012, the County had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Primary government:		
Texas Term	\$ 4,336,567	43
MBIA	<u>4,645,954</u>	46
 Total fair value	 \$ <u>8,982,521</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.

*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, 2012, the County's deposit balance in the amount of \$5,610,174 was collateralized with securities held by the pledging financial institution in the County's name, or FDIC insurance.

*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.

(continued)

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

#### Deposits and Investments (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

Distinguished from the investments of the primary government discussed above, the Harrison County Industrial Development Authority, a discretely presented component unit, held \$761,668 of primarily U.S. corporate stock and \$601,645 of bond mutual funds at the end of the current fiscal year.

Pursuant to its investment policy, the authority diversified its investment in equity securities so that no more than 5% of invested assets were invested in any single issuer. The average effective duration of the bond mutual funds was 4.89 years, which is less than the 5 year maximum required by the investment policy. The investment policy also requires all fixed income mutual funds to have an average credit quality rating of at least BBB. At the end of the current year, approximately 60% of the holdings of the bond mutual funds in which the Authority had invested were rated higher than BBB, and an additional 30% of the holdings were rated BBB.

#### Receivables

Receivables at September 30, 2012, for the County's individual major funds and aggregate nonmajor funds, including the applicable allowance for uncollectibles, were as follows:

	<u>General</u>	<u>Road and Bridge</u>	<u>Nonmajor</u>	<u>Total</u>
Receivables:				
Delinquent taxes	\$ 2,121,078	\$ -	\$ -	\$ 2,121,078
Accounts receivable	19,872	9,592	69,350	98,814
Due from other governments	58,789	24,391	185,163	268,343
Total receivables	<u>2,199,739</u>	<u>33,983</u>	<u>254,513</u>	<u>2,488,235</u>
Less: allowance for uncollectibles	<u>619,685</u>	<u>-</u>	<u>-</u>	<u>619,685</u>
Net total receivables	<u>\$ 1,580,054</u>	<u>\$ 33,983</u>	<u>\$ 254,513</u>	<u>\$ 1,868,550</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

Capital asset activity for governmental activities for the year ended September 30, 2012, was as follows:

#### **Primary Government**

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 596,444	\$ -	\$ -	\$ -	\$ 596,444
Construction in progress	10,156,527	-	(10,149,443)	-	7,084
Total assets not being depreciated	<u>10,752,971</u>	<u>-</u>	<u>(10,149,443)</u>	<u>-</u>	<u>603,528</u>
Capital assets, being depreciated:					
Buildings and improvements	12,553,756	10,149,443	-	-	22,703,199
Autos and trucks	3,968,831	280,076	(94,967)	-	4,153,940
Heavy equipment	4,223,022	878,511	-	-	5,101,533
Equipment, furniture and fixtures	1,200,139	-	(16,423)	-	1,183,716
Infrastructure	11,640,036	-	-	-	11,640,036
Total capital assets being depreciated	<u>33,585,784</u>	<u>11,308,030</u>	<u>(111,390)</u>	<u>-</u>	<u>44,782,424</u>
Less accumulated depreciation:					
Buildings and improvements	2,867,580	720,167	-	-	3,587,747
Autos and trucks	2,501,542	413,890	(90,906)	-	2,824,526
Heavy equipment	2,205,806	279,887	-	-	2,485,693
Equipment, furniture and fixtures	846,576	59,574	(16,102)	(1,369)	888,679
Infrastructure	8,152,624	473,249	-	-	8,625,873
Total accumulated depreciation	<u>16,574,128</u>	<u>1,946,767</u>	<u>(107,008)</u>	<u>(1,369)</u>	<u>18,412,518</u>
Total capital assets being depreciated, net	<u>17,011,656</u>	<u>9,361,263</u>	<u>(4,382)</u>	<u>1,369</u>	<u>26,369,906</u>
Governmental activities capital assets, net	<u>\$ 27,764,627</u>	<u>\$ 9,361,263</u>	<u>\$(10,153,825)</u>	<u>\$ 1,369</u>	<u>\$ 26,973,434</u>

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

Governmental activities:	
General administration	\$ 3,924
Judicial	11,414
Legal	9,581
Elections	1,525
Financial administration	10,841
Public safety	989,319
Public transportation	<u>920,163</u>
Total depreciation expense	<u>\$ 1,946,767</u>

(continued)

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

**Interfund Receivables, Payables, and Transfers**

The composition of interfund balances as of September 30, 2012, is as follows:

**Due to/from Other Funds**

	<u>Due from</u>		
	<u>Other Governmental</u>	<u>Agency</u>	<u>Total</u>
Due to:			
General	\$ 1,133	\$ 150,106	\$ 151,239
Road and bridge	-	137,930	137,930
Other governmental	-	<u>35,865</u>	<u>35,865</u>
 Total	 <u>\$ 1,133</u>	 <u>\$ 323,901</u>	 <u>\$ 325,034</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.

**Deferred Revenues**

**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. The components of deferred revenue reported in the governmental funds at September 30, 2012, were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes	\$ 1,405,239	\$ -
Protested property taxes	-	472,315
State and federal grants	-	<u>2,637</u>
 Total per fund financial statements	 <u>\$ 1,405,239</u>	 <u>\$ 474,952</u>

(continued)

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

**Deferred Revenues** (Continued)

**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 the Harrison County Appraisal District, Harrison County has received payment for taxes that are being contested. The final outcome of this lawsuit has been determined. In fiscal year 2012, it was settled that the County owed all taxes collected during those years to the entities in the lawsuit. The majority of the taxes deferred were paid as of September 30, 2012. The County has chosen to not recognize the remaining tax revenue or interest earned on these funds as revenue in the year received and defer this revenue until all final payments have been made.

	<u>Total Collected</u>
Total deferred revenue due to protested property taxes	\$ <u>472,315</u>

**Long-term Debt**

**Schedule of Contractual Obligations**

Series and Original Issue Amount	Final Maturity	Interest Rate	Outstanding 09/30/12	
Certificates of Obligations - 2006	\$ 5,350,000	02/15/23	4.00% - 4.150%	\$ 4,025,000
Secured Equipment - Note #xxxx002	556,275	02/15/12	3.55%	-
Secured Equipment - Note #xxxx003	259,641	02/15/12	3.49%	8,731
Secured Equipment - Note #xxxx004	526,759	03/25/14	3.34%	356,995
Secured Equipment - Note #xxxx005	734,394	07/25/14	3.34%	685,724
Secured Equipment - Note #xxxx006	158,226	12/25/14	3.19%	158,226
Secured Equipment - Note #xxxx007	218,914	02/15/15	3.19%	218,914
Secured Equipment - Note #xxxx008	777,918	03/25/15	3.09%	<u>777,918</u>
Total				<u>\$ 6,231,508</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 #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 property tax revenues in the Debt Service Fund.

*Secured Equipment Loan #xxxx003*, BancorpSouth Equipment Finance, Hattiesburg, Mississippi – On October 27, 2009, 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 property tax revenues in the Debt Service Fund.

*Secured Equipment Loan #xxxx004*, BancorpSouth Equipment Finance, Hattiesburg, Mississippi – On December 13, 2010, Harrison County executed a loan agreement to borrow \$187,629 in order to finance various vehicles and equipment used in the Road and Bridge Department, Sheriff's Department, and Juvenile Center. The stated interest is 3.34%. The equipment was collateralized as security on the loan. Principal and interest payments on this loan are funded from the Debt Service Fund.

*Secured Equipment Loan #xxxx005*, BancorpSouth Equipment Finance, Hattiesburg, Mississippi – On March 29, 2011, Harrison County executed a loan agreement to borrow \$734,394 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 3.34%. The equipment was collateralized as security on the loan. Principal and interest payments on this loan are funded from the Debt Service Fund.

*Secured Equipment Loan #xxxx006*, BancorpSouth Equipment Finance, Hattiesburg, Mississippi – On December 25, 2011, Harrison County executed a loan agreement to borrow \$258,226 in order to finance the entire purchase of six new vehicles for the Sheriff's office. The stated interest rate is 3.19%. The vehicles were collateralized as security on the loan. Principal and interest payments on this loan are funded from the Debt Service Fund.

(continued)

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

#### Long-term Debt (Continued)

**Secured Equipment Loan #xxxx007**, BancorpSouth Equipment Finance, Hattiesburg, Mississippi – On February 15, 2012, Harrison County executed a loan agreement to borrow \$218,914 in order to finance the entire purchase of various vehicles and equipment used in the Road and Bridge Department. The stated interest rate is 3.19%. The vehicles and equipment were collateralized as security on the loan. Principal and interest payments on this loan are funded from the Debt Service Fund.

**Secured Equipment Loan #xxxx008**, BancorpSouth Equipment Finance, Hattiesburg, Mississippi – On February 25, 2012, Harrison County executed a loan agreement to borrow \$777,918 in order to finance the entire purchase of three new pieces of equipment used in the Road and Bridge Department. The stated interest rate is 3.09%. The equipment were collateralized as security on the loan. Principal and interest payments on this loan are funded from the Debt Service Fund.

#### **Long-term Liabilities Activity**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Certificates of obligation	\$ 4,300,000	\$ -	\$ 275,000	\$ 4,025,000	\$ 300,000
Notes payable	1,782,355	1,155,058	730,905	2,206,508	409,452
Compensated absences	1,050,377	138,268	-	1,188,645	-
OPEB payable	9,589,659	2,691,546	898,392	11,382,813	-
	<u>\$ 16,722,391</u>	<u>\$ 3,984,872</u>	<u>\$ 1,904,297</u>	<u>\$ 18,802,966</u>	<u>\$ 709,452</u>

Total future debt service requirements for certificates of obligation and notes payable, considered individually, are as follows:

	Principal	Interest	Total
Certificates of obligation	\$ 4,025,000	\$ 967,034	\$ 4,992,034
Notes payable	2,206,508	159,043	2,365,551
	<u>\$ 6,231,508</u>	<u>\$ 1,126,077</u>	<u>\$ 7,357,585</u>

The combined future debt service requirements for certificates of obligation and notes payable are as follows:

Year Ending September 30,	Principal	Interest	Total
2013	\$ 709,452	\$ 228,560	\$ 938,012
2014	1,297,364	204,918	1,502,282
2015	1,124,692	158,883	1,283,575
2016	325,000	119,106	444,106
2017-2023	2,775,000	414,610	3,189,610
Total	<u>\$ 6,231,508</u>	<u>\$ 1,126,077</u>	<u>\$ 7,357,585</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, 2012. 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 of Local Government Code and provides coverage through an interlocal agreement authorized by 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 \$500,000 for each insured event. Premiums paid to the pool during 2012 have been reported as expenditures in the General Fund and Special Revenue Funds.

During the year ended September 30, 2012, 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 \$1,250,000 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, 2012. A liability has not been estimated for claims incurred but not reported.

An analysis of claims activity is presented below:

	Beginning Balance	Current Year Claims Expenditures	Actual Claims Payments	Ending Balance
09/30/2012	\$ 319,238	\$ 4,008,474	\$( 3,971,290)	\$ 356,422
09/30/2011	444,757	4,272,195	( 4,397,714)	319,238
09/30/2010	535,048	2,874,750	( 2,965,041)	444,757

(continued)

#### 4. OTHER INFORMATION (Continued)

##### **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.

##### **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 624 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.

(continued)

**4. OTHER INFORMATION (Continued)**

**Pension Plan (Continued)**

**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 10.32% for the months in calendar year 2011, and 10.87% in calendar year 2012. 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.

**Actuarial Methods and Assumptions**

Actuarial Valuation Date	12/31/09	12/31/10	12/31/11
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	20	20	20
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	5.4%	5.4%	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**

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
09/30/10	\$ 1,010,659	100%	\$ -
09/30/11	1,124,662	100%	-
09/30/12	1,155,950	100%	-

**Annual Pension Cost**

For the employer's accounting year ended September 30, 2012, the annual pension cost for the TCDRS plan for its employees was \$1,155,950 and the actual contributions were \$1,155,950. 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, 2010 through December 31, 2011, the basis for determining the contribution rate for calendar years 2011 and 2012. The December 31, 2011 valuation is the most recent valuation.

**(continued)**

**4. OTHER INFORMATION (Continued)**

**Pension Plan** (Continued)

**Funded Status as of the Most Recent Actuarial Valuation**

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)
2011	27,015,909	33,069,279	6,053,370	81.69%	10,548,727	57.38%

The schedule of funding progress presented immediately following the notes to the financial statements as required supplementary information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**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, fulltime 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)	\$ 2,659,823
Interest on Net OPEB Obligation	431,535
Adjustment to the ARC	<u>( 399,812)</u>
Annual OPEB Cost	2,691,546
Employer Contributions with Interest	<u>( 898,392)</u>
Increase (Decrease) in Net OPEB Obligation	1,793,154
Net OPEB Obligation, beginning of year	<u>9,589,659</u>
 Net OPEB Obligation, end of year	 <u>\$ 11,382,813</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 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
09/30/12	\$ 2,691,546	\$ 898,392	7%	\$ 11,382,813
09/30/11	3,378,975	570,494	7%	9,589,659
09/30/10	3,784,339	373,801	7%	6,781,178

**Funded Status as of the Most Recent Actuarial Valuation**

<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>	<u>Ratio of UAAL to Covered Payroll</u>
12/31/10	\$ -	\$ 29,751,427	\$ 29,751,427	- %	\$ 10,418,248	285.6%
12/31/10*	-	25,159,575	25,159,575	- %	10,418,248	241.5%

\*Updated 12/31/2010 liability based on health plan changes made for the 2012 plan year.

(continued)

**4. OTHER INFORMATION (Continued)**

**Post-retirement Health Care Benefits (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. The schedule of funding progress presented immediately following the notes to the financial statements as required supplementary information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**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	12/31/10	12/31/08
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		

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**REQUIRED  
SUPPLEMENTARY INFORMATION**

**HARRISON COUNTY, TEXAS**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION  
IN TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM**

**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b)	Unfunded AAL (UAAL) (b-a)	Covered Payroll (c)	UAAL as a Percentage of of Covered Payroll (b-a)/(c)
12/31/2009	\$ 24,683,370	\$ 29,573,819	83.46%	\$ 4,890,449	\$ 10,198,693	47.95%
12/31/2010	25,420,366	30,870,743	82.34%	5,450,377	10,418,248	52.32%
12/31/2011	27,015,909	33,069,279	81.69%	6,053,370	10,548,727	57.38%

**HARRISON COUNTY, TEXAS**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
POST-RETIREMENT HEALTH CARE BENEFIT PLAN**

**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b)	Unfunded AAL (UAAL) (b-a)	Covered Payroll (c)	UAAL as a Percentage of of Covered Payroll (b-a)/(c)
12/31/2008	\$ -	\$ 35,154,799	0.0%	\$ 35,154,799	\$ 10,198,693	344.70%
12/31/2010	-	29,751,427	0.0%	29,751,427	10,418,248	285.60%
12/31/2010*	-	25,159,575	0.0%	25,159,575	10,418,248	241.50%

Note: This is the fourth year of implementation of GASB 45. Accordingly, only two years of funding progress are available as GASB 45 only requires the County to obtain actuarial valuations every two years. Additional years of funding progress will be presented in future years as they become available.

\* Updated 12/31/2010 liability based on the health plan changes made for the 2012 plan year.

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**COMBINING AND INDIVIDUAL  
FUND FINANCIAL STATEMENTS**

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**HARRISON COUNTY, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2012**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Jail Construction</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,087,465	\$ 321,575	\$ 204,281	\$ 71	\$ 2,613,392
Receivables:					
Accounts receivable	69,350	-	-	-	69,350
Due from other governments	185,163	-	-	-	185,163
Due from other funds	32,883	2,575	407	-	35,865
Prepaid expenditures	<u>5,311</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,311</u>
Total assets	<u>\$ 2,380,172</u>	<u>\$ 324,150</u>	<u>\$ 204,688</u>	<u>\$ 71</u>	<u>\$ 2,909,081</u>
<b>LIABILITIES AND FUND EQUITY</b>					
Liabilities:					
Accounts payable	\$ 258,488	\$ -	\$ 10,710	\$ -	\$ 269,198
Accrued wages payable	21,975	-	-	-	21,975
Due to other funds	1,062	-	-	71	1,133
Deferred revenue	<u>2,637</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,637</u>
Total liabilities	<u>284,162</u>	<u>-</u>	<u>10,710</u>	<u>71</u>	<u>294,943</u>
Fund equity:					
Fund balance:					
Restricted	1,611,420	324,150	193,978		2,129,548
Committed	484,590	-	-	-	484,590
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund equity	<u>2,096,010</u>	<u>324,150</u>	<u>193,978</u>	<u>-</u>	<u>2,614,138</u>
Total liabilities and fund equity	<u>\$ 2,380,172</u>	<u>\$ 324,150</u>	<u>\$ 204,688</u>	<u>\$ 71</u>	<u>\$ 2,909,081</u>

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**HARRISON COUNTY, TEXAS**

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

**NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Jail Construction</u>	<u>Total Nonmajor Governmental Funds</u>
<b>REVENUES</b>					
Ad valorem taxes	\$ 1,131,224	\$ 1,117,033	\$ 176,374	\$ -	\$ 2,424,631
Licenses and permits	2,650	-	-	-	2,650
Intergovernmental	1,491,731	-	-	-	1,491,731
Charges for services	862,261	-	-	-	862,261
Fines and forfeitures	17,521	-	-	-	17,521
Investment earnings	4,291	721	295	-	5,307
Miscellaneous	30,060	-	-	-	30,060
Total revenues	<u>3,539,738</u>	<u>1,117,754</u>	<u>176,669</u>	<u>-</u>	<u>4,834,161</u>
<b>EXPENDITURES</b>					
Current expenditures:					
General administration	532,130	650	94,327	-	627,107
Judicial	365,356	-	-	-	365,356
Legal	71,995	-	-	-	71,995
Elections	10,273	-	-	-	10,273
Public facilities	-	-	-	-	-
Public safety	1,896,213	-	14,807	-	1,911,020
Public transportation	17,325	-	-	-	17,325
Health and welfare	46,889	-	-	-	46,889
Capital outlay	574,782	-	-	-	574,782
Debt service					
Principal	-	1,005,905	-	-	1,005,905
Interest and other charges	-	230,830	-	-	230,830
Total expenditures	<u>3,514,963</u>	<u>1,237,385</u>	<u>109,134</u>	<u>-</u>	<u>4,861,482</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>24,775</u>	<u>( 119,631)</u>	<u>67,535</u>	<u>-</u>	<u>( 27,321)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfer in	-	-	-	361,114	361,114
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>361,114</u>	<u>361,114</u>
<b>NET CHANGE IN FUND BALANCES</b>	24,775	( 119,631)	67,535	361,114	333,793
<b>FUND BALANCES, BEGINNING</b>	<u>2,071,235</u>	<u>443,781</u>	<u>126,443</u>	<u>( 361,114)</u>	<u>2,280,345</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 2,096,010</u>	<u>\$ 324,150</u>	<u>\$ 193,978</u>	<u>\$ -</u>	<u>\$ 2,614,138</u>

**HARRISON COUNTY, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**

**SEPTEMBER 30, 2012**

	<u>Jury</u>	<u>Bail Bond Board</u>	<u>Drug Forfeitures</u>	<u>Airport Maintenance</u>	<u>Tax Collector VIT</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 65,614	\$ 166,522	\$ 6,529	\$ 183,643	\$ 74,318
Receivables:					
Accounts receivable	-	-	-	5,685	-
Due from other governments	7,980	-	-	7,213	-
Due from other funds	758	-	-	-	71
Prepaid expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 74,352</u>	<u>\$ 166,522</u>	<u>\$ 6,529</u>	<u>\$ 196,541</u>	<u>\$ 74,389</u>
<b>LIABILITIES AND FUND EQUITY</b>					
Liabilities:					
Accounts payable	\$ 1,500	\$ -	\$ -	\$ 7,189	\$ 2,936
Accrued wages payable	3,196	-	-	-	-
Due to other funds	-	-	-	-	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>750</u>	<u>-</u>
Total liabilities	<u>4,696</u>	<u>-</u>	<u>-</u>	<u>7,939</u>	<u>2,936</u>
Fund equity:					
Fund balance:					
Restricted	-	166,522	6,529	188,602	71,453
Committed	<u>69,656</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund equity	<u>69,656</u>	<u>166,522</u>	<u>6,529</u>	<u>188,602</u>	<u>71,453</u>
Total liabilities and fund equity	<u>\$ 74,352</u>	<u>\$ 166,522</u>	<u>\$ 6,529</u>	<u>\$ 196,541</u>	<u>\$ 74,389</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>District Attorney Special</u>	<u>District Court Technology</u>
\$ 313,202	\$ 79,304	\$ 367,028	\$ 6,519	\$ 531,598	\$ 68,563	\$ 101,539	\$ 11,763
-	-	56,440	-	-	-	4,099	-
-	-	8,840	161,130	-	-	-	-
2,154	3,255	2,345	-	16,551	4,091	155	362
<u>-</u>	<u>-</u>	<u>5,128</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>183</u>	<u>-</u>
<u>\$ 315,356</u>	<u>\$ 82,559</u>	<u>\$ 439,781</u>	<u>\$ 167,649</u>	<u>\$ 548,149</u>	<u>\$ 72,654</u>	<u>\$ 105,976</u>	<u>\$ 12,125</u>
\$ 10,621	\$ 5,211	\$ 7,643	\$ 128,318	\$ 85,497	\$ -	\$ 3,258	\$ -
-	108	17,192	-	-	1,161	-	-
-	-	-	-	-	-	-	-
-	-	12	-	-	-	1,875	-
<u>10,621</u>	<u>5,319</u>	<u>24,847</u>	<u>128,318</u>	<u>85,497</u>	<u>1,161</u>	<u>5,133</u>	<u>-</u>
304,735	77,240	-	39,331	462,652	71,493	100,843	12,125
-	-	414,934	-	-	-	-	-
<u>304,735</u>	<u>77,240</u>	<u>414,934</u>	<u>39,331</u>	<u>462,652</u>	<u>71,493</u>	<u>100,843</u>	<u>12,125</u>
<u>\$ 315,356</u>	<u>\$ 82,559</u>	<u>\$ 439,781</u>	<u>\$ 167,649</u>	<u>\$ 548,149</u>	<u>\$ 72,654</u>	<u>\$ 105,976</u>	<u>\$ 12,125</u>

(continued)

# HARRISON COUNTY, TEXAS

## COMBINING BALANCE SHEET

### NONMAJOR SPECIAL REVENUE FUNDS

(Continued)

SEPTEMBER 30, 2012

	<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>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,276	\$ -	\$ 22,049	\$ 13,062	\$ -
Receivables:					
Accounts receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Due from other funds	146	937	680	370	465
Prepaid expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 3,422</u>	<u>\$ 937</u>	<u>\$ 22,729</u>	<u>\$ 13,432</u>	<u>\$ 465</u>
<b>LIABILITIES AND FUND EQUITY</b>					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 465
Accrued wages payable	-	318	-	-	-
Due to other funds	-	1,062	-	-	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>1,380</u>	<u>-</u>	<u>-</u>	<u>465</u>
Fund equity:					
Fund balance:					
Restricted	3,422	( 443)	22,729	13,432	-
Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund equity	<u>3,422</u>	<u>( 443)</u>	<u>22,729</u>	<u>13,432</u>	<u>-</u>
Total liabilities and fund equity	<u>\$ 3,422</u>	<u>\$ 937</u>	<u>\$ 22,729</u>	<u>\$ 13,432</u>	<u>\$ 465</u>

<u>Vital Archive Fee</u>	<u>Election Contracts</u>	<u>Court Initiated Guardianship</u>	<u>Totals</u>
\$ 20,891	\$ 49,601	\$ 2,444	\$ 2,087,465
-	3,126	-	69,350
-	-	-	185,163
243	-	300	32,883
<u>-</u>	<u>-</u>	<u>-</u>	<u>5,311</u>
<u>\$ 21,134</u>	<u>\$ 52,727</u>	<u>\$ 2,744</u>	<u>\$ 2,380,172</u>
\$ -	\$ 5,850	\$ -	\$ 258,488
-	-	-	21,975
-	-	-	1,062
-	-	-	2,637
<u>-</u>	<u>5,850</u>	<u>-</u>	<u>284,162</u>
21,134	46,877	2,744	1,611,420
-	-	-	484,590
<u>21,134</u>	<u>46,877</u>	<u>2,744</u>	<u>2,096,010</u>
<u>\$ 21,134</u>	<u>\$ 52,727</u>	<u>\$ 2,744</u>	<u>\$ 2,380,172</u>

## HARRISON COUNTY, TEXAS

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

#### NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Jury	Bail Bond Board	Drug Forfeitures	Airport Maintenance	Tax Collector VIT
<b>REVENUES</b>					
Ad valorem taxes	\$ 170,292	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	2,650	-	-	-
Intergovernmental	36,666	-	-	12,037	-
Charges for services	9,445	-	-	152,531	4,978
Fines and forfeitures	-	-	-	-	-
Investment earnings	202	110	4	507	180
Miscellaneous	-	-	-	29,038	-
Total revenues	216,605	2,760	4	194,113	5,158
<b>EXPENDITURES</b>					
Current expenditures:					
General administration	-	-	-	267,093	3,271
Judicial	212,113	-	-	-	-
Legal	-	-	-	-	-
Elections	-	-	-	-	-
Public safety	1,065	-	2,415	-	-
Public transportation	-	-	-	17,325	-
Health and welfare	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	213,178	-	2,415	284,418	3,271
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	3,427	2,760	( 2,411)	( 90,305)	1,887
<b>OTHER FINANCING SOURCES (USES)</b>					
Loan proceeds	-	-	-	-	-
Sale of capital assets	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
<b>NET CHANGE IN FUND BALANCE</b>	3,427	2,760	( 2,411)	( 90,305)	1,887
<b>FUND BALANCE, BEGINNING</b>	66,229	163,762	8,940	278,907	69,566
<b>FUND BALANCE, ENDING</b>	\$ 69,656	\$ 166,522	\$ 6,529	\$ 188,602	\$ 71,453

<u>Justice Technology</u>	<u>Law Library</u>	<u>Juvenile Services</u>	<u>County Grant</u>	<u>Records Management</u>	<u>Security</u>	<u>District Attorney Special</u>	<u>District Court Technology</u>
\$ -	\$ -	\$ 960,932	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	621,371	742,015	-	-	22,500	-
34,961	40,074	287,864	-	214,744	60,867	13,526	4,691
-	-	-	-	-	-	17,521	-
645	205	1,111	15	963	95	203	7
-	-	<u>1,022</u>	-	-	-	-	-
<u>35,606</u>	<u>40,279</u>	<u>1,872,300</u>	<u>742,030</u>	<u>215,707</u>	<u>60,962</u>	<u>53,750</u>	<u>4,698</u>
16,598	6,431	-	-	238,737	-	-	-
-	58,140	-	84	-	78,868	-	-
-	-	-	20,052	-	-	51,943	-
-	-	-	-	-	-	-	-
13,134	-	1,771,724	99,474	-	6,983	-	-
-	-	-	-	-	-	-	-
-	-	-	46,889	-	-	-	-
-	-	-	<u>574,699</u>	-	-	83	-
<u>29,732</u>	<u>64,571</u>	<u>1,771,724</u>	<u>741,198</u>	<u>238,737</u>	<u>85,851</u>	<u>52,026</u>	<u>-</u>
<u>5,874</u>	<u>( 24,292)</u>	<u>100,576</u>	<u>832</u>	<u>( 23,030)</u>	<u>( 24,889)</u>	<u>1,724</u>	<u>4,698</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
5,874	( 24,292)	100,576	832	( 23,030)	( 24,889)	1,724	4,698
<u>298,861</u>	<u>101,532</u>	<u>314,358</u>	<u>38,499</u>	<u>485,682</u>	<u>96,382</u>	<u>99,119</u>	<u>7,427</u>
<u>\$ 304,735</u>	<u>\$ 77,240</u>	<u>\$ 414,934</u>	<u>\$ 39,331</u>	<u>\$ 462,652</u>	<u>\$ 71,493</u>	<u>\$ 100,843</u>	<u>\$ 12,125</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, 2012

	County Court Technology	Case Manager	District Clerk Preservation	County Clerk Preservation	6th Court of Appeal
<b>REVENUES</b>					
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	1,607	15,238	8,640	4,490	-
Fines and forfeitures	-	-	-	-	-
Investment earnings	2	-	11	7	-
Miscellaneous	-	-	-	-	-
Total revenues	1,609	15,238	8,651	4,497	-
<b>EXPENDITURES</b>					
Current expenditures:					
General administration	-	-	-	-	-
Judicial	-	15,785	-	-	-
Legal	-	-	-	-	-
Elections	-	-	-	-	-
Public safety	-	-	-	-	-
Public transportation	-	-	-	-	-
Health and welfare	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	-	15,785	-	-	-
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	1,609	( 547)	8,651	4,497	-
<b>OTHER FINANCING SOURCES (USES)</b>					
Loan proceeds	-	-	-	-	-
Sale of capital assets	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
<b>NET CHANGE IN FUND BALANCE</b>	1,609	( 547)	8,651	4,497	-
<b>FUND BALANCE, BEGINNING</b>	1,813	104	14,078	8,935	-
<b>FUND BALANCE, ENDING</b>	\$ 3,422	\$( 443)	\$ 22,729	\$ 13,432	\$ -

<u>Vital Archive Fees</u>	<u>Election Contracts</u>	<u>Court Initiated Guardianship</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ 1,131,224
-	-	-	2,650
-	57,142	-	1,491,731
4,445	-	4,160	862,261
-	-	-	17,521
14	8	2	4,291
-	-	-	30,060
<u>4,459</u>	<u>57,150</u>	<u>4,162</u>	<u>3,539,738</u>
-	-	-	532,130
366	-	-	365,356
-	-	-	71,995
-	10,273	-	10,273
-	-	1,418	1,896,213
-	-	-	17,325
-	-	-	46,889
-	-	-	574,782
<u>366</u>	<u>10,273</u>	<u>1,418</u>	<u>3,514,963</u>
<u>4,093</u>	<u>46,877</u>	<u>2,744</u>	<u>24,775</u>
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
4,093	46,877	2,744	24,775
<u>17,041</u>	<u>-</u>	<u>-</u>	<u>2,071,235</u>
<u>\$ 21,134</u>	<u>\$ 46,877</u>	<u>\$ 2,744</u>	<u>\$ 2,096,010</u>

# HARRISON COUNTY, TEXAS

## COMBINING STATEMENT OF ASSETS AND LIABILITIES

### AGENCY FUNDS

SEPTEMBER 30, 2012

	<u>County Treasurer</u>	<u>County Clerk</u>	<u>District Attorney</u>	<u>District Clerk</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 169,000	\$ 498,448	\$ 26,053	\$ 1,478,711
Investments	<u>-</u>	<u>783,956</u>	<u>-</u>	<u>3,390,872</u>
Total assets	<u>\$ 169,000</u>	<u>\$ 1,282,404</u>	<u>\$ 26,053</u>	<u>\$ 4,869,583</u>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 2,826	\$ 26,053	\$ 4,384
Due to other governments	168,994	4,807	-	11,676
Due to other funds	6	65,462	-	21,487
Deferred revenue	-	-	-	-
Court ordered funds	-	425,353	-	1,441,164
Court ordered trust and prisoner funds	<u>-</u>	<u>783,956</u>	<u>-</u>	<u>3,390,872</u>
Total liabilities	<u>\$ 169,000</u>	<u>\$ 1,282,404</u>	<u>\$ 26,053</u>	<u>\$ 4,869,583</u>

<u>Justices of the Peace</u>	<u>Juvenile Center</u>	<u>Sheriff</u>	<u>Tax Assessor- Collector</u>	<u>Fines Collection</u>	<u>Cafeteria Plan</u>	<u>Totals</u>
\$ 123,295	\$ 814	\$ 149,234	\$ 1,162,784	\$ 35,472	\$ 23,595	\$ 3,667,406
<u>-</u>	<u>-</u>	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>4,324,828</u>
<u>\$ 123,295</u>	<u>\$ 814</u>	<u>\$ 149,234</u>	<u>\$ 1,312,784</u>	<u>\$ 35,472</u>	<u>\$ 23,595</u>	<u>\$ 7,992,234</u>
\$ 130	\$ 593	\$ 2,049	\$ 17,494	\$ 2,013	\$ 23,595	\$ 79,137
46,758	-	-	998,279	8,838	-	1,239,352
75,907	221	3,041	133,156	24,621	-	323,901
-	-	109,206	163,855	-	-	273,061
500	-	-	-	-	-	1,867,017
<u>-</u>	<u>-</u>	<u>34,938</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,209,766</u>
<u>\$ 123,295</u>	<u>\$ 814</u>	<u>\$ 149,234</u>	<u>\$ 1,312,784</u>	<u>\$ 35,472</u>	<u>\$ 23,595</u>	<u>\$ 7,992,234</u>

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**INTERNAL CONTROL  
AND COMPLIANCE SECTION**

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**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, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated June 27, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of Harrison County, Texas is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County's 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 the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

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

This report is intended solely for the information and use of management, 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 27, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited Harrison County, Texas' (the "County") compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the County's major federal programs for the year ended September 30, 2012. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

## Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of Harrison County, Texas' major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on Harrison County, Texas' compliance but not to provide an opinion on the effectiveness of Harrison County, Texas' internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harrison County, Texas' compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Pattillo, Brown & Hill, L.L.P.

June 27, 2013

**HARRISON COUNTY, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED SEPTEMBER 30, 2012**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grantor's Pass-through Number	Federal Expenditures
<b><u>U. S. Department of Agriculture</u></b>			
Passed through Texas Health and Human Services:			
National School Lunch Program	10.555	75P6008	\$ 23,680
Total Passed through Texas Health and Human Services			<u>23,680</u>
Total U. S. Department of Agriculture			<u>23,680</u>
<b><u>U. S. Department of Housing and Urban Development</u></b>			
Passed through General Land Office:			
2008 Disaster Recovery Grant	14.228	DRS010065	37,269
Total Passed through General Land Office			<u>37,269</u>
Passed through Texas Department of Agriculture:			
Talley Water Supply Grant	14.228	729319	46,889
Karnack Water Supply Grant	14.228	710036	174,559
Northern Harrison Water Supply	14.228	711006	240,462
Total Passed through Texas Department of Agriculture			<u>461,910</u>
Total U. S. Department of Housing and Urban Development			<u>499,179</u>
<b><u>U. S. Department of Justice</u></b>			
Passed through the Office of the Governor:			
Bullet Proof Partnership Program	16.607		13,980
Total Passed through Office of the Governor			<u>13,980</u>
Direct:			
Sheriff SCAAP Grant	16.606	2010-AP-BX-0063	9,321
Justice Assistance Grant Program	16.738	2009-DJ-BX-0133	1,536
Justice Assistance Grant Program - ARRA	16.803	2009-SB-B9-2139	14,832
Total Direct Programs			<u>25,689</u>
Total U. S. Department of Justice			<u>39,669</u>
<b><u>U. S. Department of Health and Human Services</u></b>			
Passed through Texas Department of Family and Protective Services:			
Child Abuse and Neglect State Grants	93.669	23939995	1,769
Total Passed through Texas Department of Family and Protective Services			<u>1,769</u>
Total U. S. Department of Health and Human Services			<u>1,769</u>

(continued)

## HARRISON COUNTY, TEXAS

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

(Continued)

YEAR ENDED SEPTEMBER 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grantor's Pass-through Number	Federal Expenditures
<b><u>U. S. Department of Homeland Security</u></b>			
Passed through Texas Department of Public Safety:			
Fire Management Assistance Grant	97.046	FEMA-1999-DR	210,087
Homeland Security Grant Program	97.073	2009-SS-T9-0064	985
Homeland Security Grant Program	97.073	2010-SS-T0-0008	119,293
Homeland Security Grant Program	97.073	EMW-2011-SS-00019	<u>19,506</u>
Total Passed through Texas Department of Public Safety			<u>349,871</u>
Total U. S. Department of Homeland Security			<u>349,871</u>
Total Federal Expenditures			\$ <u><u>914,168</u></u>

## **HARRISON COUNTY, TEXAS**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED SEPTEMBER 30, 2012**

1. The Schedule of Expenditures of Federal Awards is a summary of the activity of the County's federal award programs presented on the modified accrual basis of accounting in accordance with generally accepted accounting principles.

The modified accrual basis of accounting is used for the governmental fund types. The County uses governmental fund types (General Fund, Special Revenue Funds, and Capital Projects Fund) to account for federal grant awards received. The modified accrual basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable. There are exceptions for unmatured interest on general long-term debt, which is recognized when due, and for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

2. The amounts shown as expenditures represent only the federal portion of the actual program costs. Actual program costs, including the County's portion, may be more than shown.

**HARRISON COUNTY, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**Summary of Auditors' Results**

Financial Statements:

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	None

Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133	No
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Identification of major programs:

CFDA Numbers:	Name of federal/state program or cluster:
14.228	Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B federal programs:	\$300,000
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Auditee qualified as low-risk auditee under OMB Circular A-133?	No
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**Findings Relating to the Financial Statements Which are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards**

None

**Findings and Questioned Costs for Federal Awards**

None

**HARRISON COUNTY, TEXAS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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

None

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**HUGH TAYLOR**  
**HARRISON COUNTY JUDGE**

June 27, 2013

Pattillo, Brown, & Hill, L.L.P.

401 W. Hwy 6

Waco, TX 76710

We are providing this letter in connection with your audit of the financial statements of Harrison County, Texas as of September 30, 2012 and for the year then ended for the purpose of expressing opinions as to whether the financial statements 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 and the respective changes in financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of June 21, 2013, the following representations made to you during your audit.

- 1) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 2) We have made available to you all—
  - a) Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
  - b) Minutes of the meetings of Commissioners' Court or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 3) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 4) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.
- 5) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 6) We have no knowledge of any fraud or suspected fraud affecting the entity involving:
  - a) Management,
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.
- 7) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
- 8) We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you have reported to us.
- 9) We have a process to track the status of audit findings and recommendations.

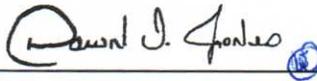
- 10) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 11) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- 12) The County has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 13) The following, if any, have been properly recorded or disclosed in the financial statements:
  - a) Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - b) Guarantees, whether written or oral, under which the County is contingently liable.
  - c) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances.
- 14) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 15) There are no—
  - a) Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
  - b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles.
  - c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.
- 16) As part of your audit, you assisted with preparation of the financial statements and related notes and schedule of expenditures of federal awards. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of expenditures of federal awards.
- 17) The County has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 18) The County has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 19) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- 20) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 21) The financial statements properly classify all funds and activities.
- 22) All funds that meet the quantitative criteria in [GASB Statement Nos. 34](#) and [37](#) for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 23) Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 24) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 25) Provisions for uncollectible receivables have been properly identified and recorded.

- 26) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 27) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 28) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 29) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 30) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 31) We have appropriately disclosed the County's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.
- 32) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 33) With respect to the combining and individual non-major fund financial statements and schedules and SEFA:
  - a) We acknowledge our responsibility for presenting the combining and individual non-major fund financial statements and schedule and SEFA in accordance with accounting principles generally accepted in the United States of America, and we believe the combining and individual non-major fund financial statements and schedule and SEFA, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the combining and individual non-major fund financial statements and schedule and SEFA have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
  - b) If the combining and individual non-major fund financial statements and schedule and SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
- 34) We have evaluated the County's ability to continue as a going concern and have included appropriate disclosures, as necessary, in the financial statements.
- 35) With respect to federal award programs:
  - a) We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including requirements relating to preparation of the schedule of expenditures of federal awards.
  - b) We have prepared the schedule of expenditures of federal awards in accordance with OMB Circular A-133, and have identified and disclosed in the schedule expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
  - c) We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with OMB Circular A-133 §310.b. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
  - d) If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the supplementary information and the auditor's report thereon.

- e) We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133.
- f) We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
- g) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- h) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- i) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- j) We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the requirements of federal awards.
- k) We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- l) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- m) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- n) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- o) We have made available to you all documentation related to compliance with the direct material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- p) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- q) There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- r) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance was audited.
- s) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- t) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- u) We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.

- v) We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements and have ensured that subrecipients have taken the appropriate and timely corrective action on findings. [Omit this item if there are no subrecipients.]
  - w) We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
  - x) We have charged costs to federal awards in accordance with applicable cost principles.
  - y) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
  - z) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
  - aa) We are responsible for preparing and implementing a corrective action plan for each audit finding.
  - bb) We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.
- 36) We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Signed: 

Signed: 

Title: Harrison County Judge

Title: Auditor