

**HARRISON COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2013**



**HARRISON COUNTY, TEXAS**

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# **FINANCIAL SECTION**

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P A T T I L L O , B R O W N & H I L L , L . L . P .  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise of Harrison County, Texas' basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***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 Harrison County, Texas, as of September 30, 2013, 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 accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Funding Progress for Texas County and District Retirement System, and Schedule of Funding Progress for the Post-Retirement Health Care Benefit Plan 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harrison County, Texas' basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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 Non-Profit Organizations*, and is also not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2014, on our consideration of the of 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* in considering of Harrison County, Texas' internal control over financial reporting and compliance.

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

Waco, Texas  
June 26, 2014

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**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, 2013. 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 position, as indicated in the government-wide financial statements, are \$17,077,910. This is a decrease of \$916,658, which is a decrease of 5.1%. This decrease is comprised of a loss of \$916,658 from operations. The decrease was primarily caused by the allocation of the FY 2013 portion of the OPEB expense for the County. The amount of OPEB expense for the year was \$1,203,623.
- Total net position are comprised of: 1) net investment in capital assets, of \$19,333,997, including property and equipment, net of accumulated depreciation; 2) debt covenants, grantors, or statute restricts net position of \$2,694,744; and 3) the County's unrestricted net position at year-end is \$(4,950,831).
- Total governmental long-term debt of the County increased by \$1,981,962. This was primarily caused by the allocation of the FY 2013 portion of the OPEB expense for the County and the issuance of loans payable for equipment purchased and building upgrades for the HVAC energy savings project, which is being done to reduce the County's energy costs, in the amount of \$1,619,423.
- The unassigned fund balance in the General Fund, as shown in the fund financial statements on page 13, is \$6,837,129 or 38% of General Fund expenditures.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The *Statement of Net Position* 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. 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 Position presents information on all of the County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position 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 position 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 basic funds are classified by type and 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 Position 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, presented immediately following the basic financial statements, are 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 position and changes in net position. 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 Position 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 \$25,329,708. This amount is net of accumulated depreciation of \$19,199,663. 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. Net position at year-end are \$17,077,910; a total of \$2,694,744 is restricted for specific purposes, as required by state law or grantor requirements; \$19,333,997 represents the County’s net investment in capital assets, and \$(4,950,831) in unrestricted net position is available for funding general operations. Unrestricted net position increased by \$411,534, total assets increased \$985,263, and total net position decreased by \$916,658.

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

	Governmental Activities	
	2013	2012
Current and other assets	\$ 14,639	\$ 12,010
Capital assets	<u>25,330</u>	<u>26,973</u>
Total assets	<u>39,968</u>	<u>38,983</u>
Current liabilities	3,854	2,895
Noncurrent liabilities	<u>19,037</u>	<u>18,094</u>
Total liabilities	<u>22,891</u>	<u>20,989</u>
Net position:		
Net investment,		
in capital assets	19,334	20,838
Restricted	2,695	2,519
Unrestricted	( 4,951)	( 5,362)
Total net position	<u>\$ 17,078</u>	<u>\$ 17,995</u>

The Changes in Net Position itemizes the basic source of revenue and expenses as to the services provided. Total revenue for governmental activities was \$26,872,944. Total governmental expenses were \$27,789,602 resulting in a decrease in net position of \$916,658. More details about the increase are discussed in the Financial Analysis of the County Funds.

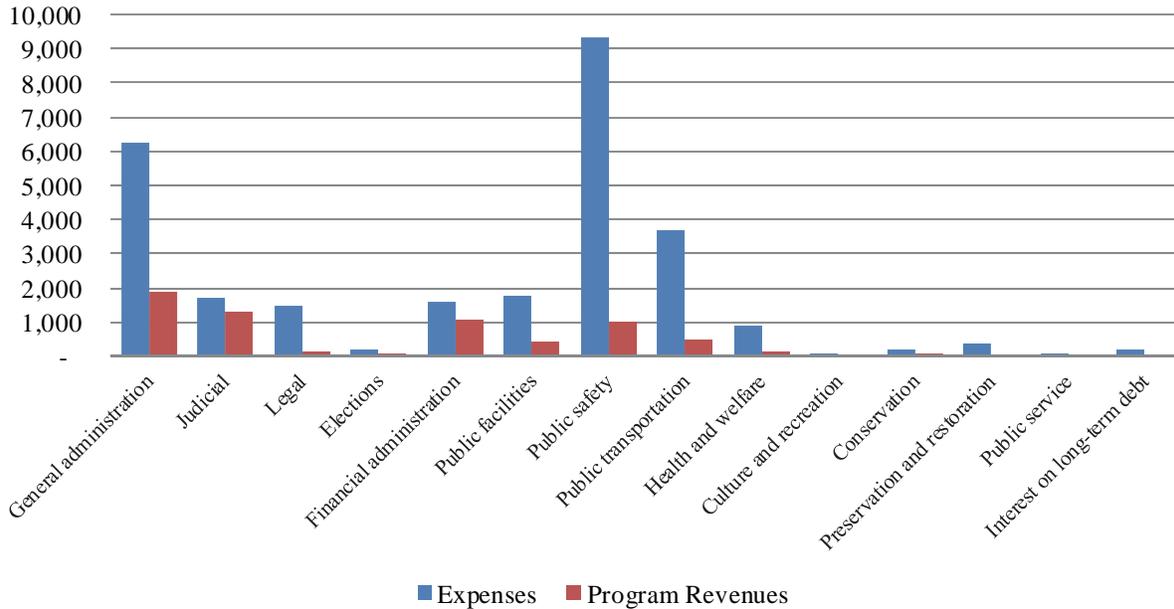
**HARRISON COUNTY'S CHANGES IN NET POSITION**  
(in Thousands)

	Governmental Activities	
	2013	2012
Revenues:		
Program revenues:		
Charges for services	\$ 5,138	\$ 5,211
Operating grants and contributions	1,446	1,864
General revenues:		
Property taxes	20,066	20,870
Interest	25	24
Other	198	128
Total revenues	26,873	28,097
Expenses:		
General administration	6,255	7,220
Judicial	1,724	1,688
Legal	1,459	1,467
Elections	207	252
Financial administration	1,591	2,112
Public facilities	1,741	904
Public safety	9,318	9,625
Public transportation	3,705	3,963
Health and welfare	873	1,228
Culture and recreation	73	63
Conservation	187	186
Preservation and restoration	354	11
Public service	88	82
Interest on long-term debt	214	267
Total expenses	27,790	29,068
Change in net position	( 917)	( 971)
Net position - beginning	17,995	18,966
Net position - ending	\$ 17,078	\$ 17,995

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 2013 was the fifth year for inclusion in the financial statements. The addition of this liability increased expenses and decreased net position by \$1,203,623. In fiscal year 2013, the County made changes to the existing County retirement health insurance plan which lowered the unfunded actuarial accrued liability by 26% over the fiscal year 2012 balance.

## Expenses and Program Revenues - Governmental Activities (in Thousands)



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

	Charges	% of Total	Functional	Percent of Total	Funded by	
	for Services 2013		Expenses 2013		Other Revenues	Amount
General administration	\$ 1,894	7.0%	\$ 6,255	22.5%	\$( 4,361)	( 69.7%)
Judicial	1,279	4.8%	1,724	6.2%	( 446)	( 25.9%)
Legal	25	0.1%	1,459	5.2%	( 1,434)	( 98.3%)
Elections	3	0.0%	207	0.7%	( 204)	( 98.6%)
Financial administration	1,080	4.0%	1,591	5.7%	( 512)	( 32.1%)
Public facilities	-	- %	1,741	6.3%	( 1,741)	( 100.0%)
Public safety	456	1.7%	9,318	33.5%	( 8,861)	( 95.1%)
Public transportation	400	1.5%	3,705	13.3%	( 3,305)	( 89.2%)
Health and welfare	-	- %	873	3.1%	( 873)	( 100.0%)
Culture and recreation	-	- %	73	0.3%	( 73)	( 100.0%)
Conservation	-	- %	187	0.7%	( 187)	( 100.0%)
Preservation and restoration	-	- %	354	1.3%	( 354)	( 100.0%)
Public service	-	- %	88	0.3%	( 88)	( 100.0%)
Interest on long-term debt	-	- %	214	0.8%	( 214)	( 100.0%)
<b>Total</b>	<b>5,137</b>	<b>19.1%</b>	<b>\$ 27,790</b>	<b>100.0%</b>	<b>( 22,652)</b>	
<b>OPERATING GRANTS AND CONTRIBUTIONS</b>	<b>1,446</b>	<b>5.4%</b>			<b>1,446</b>	
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	<b>-</b>	<b>- %</b>			<b>-</b>	
<b>GENERAL REVENUES</b>	<b>20,290</b>	<b>75.5%</b>			<b>20,290</b>	
<b>TOTAL REVENUES</b>	<b>\$ 26,872</b>	<b>100.0%</b>				
<b>CHANGE IN NET POSITION</b>					<b>\$( 917)</b>	

## Capital Assets and Debt Administration

*Capital Assets* – Capital assets decreased by approximately \$1,643,000 primarily due to depreciation expense exceeding the amount of capital additions.

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

	Governmental Activities	
	2013	2012
Land, buildings and improvements	\$ 18,992	\$ 19,712
Autos and trucks	1,565	1,329
Heavy equipment	1,969	2,616
Other equipment, furniture and fixtures	240	295
Construction in progress	7	7
Infrastructure	<u>2,557</u>	<u>3,014</u>
Total capital assets, net	<u>\$ 25,330</u>	<u>\$ 26,973</u>

## Outstanding Debt

The table below reports the outstanding balances of debt for 2013 and 2012 for governmental activities. The County's overall debt increased due to the issuance of debt for the purpose of purchasing equipment, the building upgrade for the HVAC energy savings project, and the continued increase in the County's OPEB obligation. In November of 2013, the County's bond rating increased from A+ to AA. Detailed information concerning the County's long-term debt is available in the notes to the financial statements.

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

	Governmental Activities	
	2013	2012
General obligation debt	\$ 3,725	\$ 4,025
Notes payable	3,357	2,207
Net OPEB obligation	12,586	11,383
Compensated absences	<u>1,117</u>	<u>1,189</u>
Total long-term debt	<u>\$ 20,785</u>	<u>\$ 18,804</u>

## FINANCIAL ANALYSIS OF THE COUNTY FUNDS

### Governmental Funds

The governmental fund statements 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 \$10,814,536, an increase of \$2,351,887 from the prior year. This represented a 28.4% increase in total fund balances. This increase was mainly in the General Fund. The reason for the increase was the County entered into 4 new loan agreements, with proceeds totaling \$1,280,785 in FY 13.

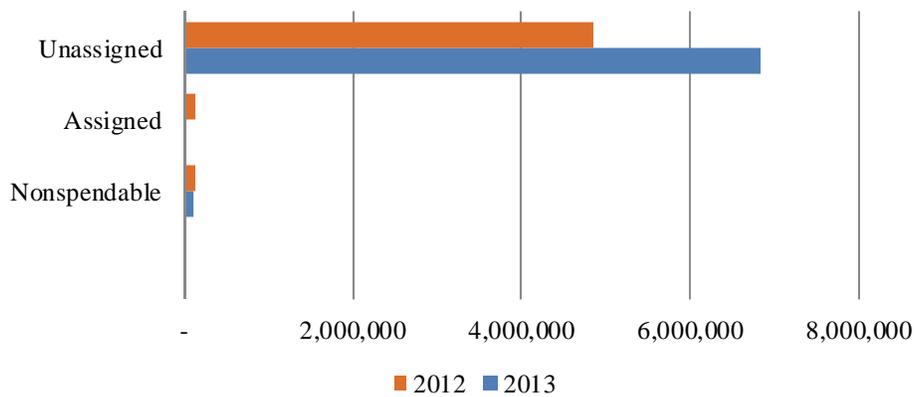
The General Fund is the primary day-to-day operating fund that finances services such as the courts and law enforcement. Approximately 86% of the revenue to support these services is generated by ad valorem taxes. General Fund operations resulted in an increase in fund balance of \$1,843,124. The ending fund balance of \$6,957,895 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 36.0% over fiscal year 2012 fund balance. Additionally, with the changes to the County’s health plan, current expenditures were reduced and kept within budget.

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 \$234,411. This fund balance was mainly increased through sales of equipment and the issuance of notes payable.

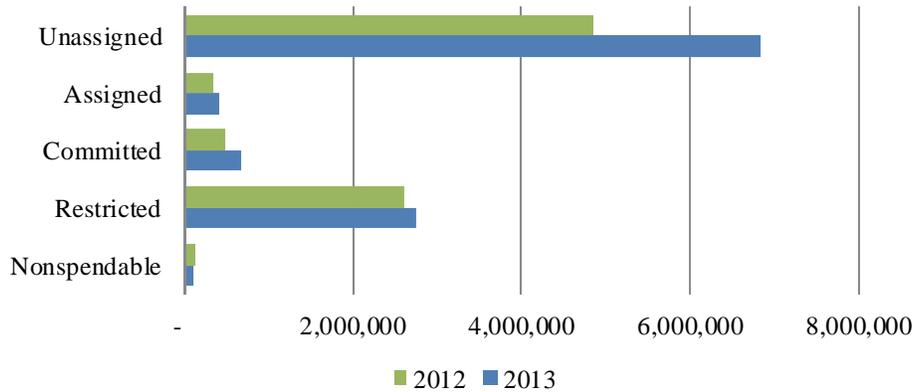
There were some expenditures budgeted for fiscal year 2013 that, due to timing, will not be expenditures until fiscal year 2014. This gave a temporary increase in fund balance to the General and Road and Bridge funds as these were budgeted for but not spent.

All other governmental funds are combined to form the nonmajor governmental fund category. Combined fund balances increased by \$274,352.

### General Fund Components of Fund Balance



## Governmental Funds Components of Fund Balance



### 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 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 \$498,813.

The original General Fund budget planned for expenditures to exceed revenues by \$1,179,979. However, actual expenditures were \$2,150,173 less than what was budgeted. Since actual revenues exceeded expenditures by \$585,434, the County had an increase in fund balance.

The original Road and Bridge Fund budget planned for expenditures to exceed revenues by \$64,025. However, actual expenditures were \$381,238 less than what was budgeted.

### BUDGET FOR 2013 – 2014 AND LATER

For the 2013-2014 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:

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

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**BASIC  
FINANCIAL STATEMENTS**

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# HARRISON COUNTY, TEXAS

## STATEMENT OF NET POSITION

SEPTEMBER 30, 2013

	Primary Government	Component Unit
	Governmental Activities	Industrial Development Authority
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11,651,428	\$ 106,750
Investments	-	1,607,282
Receivables, net:		
Property taxes	1,517,416	-
Accounts receivable	633,329	-
Due from other governments	287,961	-
Due from agency funds	331,673	-
Prepaid expenditures	121,164	-
Unamortized bond issuance costs	95,768	-
Capital assets, net of accumulated depreciation		
Land, buildings and improvements	23,299,643	-
Autos and trucks	4,388,842	-
Heavy equipment	4,173,376	-
Other equipment, furniture and fixtures	1,017,520	-
Construction in progress	7,084	-
Infrastructure	11,642,906	-
Accumulated depreciation	( 19,199,663)	-
Total capital assets	25,329,708	-
Total assets	39,968,447	1,714,032
<b>LIABILITIES</b>		
Accounts payable	1,289,467	-
Accrued wages payable	286,536	-
Accrued interest payable	54,384	-
Unearned revenue	475,222	-
Other liabilities:		
Due within one year	1,748,243	-
Due in more than one year	19,036,685	-
Total liabilities	22,890,537	-
<b>NET POSITION</b>		
Net investment in capital assets	19,333,997	-
Restricted for:		
Debt service	302,595	-
Capital projects	319,436	-
Special purposes	2,072,713	-
Unrestricted	( 4,950,831)	1,714,032
Total net position	\$ 17,077,910	\$ 1,714,032

**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, 2013**

	Program Revenues			Changes Net Position	Component Unit
	Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government	Industrial Development Authority
Expenses					
<b>PRIMARY GOVERNMENT</b>					
General administration	\$ 6,255,222	\$ 1,894,018	\$ 2,846	\$( 4,358,358)	\$ -
Judicial	1,724,420	1,278,525	22,967	( 422,928)	-
Legal	1,458,816	25,276	127,501	( 1,306,039)	-
Elections	207,154	2,880	8,369	( 195,905)	-
Financial administration	1,591,324	1,079,823	-	( 511,501)	-
Public facilities	1,740,892	-	449,377	( 1,291,515)	-
Public safety	9,317,570	456,910	565,348	( 8,295,312)	-
Public transportation	3,705,178	400,231	100,162	( 3,204,785)	-
Health and welfare	873,474	-	162,241	( 711,233)	-
Culture and recreation	73,495	-	-	( 73,495)	-
Conservation	186,920	-	6,699	( 180,221)	-
Preservation and restoration	353,518	-	-	( 353,518)	-
Public service	87,700	-	-	( 87,700)	-
Interest and other charges	213,919	-	-	( 213,919)	-
Total primary government governmental activities	<u>\$ 27,789,602</u>	<u>\$ 5,137,663</u>	<u>\$ 1,445,510</u>	<u>( 21,206,429)</u>	<u>-</u>
<b>COMPONENT UNIT</b>					
Industrial development authority	<u>\$ 11,726</u>	<u>\$ -</u>	<u>\$ -</u>		<u>( 11,726)</u>
General revenues					
Property taxes			\$ 20,037,809	\$ -	
Miscellaneous taxes			28,639	-	
Investment earnings			24,937		238,674
Miscellaneous			198,386		-
Total general revenues			<u>20,289,771</u>		<u>238,674</u>
Change in net position			( 916,658)		226,948
Net position, beginning			<u>17,994,568</u>		<u>1,487,084</u>
Net position, ending			<u>\$ 17,077,910</u>		<u>\$ 1,714,032</u>

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

**HARRISON COUNTY, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2013**

	General	Road and Bridge	Other Governmental	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 7,704,287	\$ 1,011,477	\$ 2,903,362	\$ 11,619,126
Receivables, net				
Property taxes	1,517,416	-	-	1,517,416
Accounts receivable	23,055	80,153	23,730	126,938
Due from other governments	157,435	41	130,485	287,961
Due from other funds	227,784	117,416	35,553	380,753
Prepaid expenditures	120,766	-	398	121,164
Total assets	\$ 9,750,743	\$ 1,209,087	\$ 3,093,528	\$ 14,053,358
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 674,836	\$ 239,559	\$ 135,320	\$ 1,049,715
Accrued wages payable	217,366	41,908	27,262	286,536
Deferred revenue	1,900,646	-	1,925	1,902,571
Total liabilities	2,792,848	281,467	164,507	3,238,822
<b>Fund balances</b>				
Nonspendable	120,766	-	-	120,766
Restricted				
Debt service	-	-	356,979	356,979
Capital projects	-	-	319,436	319,436
Bail bond services	-	-	168,966	168,966
Airport maintenance	-	-	202,587	202,587
Court technology and security	-	-	365,623	365,623
VIT escrow	-	-	74,155	74,155
Law library	-	-	68,861	68,861
Grants	-	-	36,637	36,637
District Attorney services	-	-	91,362	91,362
Records management and preservation	-	-	457,832	457,832
Public transportation	-	501,619	-	501,619
Other	-	-	105,071	105,071
Committed for:				
Jury services	-	-	88,543	88,543
Juvenile services	-	-	592,969	592,969
Assigned for:				
Road and bridge equipment	-	145,500	-	145,500
Road damage repairs	-	280,501	-	280,501
Unassigned	6,837,129	-	-	6,837,129
Total fund balances	6,957,895	927,620	2,929,021	10,814,536
Total liabilities and fund balances	\$ 9,750,743	\$ 1,209,087	\$ 3,093,528	\$ 14,053,358

**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 POSITION**  
**YEAR ENDED SEPTEMBER 30, 2013**

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

Total fund balances of governmental funds	\$ 10,814,536
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	25,329,708
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 position.	54,263
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,622,947
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the funds.	<u>( 20,743,544)</u>
Net position of governmental activities	<u><u>\$ 17,077,910</u></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, 2013**

	General	Road and Bridge	Other Governmental	Total Governmental Funds
<b>REVENUES</b>				
Ad valorem taxes	\$ 15,779,566	\$ 1,869,913	\$ 2,366,220	\$ 20,015,699
Miscellaneous taxes	28,639	-	-	28,639
Licenses and permits	88,155	1,100,261	2,680	1,191,096
Fines and forfeitures	31,980	1,007,735	3,455	1,043,170
Intergovernmental	133,389	100,162	869,962	1,103,513
Charges for services	2,199,910	330,464	779,930	3,310,304
Investment earnings	17,824	1,931	5,079	24,834
Miscellaneous	166,406	77	31,903	198,386
Total revenues	18,445,869	4,410,543	4,059,229	26,915,641
<b>EXPENDITURES</b>				
Current expenditures:				
General administration	3,603,596	2,090,703	507,179	6,201,478
Judicial	1,218,457	-	353,149	1,571,606
Legal	1,397,177	-	51,860	1,449,037
Elections	185,222	-	3,718	188,940
Financial administration	1,491,260	-	-	1,491,260
Public facilities	1,740,892	-	-	1,740,892
Public transportation	-	2,541,867	26,971	2,568,838
Public safety	6,652,118	-	1,330,509	7,982,627
Health and welfare	841,308	-	20,047	861,355
Culture and recreation	59,872	-	-	59,872
Conservation	177,107	-	-	177,107
Public service	87,700	-	-	87,700
Capital outlay	330,726	-	592,929	923,655
Debt service:				
Principal	59,874	-	700,721	760,595
Interest and other charges	15,126	-	228,994	244,120
Total expenditures	17,860,435	4,632,570	3,816,077	26,309,082
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	585,434	( 222,027)	243,152	606,559
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of notes payable	1,280,785	338,638	-	1,619,423
Sale of capital assets	8,105	117,800	-	125,905
Operating transfer in	-	-	31,200	31,200
Operating transfers out	( 31,200)	-	-	( 31,200)
Total other financing sources (uses)	1,257,690	456,438	31,200	1,745,328
<b>NET CHANGE IN FUND BALANCES</b>	1,843,124	234,411	274,352	2,351,887
<b>FUND BALANCES, BEGINNING</b>	5,114,771	693,209	2,654,669	8,462,649
<b>FUND BALANCES, ENDING</b>	\$ 6,957,895	\$ 927,620	\$ 2,929,021	\$ 10,814,536

**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, 2013

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

Net change in fund balances - total governmental funds	\$ 2,351,887
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	\$ 852,555
Depreciation expense	<u>( 1,949,205)</u>
	( 1,096,650)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net position.	769,326
The issuance of debt has no effect on the governmental funds.	( 1,619,423)
Revenues in the statement of activities that do not provide current financial resources and are not reported as revenue in the funds.	( 64,910)
Interest expense on long-term debt and contractual obligations is not accrued in the governmental funds.	30,201
The net effect of various sales and disposals of capital assets is to decrease net assets.	( 506,545)
Delinquent property taxes receivable which do not provide current financial resources are not reported as revenue in the funds.	22,110
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.	71,758
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 position.	( 1,203,623)
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>329,211</u>
Changes in net position of governmental activities	<u><u>\$( 916,658)</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, 2013**

	General			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>REVENUES</b>				
Ad valorem taxes	\$ 15,732,956	\$ 15,732,956	\$ 15,779,566	\$ 46,610
Miscellaneous taxes	30,000	30,000	28,639	( 1,361)
Licenses, permits and fees	123,000	123,000	88,155	( 34,845)
Intergovernmental	143,958	165,888	133,389	( 32,499)
Fines and forfeitures	41,075	41,075	31,980	( 9,095)
Charges for services	1,928,315	2,155,269	2,199,910	44,641
Investment earnings	20,512	20,512	17,824	( 2,688)
Miscellaneous	312,000	337,000	166,406	( 170,594)
Total revenues	<u>18,331,816</u>	<u>18,605,700</u>	<u>18,445,869</u>	<u>( 159,831)</u>
<b>EXPENDITURES</b>				
General administration	4,835,963	4,635,203	3,603,596	1,031,607
Judicial	1,270,873	1,278,421	1,218,457	59,964
Legal	1,274,370	1,432,165	1,397,177	34,988
Elections	200,052	205,646	185,222	20,424
Financial administration	1,546,888	1,543,986	1,491,260	52,726
Public facilities	1,761,912	1,761,913	1,740,892	21,021
Public safety	6,609,155	6,805,062	6,652,118	152,944
Health and welfare	1,598,592	1,601,496	841,308	760,188
Culture and recreation	62,550	62,550	59,872	2,678
Conservation	178,690	180,690	177,107	3,583
Public service	97,750	97,750	87,700	10,050
Capital outlay	-	330,726	330,726	-
Debt service				
Principal	59,874	59,874	59,874	-
Interest and other charges	15,126	15,126	15,126	-
Total expenditures	<u>19,511,795</u>	<u>20,010,608</u>	<u>17,860,435</u>	<u>2,150,173</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 1,179,979)</u>	<u>( 1,404,908)</u>	<u>585,434</u>	<u>1,990,342</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of notes payable	1,050,000	1,280,785	1,280,785	-
Sale of capital assets	30,000	30,000	8,105	( 21,895)
Operating transfers out	-	-	( 31,200)	( 31,200)
Total other financing sources (uses)	<u>1,080,000</u>	<u>1,310,785</u>	<u>1,257,690</u>	<u>( 53,095)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>( 99,979)</u>	<u>( 94,123)</u>	<u>1,843,124</u>	<u>1,937,247</u>
<b>FUND BALANCES, BEGINNING</b>	<u>5,114,771</u>	<u>5,114,771</u>	<u>5,114,771</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 5,014,792</u>	<u>\$ 5,020,648</u>	<u>\$ 6,957,895</u>	<u>\$ 1,937,247</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, 2013

	Road and Bridge Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>REVENUES</b>				
Ad valorem taxes	\$ 1,864,984	\$ 1,864,984	\$ 1,869,913	\$ 4,929
Licenses, permits and fees	1,138,960	1,138,960	1,100,261	( 38,699)
Fines and forfeitures	1,117,500	1,117,500	1,007,735	( 109,765)
Intergovernmental	79,000	79,000	100,162	21,162
Charges for services	150,000	150,000	330,464	180,464
Investment earnings	1,650	1,650	1,931	281
Miscellaneous	500	500	77	( 423)
Total revenues	4,352,594	4,352,594	4,410,543	57,949
<b>EXPENDITURES</b>				
General administration	2,179,069	2,191,849	2,090,703	101,146
Public transportation	2,259,500	2,821,959	2,541,867	280,092
Total expenditures	4,438,569	5,013,808	4,632,570	381,238
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	( 85,975)	( 661,214)	( 222,027)	439,187
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan and bond proceeds	-	338,638	338,638	-
Sale of capital assets	150,000	150,000	117,800	( 32,200)
Total other financing sources (uses)	150,000	488,638	456,438	( 32,200)
<b>NET CHANGE IN FUND BALANCES</b>	64,025	( 172,576)	234,411	406,987
<b>FUND BALANCES, BEGINNING</b>	693,209	693,209	693,209	-
<b>FUND BALANCES, ENDING</b>	\$ 757,234	\$ 520,633	\$ 927,620	\$ 406,987

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

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**HARRISON COUNTY, TEXAS**

**STATEMENT OF NET POSITION**

**PROPRIETARY FUNDS**

**SEPTEMBER 30, 2013**

	<u>Governmental Activities Internal Service Fund</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 32,302
Accounts receivable	<u>310,793</u>
Total assets	<u>343,095</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	239,752
Due to other funds	<u>49,080</u>
Total liabilities	<u>288,832</u>
<b>NET POSITION</b>	
Unrestricted	<u>54,263</u>
Total net position	<u>\$ 54,263</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 POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Governmental Activities
	Internal Service Fund
<b>OPERATING REVENUES</b>	
Charges for services	\$ 2,347,020
Total operating revenues	2,347,020
<b>OPERATING EXPENSES</b>	
Benefit payments	2,017,912
Total operating expenses	2,017,912
<b>OPERATING LOSS</b>	329,108
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	103
Total nonoperating revenues (expenses)	103
<b>CHANGE IN NET POSITION</b>	329,211
<b>TOTAL NET POSITION, BEGINNING</b>	( 274,948)
<b>TOTAL NET POSITION, ENDING</b>	\$ 54,263

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, 2013**

	<u>Governmental Activities</u> <u>Internal Service Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from premiums and contributions	\$ 2,085,307
Payments for claims	<u>( 2,134,582)</u>
Net cash provided by operating activities	<u>( 49,275)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	<u>103</u>
Net cash provided by investing activities	<u>103</u>
<b>NET INCREASE IN CASH</b>	( 49,172)
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>81,474</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 32,302</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating loss	\$ 329,108
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
(Increase) decrease in receivables	( 310,793)
Increase (decrease) in payables	( 116,670)
Increase (decrease) in due to other funds	<u>49,080</u>
Total adjustments	<u>( 378,383)</u>
Net cash provided by operating activities	<u>\$( 49,275)</u>

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

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**HARRISON COUNTY, TEXAS**

**STATEMENT OF NET POSITION**

**FIDUCIARY FUNDS**

**SEPTEMBER 30, 2013**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 4,115,878
Investments	<u>1,343,250</u>
 Total assets	 \$ <u><u>5,459,128</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 83,111
Due to other governments	1,354,613
Due to other funds	331,673
Deferred revenue	274,493
Court ordered funds	2,209,566
Court ordered trust and prisoner funds	<u>1,205,672</u>
 Total liabilities	 \$ <u><u>5,459,128</u></u>

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

# HARRISON COUNTY, TEXAS

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

### 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.

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, 2013. 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 position 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.

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.

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 Position 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, 2013, 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.

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.

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 position. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources and debt payments as expenditures – debt service.

### **Fund Balance 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.

### **Equity Classifications**

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

*Net investment in capital assets* 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 position* consist of net position 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 position* consists of all other net position that do not meet the definition of "restricted" or "invested" in net investment in capital assets.

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.

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, 2013, are discussed in the Management Discussion and Analysis (MD&A) starting on page 4 of this report.

### 3. DETAILED NOTES ON ALL FUNDS

#### Deposits and Investments

As of September 30, 2013, the County had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Primary government:		
Texas Term	\$ 4,343,902	12
MBIA	<u>8,798,335</u>	45
 Total fair value	 \$ <u>13,142,237</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, 2013, the County's deposit balance was fully collateralized with securities held by the pledging financial institution in the County's name or by 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.

*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 \$997,460 of primarily U.S. corporate stock and \$609,822 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 4.38 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, the bond mutual funds in which the Authority had invested were rated BBB.

### **Receivables**

Receivables at September 30, 2013, 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	\$ 2,136,427	\$ -	\$ -	\$ 2,136,427
Accounts receivable	23,055	80,153	23,730	126,938
Due from other governments	<u>157,435</u>	<u>41</u>	<u>130,485</u>	<u>287,961</u>
Total receivables	<u>2,316,917</u>	<u>80,194</u>	<u>154,215</u>	<u>2,551,326</u>
Less: allowance for uncollectibles	<u>619,011</u>	<u>-</u>	<u>-</u>	<u>619,011</u>
Net total receivables	<u>\$ 1,697,906</u>	<u>\$ 80,194</u>	<u>\$ 154,215</u>	<u>\$ 1,932,315</u>

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

## Capital Assets

Capital asset activity for governmental activities for the year ended September 30, 2013, was as follows:

### Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 596,444	\$ -	\$ -	\$ 596,444
Construction in progress	7,084	-	-	7,084
Total assets not being depreciated	<u>603,528</u>	<u>-</u>	<u>-</u>	<u>603,528</u>
Capital assets, being depreciated:				
Buildings and improvements	22,703,199	-	-	22,703,199
Autos and trucks	4,153,940	661,356	( 426,455)	4,388,841
Heavy equipment	5,101,533	167,298	( 1,095,455)	4,173,376
Equipment, furniture and fixtures	1,183,716	-	( 166,196)	1,017,520
Infrastructure	11,640,036	23,900	( 21,030)	11,642,906
Total capital assets being depreciated	<u>44,782,424</u>	<u>852,554</u>	<u>( 1,709,136)</u>	<u>43,925,842</u>
Less accumulated depreciation:				
Buildings and improvements	3,587,747	720,168	-	4,307,915
Autos and trucks	2,824,526	414,668	( 415,536)	2,823,658
Heavy equipment	2,485,693	298,756	( 580,329)	2,204,120
Equipment, furniture and fixtures	888,679	55,289	( 166,196)	777,772
Infrastructure	8,625,873	460,324	-	9,086,197
Total accumulated depreciation	<u>18,412,518</u>	<u>1,949,205</u>	<u>( 1,162,061)</u>	<u>19,199,662</u>
Total capital assets being depreciated, net	<u>26,369,906</u>	<u>( 1,096,651)</u>	<u>( 547,075)</u>	<u>24,726,180</u>
Governmental activities capital assets, net	<u>\$ 26,973,434</u>	<u>\$( 1,096,651)</u>	<u>\$( 547,075)</u>	<u>\$ 25,329,708</u>

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

Governmental activities:	
General administration	\$ 4,284
Judicial	14,079
Legal	9,779
Elections	6,965
Financial administration	10,073
Public safety	611,087
Public transportation	945,110
Health and welfare	870
Culture and recreation	6,124
Preservation and restoration	338,520
Conservation	<u>2,314</u>
Total depreciation expense	<u>\$ 1,949,205</u>

**Interfund Receivables, Payables, and Transfers**

The composition of interfund balances as of September 30, 2013, is as follows:

**Due to/from Other Funds**

	<u>Payable fund</u>		
	<u>Internal Service</u>	<u>Agency</u>	<u>Total</u>
Receivable fund:			
General	\$ 49,080	\$ 178,704	\$ 227,784
Road and bridge	-	117,416	117,416
Other governmental	-	<u>35,553</u>	<u>35,553</u>
Total	<u>\$ 49,080</u>	<u>\$ 331,673</u>	<u>\$ 380,753</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.

**Transfer in/out**

	<u>Transfers in Other Governmental</u>
Transfers out:	
General	<u>\$ 31,200</u>
Total	<u>\$ 31,200</u>

**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, 2013, were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes	\$ 1,427,349	\$ -
Protested property taxes	-	473,297
State and federal grants	-	<u>1,925</u>
Total per fund financial statements	<u>\$ 1,427,349</u>	<u>\$ 475,222</u>

## 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 2013, 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, 2013. 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>473,297</u>

## Long-term Debt

### Schedule of Contractual Obligations

Series and Original Issue Amount	Final Maturity	Interest Rate	Outstanding 09/30/2013	
Certificates of Obligations - 2006	\$ 5,350,000	02/15/23	4.00% - 4.150%	\$ 3,725,000
Secured Equipment - Note #xxxx004	526,759	03/25/14	3.34%	181,473
Secured Equipment - Note #xxxx005	734,394	07/25/14	3.34%	635,403
Secured Equipment - Note #xxxx006	158,226	12/25/14	3.19%	107,155
Secured Equipment - Note #xxxx007	218,914	02/15/15	3.19%	148,256
Secured Equipment - Note #xxxx008	777,918	03/25/15	3.09%	724,769
Secured Equipment - Note #xxxx009	1,050,000	09/25/28	3.03%	990,126
Secured Equipment - Note #xxxx010	188,631	11/27/19	3.19%	188,631
Secured Equipment - Note #xxxx011	150,007	04/29/20	3.19%	150,007
Secured Equipment - Note #xxxx012	230,785	07/31/16	2.75%	<u>230,785</u>
Total				\$ <u>7,081,605</u>

***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 #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.

**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.

**Secured Equipment Loan #xxxx009**, BancorpSouth Equipment Finance, Hattiesburg, Mississippi – On October 25, 2012, Harrison County executed a loan agreement to borrow \$1,050,000 in order to finance the entire purchase equipment used for energy savings. The stated interest rate is 3.03%. 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 #xxxx010**, BancorpSouth Equipment Finance, Hattiesburg, Mississippi – On October 30, 2012, Harrison County executed a loan agreement to borrow \$188,631 in order to finance the entire purchase of new equipment used in the Road and Bridge Department. The stated interest rate is 3.19%. 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 #xxxx011**, BancorpSouth Equipment Finance, Hattiesburg, Mississippi – On October 30, 2012, Harrison County executed a loan agreement to borrow \$150,007 in order to finance the entire purchase new equipment used in the Road and Bridge Department. The stated interest rate is 3.19%. 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 #xxxx012**, BancorpSouth Equipment Finance, Hattiesburg, Mississippi – On October 30, 2012, Harrison County executed a loan agreement to borrow \$230,785 in order to finance the entire purchase of new equipment used in the Sheriff’s Department. The stated interest rate is 2.75%. The equipment was 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
General obligation debt	\$ 4,025,000	\$ -	\$ 300,000	\$ 3,725,000	\$ 300,000
Notes payable	2,206,508	1,619,423	469,326	3,356,605	1,169,021
Compensated absences	1,188,645	-	71,758	1,116,887	279,222
OPEB payable	<u>11,382,813</u>	<u>1,203,623</u>	<u>-</u>	<u>12,586,436</u>	<u>-</u>
	<u>\$ 18,802,966</u>	<u>\$ 2,823,046</u>	<u>\$ 841,084</u>	<u>\$ 20,784,928</u>	<u>\$ 1,748,243</u>

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

	Principal	Interest	Total
General obligation debt	\$ 3,725,000	\$ 810,428	\$ 4,535,428
Notes payable	<u>3,356,605</u>	<u>391,640</u>	<u>3,748,245</u>
	<u>\$ 7,081,605</u>	<u>\$ 1,202,068</u>	<u>\$ 8,283,673</u>

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,469,021	\$ 251,785	\$ 1,720,806
2015	1,301,480	200,618	1,502,098
2016	507,073	155,556	662,629
2017	456,265	136,612	592,877
2018	484,609	118,768	603,377
2019-2023	2,482,114	307,618	2,789,732
2024-2028	<u>381,043</u>	<u>31,111</u>	<u>412,154</u>
Total	<u>\$ 7,081,605</u>	<u>\$ 1,202,068</u>	<u>\$ 8,283,673</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, 2013. 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 2013 have been reported as expenditures in the General Fund and Special Revenue Funds.

During the year ended September 30, 2013, 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 by the County for fiscal year 2013. This coverage provides for an individual excess risk maximum of \$2,000,000 and an aggregate excess risk maximum of \$1,000,000.

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, 2013. A liability has not been estimated for claims incurred but not reported.

An analysis of claims activity is presented below:

	<u>Beginning Balance</u>	<u>Current Year Claims Expenditures</u>	<u>Actual Claims Payments</u>	<u>Ending Balance</u>
09/30/2013	\$ 356,422	\$ 2,563,314	\$( 2,679,984)	\$ 239,752
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

**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 641 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS board of trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are 100% vested after 8 years but must leave their accumulated contributions in the plan to receive any employer-

financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

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

### **Funding Policy**

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. It was 10.87% for the months in calendar year 2012, and 11.31% in calendar year 2013. 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	12/31/2010	12/31/2011	12/31/2012
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
<b>Actuarial Assumptions:</b>			
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 <u>Ending</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
9/30/2011	\$ 1,124,662	100%	\$ -
9/30/2012	1,155,950	100%	-
9/30/2013	1,199,158	100%	-

**Annual Pension Cost**

For the employer's accounting year ended September 30, 2013, the annual pension cost for the TCDRS plan for its employees was \$1,199,158 and the actual contributions were \$1,199,158. 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, 2011 through December 31, 2012, the basis for determining the contribution rate for calendar years 2012 and 2013. The December 31, 2012 valuation is the most recent valuation.

**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)
2012	\$ 27,565,008	\$ 34,328,997	\$ 6,763,989	80.30%	\$ 10,412,837	64.96%

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 205 active employees and 104 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.

### 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)	\$ 2,047,620
Interest on Net OPEB Obligation	512,227
Adjustment to the ARC	<u>( 683,542)</u>
Annual OPEB Cost	1,876,305
Employer Contributions with Interest	<u>( 672,682)</u>
Increase (Decrease) in Net OPEB Obligation	1,203,623
Net OPEB Obligation, beginning of year	<u>11,382,813</u>
 Net OPEB Obligation, end of year	 <u><u>\$ 12,586,436</u></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:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
9/30/2013	\$ 1,876,305	\$ 672,682	36%	\$ 12,586,436
9/30/2012	2,691,546	898,392	33%	11,382,813
9/30/2011	3,378,975	570,494	17%	9,589,659

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (AAL) (UAAL)	Funded Ratio	Covered Payroll	Ratio of UAAL to Covered Payroll
12/31/2012	\$ -	\$ 18,541,396	\$ 18,541,396	- %	\$ 10,412,837	178.1%

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	12/31/2012	12/31/2010
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		

**REQUIRED  
SUPPLEMENTARY INFORMATION**

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## 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, 2013

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)
12/31/2010	\$ 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%
12/31/2012	27,565,008	34,328,997	80.30%	6,763,989	10,412,837	64.96%

**HARRISON COUNTY, TEXAS**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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%
12/31/2012	-	18,541,396	0.0%	18,541,396	10,412,837	178.06%

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

**COMBINING AND INDIVIDUAL  
FUND FINANCIAL STATEMENTS**

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**HARRISON COUNTY, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2013**

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,230,577	\$ 354,001	\$ 318,784	\$ 2,903,362
Receivables:				
Accounts receivable	23,730	-	-	23,730
Due from other governments	130,485	-	-	130,485
Due from other funds	31,923	2,978	652	35,553
Prepaid expenditures	398	-	-	398
Total assets	\$ 2,417,113	\$ 356,979	\$ 319,436	\$ 3,093,528
<b>LIABILITIES AND FUND EQUITY</b>				
Liabilities:				
Accounts payable	\$ 135,320	\$ -	\$ -	\$ 135,320
Accrued wages payable	27,262	-	-	27,262
Due to other funds	-	-	-	-
Deferred revenue	1,925	-	-	1,925
Total liabilities	164,507	-	-	164,507
Fund equity:				
Fund balance:				
Restricted	1,571,094	356,979	319,436	2,247,509
Committed	681,512	-	-	681,512
Total fund equity	2,252,606	356,979	319,436	2,929,021
Total liabilities and fund equity	\$ 2,417,113	\$ 356,979	\$ 319,436	\$ 3,093,528

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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, 2013**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
<b>REVENUES</b>				
Ad valorem taxes	\$ 1,193,021	\$ 962,384	\$ 210,815	\$ 2,366,220
Licenses and permits	2,680	-	-	2,680
Intergovernmental	869,962	-	-	869,962
Charges for services	779,930	-	-	779,930
Fines and forfeitures	3,455	-	-	3,455
Investment earnings	3,809	810	460	5,079
Miscellaneous	<u>31,903</u>	<u>-</u>	<u>-</u>	<u>31,903</u>
Total revenues	<u>2,884,760</u>	<u>963,194</u>	<u>211,275</u>	<u>4,059,229</u>
<b>EXPENDITURES</b>				
Current expenditures:				
General administration	420,712	650	85,817	507,179
Judicial	353,149	-	-	353,149
Legal	51,860	-	-	51,860
Elections	3,718	-	-	3,718
Public safety	1,330,509	-	-	1,330,509
Public transportation	26,971	-	-	26,971
Health and welfare	20,047	-	-	20,047
Capital outlay	592,929	-	-	592,929
Debt service				
Principal	-	700,721	-	700,721
Interest and other charges	<u>-</u>	<u>228,994</u>	<u>-</u>	<u>228,994</u>
Total expenditures	<u>2,799,895</u>	<u>930,365</u>	<u>85,817</u>	<u>3,816,077</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>84,865</u>	<u>32,829</u>	<u>125,458</u>	<u>243,152</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfer in	<u>31,200</u>	<u>-</u>	<u>-</u>	<u>31,200</u>
Total other financing sources (uses)	<u>31,200</u>	<u>-</u>	<u>-</u>	<u>31,200</u>
<b>NET CHANGE IN FUND BALANCES</b>	116,065	32,829	125,458	274,352
<b>FUND BALANCES, BEGINNING</b>	<u>2,136,541</u>	<u>324,150</u>	<u>193,978</u>	<u>2,654,669</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 2,252,606</u>	<u>\$ 356,979</u>	<u>\$ 319,436</u>	<u>\$ 2,929,021</u>

**HARRISON COUNTY, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**SEPTEMBER 30, 2013**

	<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	\$ 84,883	\$ 168,966	\$ 5,934	\$ 202,477	\$ 73,604
Receivables:					
Accounts receivable	-	-	-	2,320	-
Due from other governments	8,266	-	-	352	-
Due from other funds	1,022	-	-	-	241
Prepaid expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>310</u>
Total assets	<u>\$ 94,171</u>	<u>\$ 168,966</u>	<u>\$ 5,934</u>	<u>\$ 205,149</u>	<u>\$ 74,155</u>
<b>LIABILITIES AND FUND EQUITY</b>					
Liabilities:					
Accounts payable	\$ 2,044	\$ -	\$ -	\$ 2,562	\$ -
Accrued wages payable	3,584	-	-	-	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>5,628</u>	<u>-</u>	<u>-</u>	<u>2,562</u>	<u>-</u>
Fund equity:					
Fund balance:					
Restricted	-	168,966	5,934	202,587	74,155
Committed	<u>88,543</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund equity	<u>88,543</u>	<u>168,966</u>	<u>5,934</u>	<u>202,587</u>	<u>74,155</u>
Total liabilities and fund equity	<u>\$ 94,171</u>	<u>\$ 168,966</u>	<u>\$ 5,934</u>	<u>\$ 205,149</u>	<u>\$ 74,155</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>
\$ 291,127	\$ 69,809	\$ 585,944	\$ 22,604	\$ 416,671	\$ 48,072	\$ 92,700	\$ 14,002
-	-	20,472	-	-	-	933	-
-	-	12,763	108,884	-	-	220	-
1,859	2,810	3,484	-	14,717	3,840	-	496
<u>-</u>	<u>-</u>	<u>88</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 292,986</u>	<u>\$ 72,619</u>	<u>\$ 622,751</u>	<u>\$ 131,488</u>	<u>\$ 431,388</u>	<u>\$ 51,912</u>	<u>\$ 93,853</u>	<u>\$ 14,498</u>
\$ -	\$ 3,629	\$ 7,918	\$ 94,851	\$ 22,677	\$ -	\$ 616	\$ -
-	129	21,814	-	-	1,349	-	-
-	-	50	-	-	-	1,875	-
<u>-</u>	<u>3,758</u>	<u>29,782</u>	<u>94,851</u>	<u>22,677</u>	<u>1,349</u>	<u>2,491</u>	<u>-</u>
292,986	68,861	-	36,637	408,711	50,563	91,362	14,498
-	-	592,969	-	-	-	-	-
<u>292,986</u>	<u>68,861</u>	<u>592,969</u>	<u>36,637</u>	<u>408,711</u>	<u>50,563</u>	<u>91,362</u>	<u>14,498</u>
<u>\$ 292,986</u>	<u>\$ 72,619</u>	<u>\$ 622,751</u>	<u>\$ 131,488</u>	<u>\$ 431,388</u>	<u>\$ 51,912</u>	<u>\$ 93,853</u>	<u>\$ 14,498</u>

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

**SEPTEMBER 30, 2013**

	<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	\$ 5,014	\$ 1,591	\$ 30,787	\$ 17,184	\$ 575
Receivables:					
Accounts receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Due from other funds	134	1,223	880	270	400
Prepaid expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 5,148</u>	<u>\$ 2,814</u>	<u>\$ 31,667</u>	<u>\$ 17,454</u>	<u>\$ 975</u>
<b>LIABILITIES AND FUND EQUITY</b>					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 975
Accrued wages payable	-	386	-	-	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>386</u>	<u>-</u>	<u>-</u>	<u>975</u>
Fund equity:					
Fund balance:					
Restricted	5,148	2,428	31,667	17,454	-
Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund equity	<u>5,148</u>	<u>2,428</u>	<u>31,667</u>	<u>17,454</u>	<u>-</u>
Total liabilities and fund equity	<u>\$ 5,148</u>	<u>\$ 2,814</u>	<u>\$ 31,667</u>	<u>\$ 17,454</u>	<u>\$ 975</u>

<u>Vital Archive Fee</u>	<u>Election Contracts</u>	<u>Court Initiated Guardianship</u>	<u>Totals</u>
\$ 18,985	\$ 54,519	\$ 25,129	\$ 2,230,577
-	5	-	23,730
-	-	-	130,485
327	-	220	31,923
<u>-</u>	<u>-</u>	<u>-</u>	<u>398</u>
<u>\$ 19,312</u>	<u>\$ 54,524</u>	<u>\$ 25,349</u>	<u>\$ 2,417,113</u>
\$ -	\$ 48	\$ -	\$ 135,320
-	-	-	27,262
-	-	-	1,925
<u>-</u>	<u>48</u>	<u>-</u>	<u>164,507</u>
19,312	54,476	25,349	1,571,094
-	-	-	681,512
<u>19,312</u>	<u>54,476</u>	<u>25,349</u>	<u>2,252,606</u>
<u>\$ 19,312</u>	<u>\$ 54,524</u>	<u>\$ 25,349</u>	<u>\$ 2,417,113</u>

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## HARRISON COUNTY, TEXAS

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

#### NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Jury	Bail Bond Board	Drug Forfeitures	Airport Maintenance	Tax Collector VIT
<b>REVENUES</b>					
Ad valorem taxes	\$ 199,805	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	2,680	-	-	-
Intergovernmental	21,106	-	-	-	-
Charges for services	3,058	-	-	130,158	6,371
Fines and forfeitures	-	-	-	-	-
Investment earnings	170	228	8	314	252
Miscellaneous	-	-	-	31,750	-
Total revenues	224,139	2,908	8	162,222	6,623
<b>EXPENDITURES</b>					
Current expenditures:					
General administration	-	464	-	121,266	3,921
Judicial	205,017	-	-	-	-
Legal	-	-	-	-	-
Elections	-	-	-	-	-
Public safety	235	-	603	-	-
Public transportation	-	-	-	26,971	-
Health and welfare	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	205,252	464	603	148,237	3,921
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	18,887	2,444	( 595)	13,985	2,702
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
<b>NET CHANGE IN FUND BALANCE</b>	18,887	2,444	( 595)	13,985	2,702
<b>FUND BALANCE, BEGINNING</b>	69,656	166,522	6,529	188,602	71,453
<b>FUND BALANCE, ENDING</b>	\$ 88,543	\$ 168,966	\$ 5,934	\$ 202,587	\$ 74,155

<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>
\$ -	\$ -	\$ 993,216	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	96,995	720,992	-	-	22,500	-
30,272	37,973	248,131	-	206,979	55,712	10,948	4,954
-	-	-	-	-	-	3,455	-
488	127	1,001	66	692	96	151	19
-	-	153	-	-	-	-	-
<u>30,760</u>	<u>38,100</u>	<u>1,339,496</u>	<u>721,058</u>	<u>207,671</u>	<u>55,808</u>	<u>37,054</u>	<u>4,973</u>
25,227	5,622	-	-	261,612	-	-	2,600
-	40,857	-	-	-	85,417	-	-
-	-	-	5,325	-	-	46,535	-
-	-	-	-	-	-	-	-
17,282	-	1,201,992	105,451	-	4,321	-	-
-	-	-	-	-	-	-	-
-	-	-	20,047	-	-	-	-
-	-	-	592,929	-	-	-	-
<u>42,509</u>	<u>46,479</u>	<u>1,201,992</u>	<u>723,752</u>	<u>261,612</u>	<u>89,738</u>	<u>46,535</u>	<u>2,600</u>
( 11,749)	( 8,379)	137,504	( 2,694)	( 53,941)	( 33,930)	( 9,481)	2,373
-	-	-	-	-	13,000	-	-
-	-	-	-	-	13,000	-	-
( 11,749)	( 8,379)	137,504	( 2,694)	( 53,941)	( 20,930)	( 9,481)	2,373
<u>304,735</u>	<u>77,240</u>	<u>455,465</u>	<u>39,331</u>	<u>462,652</u>	<u>71,493</u>	<u>100,843</u>	<u>12,125</u>
<u>\$ 292,986</u>	<u>\$ 68,861</u>	<u>\$ 592,969</u>	<u>\$ 36,637</u>	<u>\$ 408,711</u>	<u>\$ 50,563</u>	<u>\$ 91,362</u>	<u>\$ 14,498</u>

## HARRISON COUNTY, TEXAS

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

#### NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<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>REVENUES</b>					
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	1,719	18,723	8,900	4,000	-
Fines and forfeitures	-	-	-	-	-
Investment earnings	7	6	38	22	-
Miscellaneous	-	-	-	-	-
Total revenues	<u>1,726</u>	<u>18,729</u>	<u>8,938</u>	<u>4,022</u>	<u>-</u>
<b>EXPENDITURES</b>					
Current expenditures:					
General administration	-	-	-	-	-
Judicial	-	15,858	-	-	-
Legal	-	-	-	-	-
Elections	-	-	-	-	-
Public safety	-	-	-	-	-
Public transportation	-	-	-	-	-
Health and welfare	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	<u>-</u>	<u>15,858</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>1,726</u>	<u>2,871</u>	<u>8,938</u>	<u>4,022</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	1,726	2,871	8,938	4,022	-
<b>FUND BALANCE, BEGINNING</b>	<u>3,422</u>	<u>( 443)</u>	<u>22,729</u>	<u>13,432</u>	<u>-</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 5,148</u>	<u>\$ 2,428</u>	<u>\$ 31,667</u>	<u>\$ 17,454</u>	<u>\$ -</u>

<u>Vital Archive Fees</u>	<u>Election Contracts</u>	<u>Court Initiated Guardianship</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ 1,193,021
-	-	-	2,680
-	8,369	-	869,962
4,152	2,880	5,000	779,930
-	-	-	3,455
26	68	30	3,809
<u>-</u>	<u>-</u>	<u>-</u>	<u>31,903</u>
<u>4,178</u>	<u>11,317</u>	<u>5,030</u>	<u>2,884,760</u>
-	-	-	420,712
6,000	-	-	353,149
-	-	-	51,860
-	3,718	-	3,718
-	-	625	1,330,509
-	-	-	26,971
-	-	-	20,047
<u>-</u>	<u>-</u>	<u>-</u>	<u>592,929</u>
<u>6,000</u>	<u>3,718</u>	<u>625</u>	<u>2,799,895</u>
( 1,822)	<u>7,599</u>	<u>4,405</u>	<u>84,865</u>
<u>-</u>	<u>-</u>	<u>18,200</u>	<u>31,200</u>
<u>-</u>	<u>-</u>	<u>18,200</u>	<u>31,200</u>
( 1,822)	7,599	22,605	116,065
<u>21,134</u>	<u>46,877</u>	<u>2,744</u>	<u>2,136,541</u>
<u>\$ 19,312</u>	<u>\$ 54,476</u>	<u>\$ 25,349</u>	<u>\$ 2,252,606</u>

# HARRISON COUNTY, TEXAS

## COMBINING STATEMENT OF ASSETS AND LIABILITIES

### AGENCY FUNDS

SEPTEMBER 30, 2013

	<u>County Treasurer</u>	<u>County Clerk</u>	<u>District Attorney</u>	<u>District Clerk</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 165,628	\$ 551,377	\$ 22,047	\$ 1,798,812
Investments	<u>-</u>	<u>609,564</u>	<u>-</u>	<u>583,686</u>
Total assets	<u>\$ 165,628</u>	<u>\$ 1,160,941</u>	<u>\$ 22,047</u>	<u>\$ 2,382,498</u>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 3,951	\$ 22,047	\$ 4,315
Due to other governments	165,607	4,188	-	18,860
Due to other funds	21	75,484	-	34,325
Deferred revenue	-	-	-	-
Court ordered funds	-	467,754	-	1,741,312
Court ordered trust and prisoner funds	<u>-</u>	<u>609,564</u>	<u>-</u>	<u>583,686</u>
Total liabilities	<u>\$ 165,628</u>	<u>\$ 1,160,941</u>	<u>\$ 22,047</u>	<u>\$ 2,382,498</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>
\$ 103,408	\$ 1,030	\$ 115,533	\$ 1,297,296	\$ 36,314	\$ 24,433	\$ 4,115,878
<u>-</u>	<u>-</u>	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>1,343,250</u>
<u>\$ 103,408</u>	<u>\$ 1,030</u>	<u>\$ 115,533</u>	<u>\$ 1,447,296</u>	<u>\$ 36,314</u>	<u>\$ 24,433</u>	<u>\$ 5,459,128</u>
\$ 34	\$ 593	\$ 4,543	\$ 22,844	\$ 351	\$ 24,433	\$ 83,111
41,159	20	-	1,115,257	9,522	-	1,354,613
61,715	417	18	133,252	26,441	-	331,673
-	-	98,550	175,943	-	-	274,493
500	-	-	-	-	-	2,209,566
<u>-</u>	<u>-</u>	<u>12,422</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,205,672</u>
<u>\$ 103,408</u>	<u>\$ 1,030</u>	<u>\$ 115,533</u>	<u>\$ 1,447,296</u>	<u>\$ 36,314</u>	<u>\$ 24,433</u>	<u>\$ 5,459,128</u>

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**INTERNAL CONTROL  
AND COMPLIANCE SECTION**

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PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' 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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise of Harrison County, Texas' basic financial statements, and have issued our report thereon dated June 26, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered of Harrison County, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harrison County, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the Harrison County, Texas' internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether of Harrison County, Texas' financial statements are free from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Waco, Texas  
June 26, 2014



PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

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

**Report on Compliance for Each Major Federal Program**

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, 2013. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

## ***Opinion on Each Major Federal Program***

In our opinion, the County, complied, in all material respects, with the types of 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, 2013.

## **Report on Internal Control Over Compliance**

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's, internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Waco, Texas  
June 26, 2014

**HARRISON COUNTY, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED SEPTEMBER 30, 2013**

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 Department of Agriculture:			
National School Lunch Program	10.555	75P6008	\$ <u>22,967</u>
Total U. S. Department of Agriculture			<u>22,967</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	<u>49,387</u>
Total Passed through General Land Office			<u>49,387</u>
Passed through Texas Department of Agriculture:			
Caddo Lake Water Supply Grant	14.228	712006	147,766
Karnack Water Supply Grant	14.228	710036	103,523
Northern Harrison Water Supply	14.228	711006	96,198
Norit Americas Tx Capital Fund	14.228	710072	<u>249,656</u>
Total Passed through Texas Department of Agriculture			<u>597,143</u>
Total U. S. Department of Housing and Urban Development			<u>646,530</u>
<b><u>U. S. Department of Justice</u></b>			
Direct:			
Sheriff SCAAP Grant	16.606	2012-H4552-TX-AP	5,849
Justice Assistance Grant Program - ARRA	16.803	2009-SB-B9-2139	<u>829</u>
Total Direct Programs			<u>6,678</u>
Total U. S. Department of Justice			<u>6,678</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	<u>5,325</u>
Total Passed through Texas Department of Family and Protective Services			<u>5,325</u>
Total U. S. Department of Health and Human Services			<u>5,325</u>

**HARRISON COUNTY, TEXAS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED SEPTEMBER 30, 2013**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor's Pass-through Number</u>	<u>Federal Expenditures</u>
<b><u>U. S. Department of Homeland Security</u></b>			
Passed through Texas Department of Public Safety:			
Homeland Security Grant Program	97.073	2010-SS-T0-0008	6,309
Homeland Security Grant Program	97.073	EMW-2011-SS-00019	<u>20,000</u>
Total Passed through Texas Department of Public Safety			<u>26,309</u>
Total U. S. Department of Homeland Security			<u>26,309</u>
Total Federal Expenditures			<u>\$ 707,809</u>

## **HARRISON COUNTY, TEXAS**

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

**YEAR ENDED SEPTEMBER 30, 2013**

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, 2013**

**Summary of Auditors' Results**

Financial Statements:

Type of auditors' report issued:	Unmodified
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:	Unmodified

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: 14.228	Name of federal/state program or cluster: Community Development Block Grant
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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?	Yes
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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



PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Harrison County, Texas for the year ended September 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 29, 2013. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Harrison County, Texas are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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

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

The financial statement disclosures are neutral, consistent, and clear.

### ***Difficulties Encountered in Performing the Audit***

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

### ***Corrected and Uncorrected Misstatements***

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

### ***Disagreements with Management***

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

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated June 26, 2014.

### ***Management Consultations with Other Independent Accountants***

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

### ***Other Audit Findings or Issues***

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

## **Other Matters**

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison information and the Schedules of Funding Progress for the retirement plan and post-retirement health care benefit plan, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, which accompany the financial statements but are not RSI. With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

## **Significant Forthcoming Accounting Standards**

### ***Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position***

Governmental Accounting Standards Board Statement No. 65 ("GASB 65"), *Items Previously Reported as Assets and Liabilities*, is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27

Governmental Accounting Standards Board Statement No. 68 (“GASB 68”), *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, is effective for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. The new standards are intended to provide more comparable and visible information within the annual financial statements of governments that provide defined benefit pensions.

Notably, GASB 68 requires employers to report the difference between the actuarial total pension liability and the fair value of the legally restricted plan assets as the net pension liability on the statement of net position. Previously, a liability was only recorded if the actual contributions made to the plan were less than the actuarial calculated contributions for the year. These new standards relate only to the *accounting and reporting* of defined benefit pensions within the GAAP based financial statements of governmental entities. They do not establish requirements as to the actual funding of these benefits. These decisions are left to management and the governing body. This Statement may have a material impact on recorded pension liabilities compared to application of current standards. Your processes should be updated to incorporate the new information requirements and begin gathering information now to determine the future impacts on financial reporting.

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

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

Waco, Texas  
June 26, 2014