

HARRISON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2014**

HARRISON COUNTY, TEXAS

TABLE OF CONTENTS

SEPTEMBER 30, 2014

	<u>Page Number</u>
FINANCIAL SECTION	
Independent Auditors' Report.....	1 – 3
Management's Discussion and Analysis	4 – 12
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	13
Statement of Activities.....	14
Fund Financial Statements	
Balance Sheet – Governmental Funds	15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds to the Statement of Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	19

HARRISON COUNTY, TEXAS

TABLE OF CONTENTS

SEPTEMBER 30, 2014

	<u>Page Number</u>
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Road and Bridge Fund.....	20
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – County Grant Fund	21
Statement of Net Position – Proprietary Funds.....	22
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds.....	23
Statement of Cash Flows – Proprietary Funds.....	24
Statement of Net Position – Fiduciary Funds	25
Notes to Financial Statements.....	26 – 47
Required Supplementary Information	
Schedule of Funding Progress – TCDRS	48
Schedule of Funding Progress – Post-retirement Health Care Benefit Plan.....	49
Combining and Individual Fund Statements	
Nonmajor Governmental Funds	
Combining Balance Sheet.....	50
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	51

HARRISON COUNTY, TEXAS

TABLE OF CONTENTS

SEPTEMBER 30, 2014

**Page
Number**

Nonmajor Special Revenue Funds

Combining Balance Sheet.....	52 – 55
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	56 – 59
Combining Statement of Assets and Liabilities – Agency Funds	60 – 61

INTERNAL CONTROL AND COMPLIANCE SECTION

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 <i>Government Auditing Standards</i>	62 – 63
Independent Auditors’ Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by <i>The State of Texas Uniform Grant Management Standards</i>	64 – 65
Schedule of Expenditures of State Awards.....	66
Notes to Expenditures of State Awards	67
Schedule of Findings and Questioned Costs.....	68 – 69

THIS PAGE LEFT BLANK INTENTIONALLY

FINANCIAL SECTION

THIS PAGE LEFT BLANK INTENTIONALLY



PATTILLO, BROWN & HILL, 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, 2014, 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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, the Road and Bridge Special Revenue Fund and the County Grant Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2014 the County adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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 State Awards is presented for purposes of additional analysis as required by the *State of Texas Uniform Grant Management Standards, 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 State 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 State 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 25, 2015, 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 25, 2015

THIS PAGE LEFT BLANK INTENTIONALLY

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2014. 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 \$15,336,825. This is a decrease of \$1,741,085, which is a decrease of 10.2%. This decrease is comprised of a loss of \$1,741,085 from operations. The decrease was primarily caused by the allocation of the FY 2014 portion of the OPEB expense for the County. The amount of OPEB expense for the year was \$1,121,217.
- Total net position are comprised of: 1) net investment in capital assets, of \$17,255,749, including property and equipment, net of accumulated depreciation; 2) debt covenants, grantors, or statute restricts net position of \$2,209,353; and 3) the County's unrestricted net position at year-end is \$(4,128,277).
- Total governmental long-term debt of the County decreased by \$1,516,997. This was primarily caused by the County paying off of general obligation debt and notes payables.
- The unassigned fund balance in the General Fund, as shown in the fund financial statements, is \$7,441,144 or 43% 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 \$147,405 are \$23,603,832. This amount is net of accumulated depreciation of \$20,674,009. 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 \$15,336,825; a total of \$2,209,353 is restricted for specific purposes, as required by state law or grantor requirements; \$17,255,749 represents the County’s net investment in capital assets, and \$(4,128,277) in unrestricted net position is available for funding general operations. Unrestricted net position increased by \$822,554, total assets decreased \$417,849, and total net position decreased by \$1,741,085.

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

	Governmental Activities	
	2014	2013
Current and other assets	\$ 15,947	\$ 14,639
Capital assets	23,604	25,330
Total assets	<u>39,551</u>	<u>39,969</u>
Current liabilities	4,577	3,854
Noncurrent liabilities	19,637	19,037
Total liabilities	<u>24,214</u>	<u>22,891</u>
Net position:		
Net investment,		
in capital assets	17,256	19,334
Restricted	2,209	2,695
Unrestricted	(4,128)	(4,951)
Total net position	<u>\$ 15,337</u>	<u>\$ 17,078</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 \$26,867,844. Total governmental expenses were \$28,513,161 resulting in a decrease in net position of \$1,741,085. More details about the increase are discussed in the Financial Analysis of the County Funds.

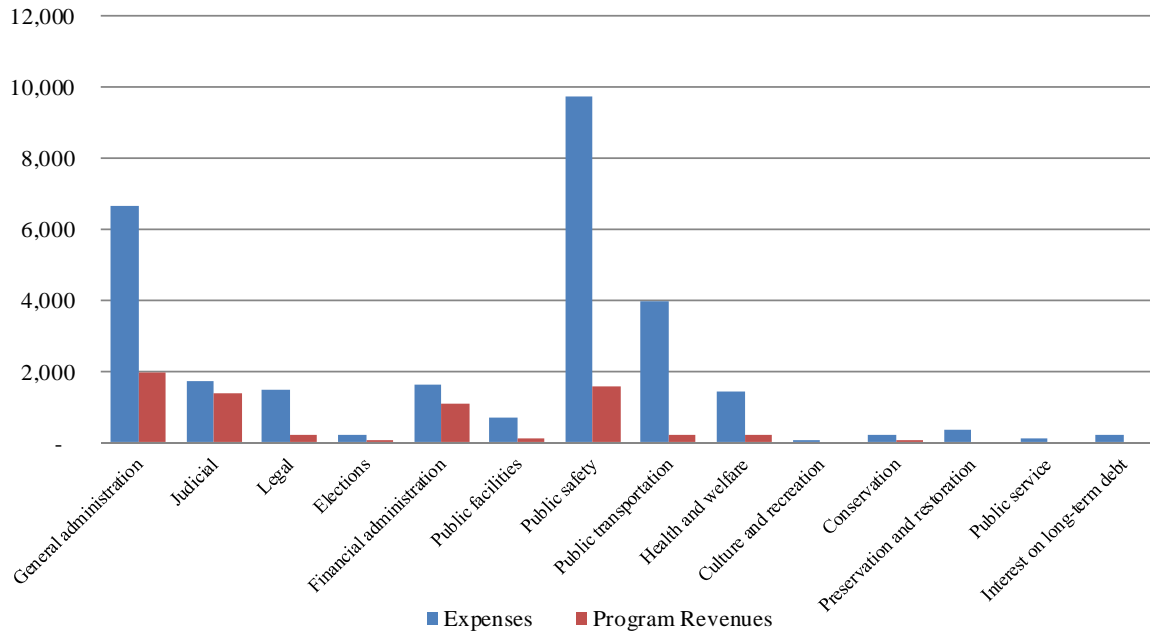
HARRISON COUNTY’S CHANGES IN NET POSITION
(in Thousands)

	Governmental Activities	
	2014	2013
Revenues:		
Program revenues:		
Charges for services	\$ 4,965	\$ 5,138
Operating grants and contributions	1,849	1,446
General revenues:		
Property taxes	19,599	20,066
Interest	45	25
Gain on sale of assets	47	-
Other	363	198
Total revenues	26,868	26,873
Expenses:		
General administration	6,635	6,255
Judicial	1,739	1,724
Legal	1,504	1,459
Elections	235	207
Financial administration	1,640	1,591
Public facilities	710	1,741
Public safety	9,728	9,318
Public transportation	3,952	3,705
Health and welfare	1,420	873
Culture and recreation	74	73
Conservation	198	187
Preservation and restoration	352	354
Public service	93	89
Interest on long-term debt	233	214
Total expenses	28,513	27,790
Change in net position	(1,645)	(917)
Net position - beginning	17,078	17,995
Prior period adjustment	(96)	-
Net position - ending	\$ 15,337	\$ 17,078

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. Over the last several years, the County has seen property tax collections at 98% expected collection rate with revenue being flat or slightly lower over the past several years. 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 2014 was the fifth year for inclusion in the financial statements. The addition of this liability increased expenses and decreased net position by \$1,121,217.

Expenses and Program Revenues - Governmental Activities (in Thousands)



HARRISON COUNTY'S GOVERNMENTAL ACTIVITIES
(in Thousands)

	Charges		Functional		Funded by	
	for Services 2014	% of Total	Expenses 2014	Percent of Total	Other Revenues Amount	Percent
General administration	\$ 1,947	7.2%	\$ 6,635	23.3%	\$(4,688)	(70.7%)
Judicial	1,365	5.1%	1,739	6.1%	(374)	(21.5%)
Legal	19	0.1%	1,504	5.3%	(1,485)	(98.7%)
Elections	7	0.0%	235	0.8%	(228)	(97.2%)
Financial administration	1,073	4.0%	1,640	5.8%	(567)	(34.6%)
Public facilities	-	- %	710	2.5%	(710)	(100.0%)
Public safety	448	1.7%	9,728	34.1%	(9,279)	(95.4%)
Public transportation	105	0.4%	3,952	13.9%	(3,848)	(97.3%)
Health and welfare	-	- %	1,420	5.0%	(1,420)	(100.0%)
Culture and recreation	-	- %	74	0.3%	(74)	(100.0%)
Conservation	-	- %	198	0.7%	(198)	(100.0%)
Preservation and restoration	-	- %	352	1.2%	(352)	(100.0%)
Public service	-	- %	93	0.3%	(93)	(100.0%)
Interest on long-term debt	-	- %	233	0.8%	(233)	(100.0%)
Total	4,964	18.5%	\$ 28,513	100.0%	(23,548)	
OPERATING GRANTS AND CONTRIBUTIONS	1,849	6.9%			1,849	
CAPITAL GRANTS AND CONTRIBUTIONS	-	- %			-	
GENERAL REVENUES	20,054	74.6%			20,054	
TOTAL REVENUES	\$ 26,867	100.0%				
CHANGE IN NET POSITION					\$(1,645)	

Capital Assets and Debt Administration

Capital Assets – Capital assets decreased by approximately \$1,726,000 primarily due to depreciation expense exceeding the amount of capital additions.

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

	Governmental Activities	
	2014	2013
Land, buildings and improvements	\$ 18,272	\$ 18,992
Autos and trucks	1,250	1,565
Heavy equipment	1,541	1,969
Other equipment, furniture and fixtures	219	240
Construction in progress	147	7
Infrastructure	2,175	2,557
Total capital assets, net	\$ 23,604	\$ 25,330

Outstanding Debt

The table below reports the outstanding balances of debt for 2014 and 2013 for governmental activities. The County's balance in general obligation debt and notes payable decreased from fiscal year 2013. However, the net OPEB obligation increased during fiscal year 2014, making the County's overall debt balance higher than fiscal year 2013. 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	
	2014	2013
General obligation debt	\$ 3,425	\$ 3,725
Notes payable	2,863	3,357
Net OPEB obligation	13,708	12,586
Compensated absences	<u>1,230</u>	<u>1,117</u>
Total long-term debt	<u>\$ 21,226</u>	<u>\$ 20,785</u>

FINANCIAL ANALYSIS OF THE COUNTY FUNDS

Governmental Funds

The governmental fund statements include the General Fund, Road and Bridge Fund, and County Grant 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 \$11,153,450, an increase of \$338,914 from the prior year. This represented a 3.1% increase in total fund balances. This increase was mainly in the General Fund, due to increase of revenues and decrease in expenditures.

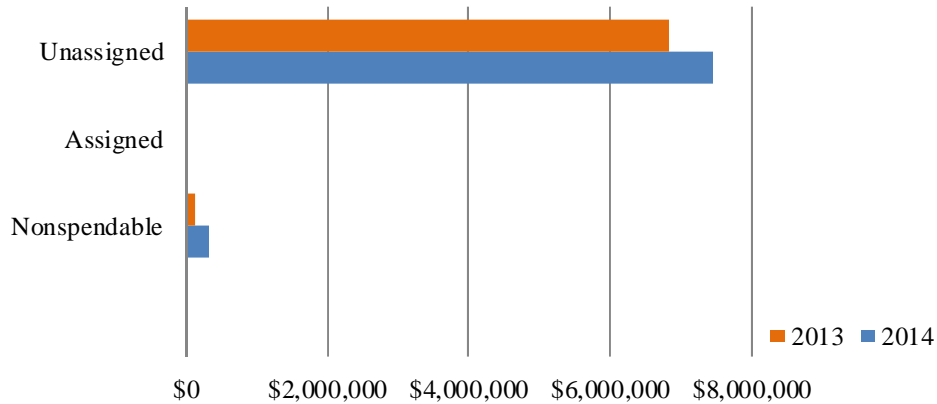
The General Fund is the primary day-to-day operating fund that finances services such as the courts and law enforcement. Approximately 84% of the revenue to support these services is generated by ad valorem taxes. General Fund operations resulted in an increase in fund balance of \$888,770. The ending fund balance of \$7,846,665 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 12.8% over fiscal year 2013 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 a decrease in fund balance of \$7,745. The decrease was mainly caused by the decrease in property tax revenue for the FY 2014.

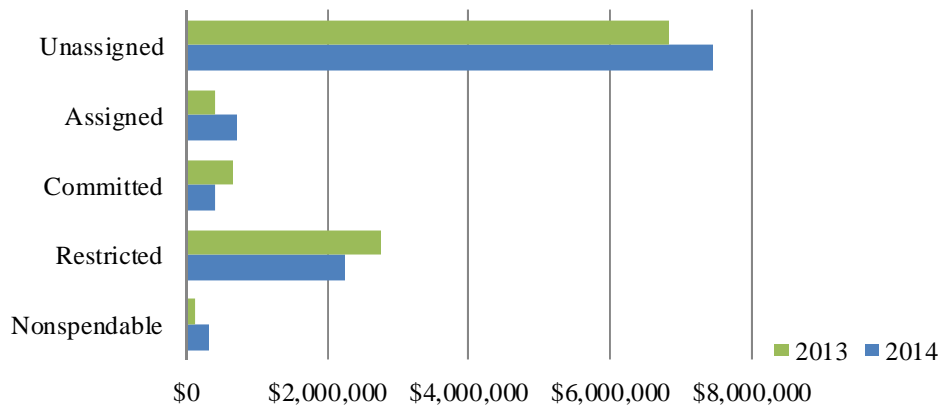
The County Grant is reported as a major governmental fund, because it represents a material percentage of the total revenue and expenditures of all governmental funds. The result of operations was an increase in fund balance of \$3,032. This fund was mainly increased through revenues exceeding expenditures in the current year.

All other governmental funds are combined to form the nonmajor governmental fund category. Combined fund balances decreased by \$545,143.

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 a recent decrease over the past few years in the amount of money needed to cover claims with a slight increase in the fixed costs related to the administration of the plan.

Budgetary Highlights

Budgetary statements of revenues, expenditures, and changes in fund balance for the General Fund, the Road and Bridge Fund and the County Grant 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 \$29,642.

The original General Fund budget planned for revenues to exceed expenditures by \$140,307. However, actual expenditures were \$1,014,279 less than what was budgeted. Since actual revenues exceeded expenditures by \$1,088,719, the County had an increase in fund balance.

The original Road and Bridge Fund budget planned for expenditures to exceed revenues by \$833,188. However, actual expenditures were \$325,112 more than what was budgeted.

BUDGET FOR 2014 – 2015 AND LATER

For the 2014-2015 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.

In the FY 2015 budget, the County has budgeted \$500,000 to establish and OPEB permanent trust fund. The County's plan for future budgets is to add funds generated to the OPEB permanent trust fund with savings from administration of the health plan.

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

THIS PAGE LEFT BLANK INTENTIONALLY

**BASIC
FINANCIAL STATEMENTS**

THIS PAGE LEFT BLANK INTENTIONALLY

HARRISON COUNTY, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2014

	Primary Government Governmental Activities	Component Unit Industrial Development Authority
ASSETS		
Cash and cash equivalents	\$ 12,717,816	\$ 150,858
Investments	-	1,734,415
Receivables, net:		
Property taxes	1,543,665	-
Accounts receivable	371,450	-
Due from other governments	674,098	-
Due from agency funds	314,855	-
Prepaid expenditures	324,882	-
Capital assets, net of accumulated depreciation		
Land, buildings and improvements	23,299,643	-
Autos and trucks	4,418,560	-
Heavy equipment	3,833,039	-
Other equipment, furniture and fixtures	1,042,618	-
Construction in progress	147,405	-
Infrastructure	11,536,576	-
Accumulated depreciation	(20,674,009)	-
Total capital assets	23,603,832	-
Total assets	39,550,598	1,885,273
LIABILITIES		
Accounts payable	\$ 1,436,579	\$ -
Accrued wages payable	322,277	-
Accrued interest payable	41,836	-
Unearned revenue	1,187,194	-
Other liabilities:		
Due within one year	1,589,013	-
Due in more than one year	19,636,874	-
Total liabilities	24,213,773	-
NET POSITION		
Net investment in capital assets	17,255,749	-
Restricted for:		
Debt service	42,788	-
Capital projects	388,756	-
Special purposes	1,777,809	-
Unrestricted	(4,128,277)	1,885,273
Total net position	\$ 15,336,825	\$ 1,885,273

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

THIS PAGE LEFT BLANK INTENTIONALLY

HARRISON COUNTY, TEXAS

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2014

	Program Revenues			Changes Net Position	Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government	
				Governmental Activities	
PRIMARY GOVERNMENT					
General administration	\$ 6,635,374	\$ 1,947,243	\$ 11,146	\$(4,676,985)	\$ -
Judicial	1,739,054	1,364,962	28,961	(345,131)	-
Legal	1,503,990	19,197	169,126	(1,315,667)	-
Elections	234,591	6,640	69,864	(158,087)	-
Financial administration	1,640,053	1,073,319	-	(566,734)	-
Public facilities	709,870	-	107,792	(602,078)	-
Public safety	9,728,046	448,760	1,144,773	(8,134,513)	-
Public transportation	3,952,276	104,767	115,867	(3,731,642)	-
Health and welfare	1,420,313	-	193,535	(1,226,778)	-
Culture and recreation	73,830	-	-	(73,830)	-
Conservation	197,834	-	7,862	(189,972)	-
Preservation and restoration	352,274	-	-	(352,274)	-
Public service	92,950	-	-	(92,950)	-
Interest and other charges	232,706	-	-	(232,706)	-
Total primary government governmental activities	28,513,161	4,964,888	1,848,926	(21,699,347)	-
COMPONENT UNIT					
Industrial Development Authority	\$ 13,556	\$ -	\$ -	-	(13,556)
General revenues					
Property taxes				\$ 19,572,920	\$ -
Miscellaneous taxes				26,057	-
Investment earnings				44,921	184,797
Miscellaneous				363,057	-
Insurance proceeds				47,075	-
Total general revenues				20,054,030	184,797
Change in net position				(1,645,317)	171,241
Net position, beginning				17,077,910	1,714,032
Change in accounting principle				(95,768)	-
Net position, ending				\$ 15,336,825	\$ 1,885,273

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

HARRISON COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	General	Road and Bridge	County Grant	Other Governmental	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 9,046,559	\$ 875,870	\$ 1	\$ 2,454,201	\$ 12,376,631
Receivables, net					
Property taxes	1,543,665	-	-	-	1,543,665
Accounts receivable	242,816	-	-	82,082	324,898
Due from other governments	162,770	37,042	434,222	40,064	674,098
Due from other funds	491,227	126,542	-	47,423	665,192
Prepaid expenditures	317,098	158	-	7,626	324,882
Total assets	<u>11,804,135</u>	<u>1,039,612</u>	<u>434,223</u>	<u>2,631,396</u>	<u>15,909,366</u>
LIABILITIES					
Accounts payable	\$ 874,318	\$ 70,049	\$ 44,217	\$ 252,832	\$ 1,241,416
Accrued wages payable	241,266	49,688	-	31,323	322,277
Due to other funds	-	-	350,337	-	350,337
Unearned revenue	1,187,194	-	-	-	1,187,194
Total liabilities	<u>2,302,778</u>	<u>119,737</u>	<u>394,554</u>	<u>284,155</u>	<u>3,101,224</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	1,448,839	-	-	-	1,448,839
Unavailable revenue-court fines	205,853	-	-	-	205,853
Total deferred inflows of resources	<u>1,654,692</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,654,692</u>
Fund balances					
Nonspendable	317,098	158	-	7,626	324,882
Restricted					
Debt service	-	-	-	84,624	84,624
Capital projects	-	-	-	388,756	388,756
Bail bond services	-	-	-	121,475	121,475
Airport maintenance	-	-	-	124,957	124,957
Court technology and security	-	-	-	411,060	411,060
VIT escrow	-	-	-	75,348	75,348
Law library	-	-	-	66,835	66,835
Grants	-	-	39,669	385,907	425,576
District Attorney services	-	-	-	75,699	75,699
Records management and preservation	-	-	-	62,845	62,845
Public transportation	-	199,175	-	-	199,175
Other	88,423	-	-	126,416	214,839
Committed for:					
Jury services	-	-	-	60,020	60,020
Juvenile services	-	-	-	355,673	355,673
Assigned for:					
Road and bridge equipment	-	454,731	-	-	454,731
Road damage repairs	-	265,811	-	-	265,811
Unassigned	7,441,144	-	-	-	7,441,144
Total fund balances	<u>7,846,665</u>	<u>919,875</u>	<u>39,669</u>	<u>2,347,241</u>	<u>11,153,450</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 11,804,135</u>	<u>\$ 1,039,612</u>	<u>\$ 434,223</u>	<u>\$ 2,631,396</u>	<u>\$ 15,909,366</u>

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

HARRISON COUNTY, TEXAS
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
YEAR ENDED SEPTEMBER 30, 2014

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

Total fund balances of governmental funds	\$ 11,153,450
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	23,603,832
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.	192,574
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,654,692
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the funds.	<u>(21,267,723)</u>
Net position of governmental activities	<u>\$ 15,336,825</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, 2014

	General	Road and Bridge	County Grant	Other Governmental	Total Governmental Funds
REVENUES					
Ad valorem taxes	\$ 15,524,090	\$ 1,531,790	\$ -	\$ 2,495,550	\$ 19,551,430
Miscellaneous taxes	26,057	-	-	-	26,057
Licenses and permits	89,380	1,093,308	-	1,660	1,184,348
Fines and forfeitures	29,717	1,004,243	-	-	1,033,960
Intergovernmental	188,909	115,867	773,757	231,235	1,309,768
Charges for services	2,385,811	35,680	-	853,992	3,275,483
Investment earnings	30,259	4,650	272	9,046	44,227
Miscellaneous	288,761	556	-	73,740	363,057
Total revenues	<u>18,562,984</u>	<u>3,786,094</u>	<u>774,029</u>	<u>3,665,223</u>	<u>26,788,330</u>
EXPENDITURES					
Current expenditures:					
General administration	3,597,143	2,148,523	-	749,935	6,495,601
Judicial	1,257,176	-	-	340,545	1,597,721
Legal	1,443,304	-	5,188	45,719	1,494,211
Elections	162,730	-	-	54,704	217,434
Financial administration	1,556,460	-	-	-	1,556,460
Public facilities	709,870	-	-	-	709,870
Public transportation	-	2,939,559	-	28,309	2,967,868
Public safety	6,965,985	-	484,025	1,415,576	8,865,586
Health and welfare	1,356,748	-	52,377	-	1,409,125
Culture and recreation	60,827	-	-	-	60,827
Conservation	188,641	-	-	-	188,641
Public service	92,950	-	-	-	92,950
Capital outlay	-	172,123	229,407	-	401,530
Debt service:					
Principal	52,954	-	-	1,456,876	1,509,830
Interest and other charges	29,477	-	-	215,777	245,254
Total expenditures	<u>17,474,265</u>	<u>5,260,205</u>	<u>770,997</u>	<u>4,307,441</u>	<u>27,812,908</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,088,719</u>	<u>(1,474,111)</u>	<u>3,032</u>	<u>(642,218)</u>	<u>(1,024,578)</u>
OTHER FINANCING SOURCES (USES)					
Issuance of notes payable	-	723,601	-	-	723,601
Insurance proceeds	-	-	-	47,075	47,075
Sale of capital assets	51	592,765	-	-	592,816
Operating transfer in	-	150,000	-	50,000	200,000
Operating transfers out	<u>(200,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>
Total other financing sources (uses)	<u>(199,949)</u>	<u>1,466,366</u>	<u>-</u>	<u>97,075</u>	<u>1,363,492</u>
NET CHANGE IN FUND BALANCES	888,770	(7,745)	3,032	(545,143)	338,914
FUND BALANCES, BEGINNING	<u>6,957,895</u>	<u>927,620</u>	<u>36,637</u>	<u>2,892,384</u>	<u>10,814,536</u>
FUND BALANCES, ENDING	<u>\$ 7,846,665</u>	<u>\$ 919,875</u>	<u>\$ 39,669</u>	<u>\$ 2,347,241</u>	<u>\$ 11,153,450</u>

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

HARRISON COUNTY, TEXAS

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

YEAR ENDED SEPTEMBER 30, 2014

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

Net change in fund balances - total governmental funds	\$ 338,914
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	\$ 731,599
Depreciation expense	<u>(1,801,480)</u>
	(1,069,881)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net position.	1,516,997
The issuance of debt has no effect on the governmental funds.	(723,601)
Revenues in the statement of activities that do not provide current financial resources and are not reported as revenue in the funds.	10,255
Interest expense on long-term debt and contractual obligations is not accrued in the governmental funds.	12,548
The net effect of various sales and disposals of capital assets is to decrease net assets.	(655,995)
Delinquent property taxes receivable which do not provide current financial resources are not reported as revenue in the funds.	21,490
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.	(113,138)
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.	(1,121,217)
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>138,311</u>
Changes in net position of governmental activities	<u><u>\$ (1,645,317)</u></u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

HARRISON COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Ad valorem taxes	\$ 15,543,644	\$ 15,543,644	\$ 15,524,090	\$(19,554)
Miscellaneous taxes	30,000	30,000	26,057	(3,943)
Licenses, permits and fees	123,000	15,000	89,380	74,380
Intergovernmental	147,263	147,263	188,909	41,646
Fines and forfeitures	39,075	39,075	29,717	(9,358)
Charges for services	2,348,315	2,402,315	2,385,811	(16,504)
Investment earnings	20,512	20,512	30,259	9,747
Miscellaneous	347,400	348,350	288,761	(59,589)
Total revenues	<u>18,599,209</u>	<u>18,546,159</u>	<u>18,562,984</u>	<u>16,825</u>
EXPENDITURES				
General administration	4,350,641	3,995,928	3,597,143	398,785
Judicial	1,341,236	1,341,237	1,257,176	84,061
Legal	1,262,485	1,475,881	1,443,304	32,577
Elections	204,270	204,270	162,730	41,540
Financial administration	1,581,323	1,593,145	1,556,460	36,685
Public facilities	711,534	723,540	709,870	13,670
Public safety	7,023,213	7,089,498	6,965,985	123,513
Health and welfare	1,585,362	1,589,240	1,356,748	232,492
Culture and recreation	62,100	62,100	60,827	1,273
Conservation	182,825	192,824	188,641	4,183
Public service	97,950	138,450	92,950	45,500
Debt service				
Principal	26,280	68,552	52,954	15,598
Interest and other charges	29,683	13,879	29,477	(15,598)
Total expenditures	<u>18,458,902</u>	<u>18,488,544</u>	<u>17,474,265</u>	<u>1,014,279</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>140,307</u>	<u>57,615</u>	<u>1,088,719</u>	<u>1,031,104</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	30,000	30,000	51	(29,949)
Operating transfers out	(200,000)	(200,000)	(200,000)	-
Total other financing sources (uses)	<u>(170,000)</u>	<u>(170,000)</u>	<u>(199,949)</u>	<u>(29,949)</u>
NET CHANGE IN FUND BALANCES	(29,693)	(112,385)	888,770	1,001,155
FUND BALANCES, BEGINNING	<u>6,957,895</u>	<u>6,957,895</u>	<u>6,957,895</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 6,928,202</u>	<u>\$ 6,845,510</u>	<u>\$ 7,846,665</u>	<u>\$ 1,001,155</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2014

	Road and Bridge Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Ad valorem taxes	\$ 1,546,970	\$ 1,546,770	\$ 1,531,790	\$(14,980)
Licenses, permits and fees	1,138,960	1,138,960	1,093,308	(45,652)
Fines and forfeitures	940,000	940,000	1,004,243	64,243
Intergovernmental	79,000	79,000	115,867	36,867
Charges for services	250,000	250,000	35,680	(214,320)
Investment earnings	1,650	1,650	4,650	3,000
Miscellaneous	500	500	556	56
Total revenues	<u>3,957,080</u>	<u>3,956,880</u>	<u>3,786,094</u>	<u>(170,786)</u>
EXPENDITURES				
General administration	2,216,268	2,216,560	2,148,523	68,037
Public transportation	2,424,000	2,546,410	2,939,559	(393,149)
Capital outlay	150,000	172,123	172,123	-
Total expenditures	<u>4,790,268</u>	<u>4,935,093</u>	<u>5,260,205</u>	<u>(325,112)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(833,188)</u>	<u>(978,213)</u>	<u>(1,474,111)</u>	<u>(495,898)</u>
OTHER FINANCING SOURCES (USES)				
Loan and bond proceeds	-	-	723,601	723,601
Sale of capital assets	585,000	585,000	592,765	7,765
Operating transfers in	150,000	150,000	150,000	-
Total other financing sources (uses)	<u>735,000</u>	<u>735,000</u>	<u>1,466,366</u>	<u>731,366</u>
NET CHANGE IN FUND BALANCES	<u>(98,188)</u>	<u>(243,213)</u>	<u>(7,745)</u>	<u>235,468</u>
FUND BALANCES, BEGINNING	<u>927,620</u>	<u>927,620</u>	<u>927,620</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 829,432</u>	<u>\$ 684,407</u>	<u>\$ 919,875</u>	<u>\$ 235,468</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

HARRISON COUNTY, TEXAS

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

COUNTY GRANT FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	County Grant Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Intergovernmental	\$ 927,614	\$ 1,354,445	\$ 773,757	\$(580,688)
Investment earnings	-	-	272	272
Total revenues	<u>927,614</u>	<u>1,354,445</u>	<u>774,029</u>	<u>(580,416)</u>
EXPENDITURES				
Legal	32,122	32,122	5,188	26,934
Public safety	170,357	499,734	484,025	15,709
Health and welfare	28,980	417,360	52,377	364,983
Capital outlay	<u>696,155</u>	<u>405,228</u>	<u>229,407</u>	<u>175,821</u>
Total expenditures	<u>927,614</u>	<u>1,354,444</u>	<u>770,997</u>	<u>583,447</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>1</u>	<u>3,032</u>	<u>3,031</u>
NET CHANGE IN FUND BALANCES	-	1	3,032	3,031
FUND BALANCES, BEGINNING	<u>36,637</u>	<u>36,637</u>	<u>36,637</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 36,637</u>	<u>\$ 36,638</u>	<u>\$ 39,669</u>	<u>\$ 3,031</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

HARRISON COUNTY, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

SEPTEMBER 30, 2014

	<u>Governmental Activities Internal Service Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 341,185
Accounts receivable	<u>46,552</u>
Total assets	<u>387,737</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ <u>195,163</u>
Total liabilities	<u>195,163</u>
NET POSITION	
Unrestricted	<u>192,574</u>
Total net position	<u>\$ 192,574</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

HARRISON COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Governmental Activities
	Internal Service Fund
OPERATING REVENUES	
Charges for services	\$ 2,388,817
Total operating revenues	2,388,817
OPERATING EXPENSES	
Benefit payments	2,251,200
Total operating expenses	2,251,200
OPERATING GAIN (LOSS)	137,617
NONOPERATING REVENUES (EXPENSES)	
Interest income	694
Total nonoperating revenues (expenses)	694
CHANGE IN NET POSITION	138,311
TOTAL NET POSITION, BEGINNING	54,263
TOTAL NET POSITION, ENDING	\$ 192,574

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

THIS PAGE LEFT BLANK INTENTIONALLY

HARRISON COUNTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Governmental Activities
	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from premiums and contributions	\$ 2,603,978
Payments for claims	(2,295,789)
Net cash provided by operating activities	308,189
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	694
Net cash provided by investing activities	694
NET INCREASE IN CASH	308,883
CASH AND CASH EQUIVALENTS, BEGINNING	32,302
CASH AND CASH EQUIVALENTS, ENDING	341,185
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating loss	137,617
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
(Increase) decrease in receivables	264,241
Increase (decrease) in payables	(44,589)
Increase (decrease) in due to other funds	(49,080)
Total adjustments	170,572
Net cash provided by operating activities	\$ 308,189

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

HARRISON COUNTY, TEXAS

STATEMENT OF NET POSITION

FIDUCIARY FUNDS

SEPTEMBER 30, 2014

	<u>Agency Funds</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 4,949,447
Investments	<u>1,947,877</u>
 Total assets	 <u>6,897,324</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 84,642
Due to other governments	1,644,871
Due to other funds	314,855
Unearned revenue	315,133
Court ordered funds	2,721,146
Court ordered trust and prisoner funds	<u>1,816,677</u>
 Total liabilities	 <u>\$ 6,897,324</u>

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

HARRISON COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

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, 2014. 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, deferred outflows/inflows of resources, 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.

The **County Grant Fund** is a Special Revenue Fund used to account for monies restricted by grantors for which constraints have been placed on the use of resources.

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, Deferred Outflows/Inflows of Resources 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, 2014, 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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has one type of item, which arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet.

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 two 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 non-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 regular full-time and part-time employees. All regular, part-time employees shall be paid for holidays according to the number of hours each is scheduled to work on the holiday not to exceed 8 hours. Regular, full-time employees (non-exempt employees) shall receive 8 hours of pay for each official holiday. In the event the essential personnel (Juvenile Detention Supervisor Officers, Patrol Deputies, Dispatch personnel, and Jailers) work the approved holiday or is not scheduled to work on an approved holiday he/she would receive an additional 8 hours of holiday pay at the employee's normal rate of pay. The maximum amount of holiday time that an employee shall be allowed to carry over from one calendar year into the next is 80 hours. 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.

Change in Accounting Principles

As the result of implementing GASB Statement No. 65, the County has restated the beginning net position, effectively decreasing net position as of October 1, 2013 by \$95,768 for the governmental activities. This decrease results from no longer deferring and amortizing bond issuance costs.

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, 2014, 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, 2014, the County had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Primary government:		
Texas Term	\$ 4,347,024	1
MBIA	<u>9,316,453</u>	43
Total fair value	<u>\$ 13,663,477</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, 2014, 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 \$1,125,391 of primarily U.S. corporate stock and \$609,024 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, 2014, for the County's individual major funds and aggregate nonmajor funds, including the applicable allowance for uncollectibles, were as follows:

	General	Road and Bridge	County Grant	Nonmajor	Total
Receivables:					
Delinquent taxes	\$ 2,170,855	\$ -	\$ -	\$ -	\$ 2,170,855
Accounts receivable	2,095,491	-	-	82,082	2,177,573
Due from other governments	<u>162,770</u>	<u>37,042</u>	<u>434,222</u>	<u>40,064</u>	<u>674,098</u>
Total receivables	<u>4,429,116</u>	<u>37,042</u>	<u>434,222</u>	<u>122,146</u>	<u>5,022,526</u>
Less: allowance for uncollectibles	<u>2,479,865</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,479,865</u>
Net total receivables	<u>\$ 1,949,251</u>	<u>\$ 37,042</u>	<u>\$ 434,222</u>	<u>\$ 122,146</u>	<u>\$ 2,542,661</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, 2014, was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 596,444	\$ -	\$ -	\$ 596,444
Construction in progress	7,084	140,321	-	147,405
Total assets not being depreciated	<u>603,528</u>	<u>140,321</u>	<u>-</u>	<u>743,849</u>
Capital assets, being depreciated:				
Buildings and improvements	22,703,199	-	-	22,703,199
Autos and trucks	4,388,841	172,123	(142,404)	4,418,560
Heavy equipment	4,173,376	394,057	(734,394)	3,833,039
Equipment, furniture and fixtures	1,017,520	25,098	-	1,042,618
Infrastructure	11,642,906	-	(106,330)	11,536,576
Total capital assets being depreciated	<u>43,925,842</u>	<u>591,278</u>	<u>(983,128)</u>	<u>43,533,992</u>
Less accumulated depreciation:				
Buildings and improvements	4,307,915	719,773	-	5,027,688
Autos and trucks	2,823,658	437,698	(92,535)	3,168,821
Heavy equipment	2,204,120	323,015	(234,598)	2,292,537
Equipment, furniture and fixtures	777,772	46,229	-	824,001
Infrastructure	9,086,197	274,765	-	9,360,962
Total accumulated depreciation	<u>19,199,662</u>	<u>1,801,480</u>	<u>(327,133)</u>	<u>20,674,009</u>
Total capital assets being depreciated, net	<u>24,726,180</u>	<u>(1,210,202)</u>	<u>(655,995)</u>	<u>22,859,983</u>
Governmental activities capital assets, net	<u>\$ 25,329,708</u>	<u>\$(1,069,881)</u>	<u>\$(655,995)</u>	<u>\$ 23,603,832</u>

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

Governmental activities:	
General administration	\$ 12,851
Judicial	14,079
Legal	9,779
Elections	6,839
Financial administration	1,049
Public safety	613,812
Public transportation	795,246
Health and welfare	870
Culture and recreation	6,124
Preservation and restoration	338,517
Conservation	<u>2,314</u>
Total depreciation expense	<u>\$ 1,801,480</u>

Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2014, is as follows:

Due to/from Other Funds

	<u>Payable fund</u>		
	<u>County Grant</u>	<u>Agency</u>	<u>Total</u>
Receivable fund:			
General	\$ 350,337	\$ 140,890	\$ 491,227
Road and Bridge	-	126,542	126,542
Other Governmental	-	<u>47,423</u>	<u>47,423</u>
Total	<u>\$ 350,337</u>	<u>\$ 314,855</u>	<u>\$ 665,192</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</u>		<u>Total</u>
	<u>Road and Bridge</u>	<u>Other Governmental</u>	
Transfers out:			
General	<u>\$ 150,000</u>	<u>\$ 50,000</u>	<u>\$ 200,000</u>
Total	<u>\$ 150,000</u>	<u>\$ 50,000</u>	<u>\$ 200,000</u>

Unearned Revenues

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 2014, 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, 2014. 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.

Total unearned revenue due to protested property taxes	<u>Total Collected</u> <u>\$ 1,187,194</u>
---	---

Long-term Debt

Schedule of Contractual Obligations

Series and Original Issue Amount	Final Maturity	Interest Rate	Outstanding 09/30/2014
Certificates of Obligations - 2006			
\$ 5,350,000	02/15/23	4.00% - 4.150%	\$ 3,425,000
Secured Equipment - Note #xxxx006			
158,226	12/25/14	3.19%	45,104
Secured Equipment - Note #xxxx007			
218,914	02/15/15	3.19%	75,309
Secured Equipment - Note #xxxx008			
777,918	03/25/15	3.09%	669,954
Secured Equipment - Note #xxxx009			
1,050,000	09/25/28	3.03%	937,172
Secured Equipment - Note #xxxx010			
188,631	11/27/19	3.19%	164,190
Secured Equipment - Note #xxxx011			
150,007	04/29/20	3.19%	130,570
Secured Equipment - Note #xxxx012			
230,785	07/31/16	2.75%	117,309
Secured Equipment - Note #xxxx013			
723,601	11/17/17	2.14%	<u>723,601</u>
Total			<u>\$ 6,288,209</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 #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.

Secured Equipment Loan #xxxx013, BancorpSouth Equipment Finance, Hattiesburg, Mississippi – On August 12, 2014, Harrison County executed a loan agreement to borrow \$723,601 in order to finance the entire purchase of new equipment used in the Road and Bridge Department. The stated interest rate is 2.14%. 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 \$	3,725,000	\$ -	\$ 300,000	\$ 3,425,000	\$ 325,000
Notes payable	3,356,605	723,601	1,216,997	2,863,209	956,506
Compensated absences	1,116,887	136,740	23,602	1,230,025	307,507
OPEB payable	12,586,436	1,858,190	736,973	13,707,653	-
	<u>\$ 20,784,928</u>	<u>\$ 2,718,531</u>	<u>\$ 2,277,572</u>	<u>\$ 21,225,887</u>	<u>\$ 1,589,013</u>

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

	Principal	Interest	Total
General obligation debt	\$ 3,425,000	\$ 665,822	\$ 4,090,822
Notes payable	<u>2,863,209</u>	<u>315,961</u>	<u>3,179,170</u>
	<u>\$ 6,288,209</u>	<u>\$ 981,783</u>	<u>\$ 7,269,992</u>

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

Year Ending September 30,	Principal	Interest	Total
2015	\$ 1,281,506	\$ 200,618	\$ 1,482,124
2016	715,133	171,194	886,327
2017	697,429	147,148	844,577
2018	730,984	124,092	855,076
2019	488,060	100,318	588,378
2020-2024	2,065,722	218,064	2,283,786
2025-2028	<u>309,375</u>	<u>20,349</u>	<u>329,724</u>
Total	<u>\$ 6,288,209</u>	<u>\$ 981,783</u>	<u>\$ 7,269,992</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, 2014. 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 2014 have been reported as expenditures in the General Fund and Special Revenue Funds.

During the year ended September 30, 2014, 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 2014. 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, 2014. A liability has not been estimated for claims incurred but not reported.

An analysis of claims activity is presented below:

	Beginning Balance	Current Year Claims Expenditures	Actual Claims Payments	Ending Balance
09/30/2014	\$ 239,752	\$ 2,875,084	\$(2,919,673)	\$ 195,163
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

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 656 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 11.31% for the months in calendar year 2013, and 12.11% in calendar year 2014. 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	12/31/2011	12/31/2012	12/31/2013
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: 5-year smoothed value ESF: Fund value
Actuarial Assumptions:			
Investment return	8.00%	8.00%	8.00%
Projected salary increases	5.4%	5.4%	4.9%
Inflation	3.5%	3.5%	3.0%
Cost-of-living adjustments	0.0%	0.0%	0.0%

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

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2012	\$ 1,155,950	100%	\$ -
9/30/2013	1,199,158	100%	-
9/30/2014	1,342,293	100%	-

Annual Pension Cost

For the employer's accounting year ended September 30, 2014, the annual pension cost for the TCDRS plan for its employees was \$1,342,293 and the actual contributions were \$1,342,293. 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, 2012 through December 31, 2013, the basis for determining the contribution rate for calendar years 2013 and 2014. The December 31, 2013 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)
2013	\$ 28,844,953	\$ 35,205,303	\$ 6,360,350	81.93%	\$ 10,583,790	60.10%

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. Qualifying, full-time employees are eligible to participate in the County’s health care plan as a retiree. Members that qualify are eligible at any age with 20 or 30 years of service or at age 60 with 8 years of service or when a member’s age plus service credit total 75 or 80. Spouses of those members are also eligible.

When a qualifying, regular full-time employee retires they are eligible to continue to participate in the County’s group health insurance 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	566,390
Adjustment to the ARC	<u>(755,820)</u>
Annual OPEB Cost	1,858,190
Employer Contributions with Interest	<u>(736,973)</u>
Increase (Decrease) in Net OPEB Obligation	1,121,217
Net OPEB Obligation, beginning of year	<u>12,586,436</u>
 Net OPEB Obligation, end of year	 <u>\$ 13,707,653</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
9/30/2014	\$ 1,858,190	\$ 736,973	40%	\$ 13,707,653
9/30/2013	1,876,305	672,682	36%	12,586,436
9/30/2012	2,691,546	898,392	33%	11,382,813

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**

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, 2014

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)
12/31/2011	\$ 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%
12/31/2013	28,844,953	35,205,303	81.93%	6,360,350	10,583,790	60.10%

HARRISON COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2014

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.

THIS PAGE LEFT BLANK INTENTIONALLY

**COMBINING AND INDIVIDUAL
FUND FINANCIAL STATEMENTS**

THIS PAGE LEFT BLANK INTENTIONALLY

HARRISON COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,984,725	\$ 80,888	\$ 388,588	\$ 2,454,201
Receivables:				
Accounts receivable	82,082	-	-	82,082
Due from other governments	40,064	-	-	40,064
Due from other funds	43,266	3,736	421	47,423
Prepaid expenditures	<u>7,626</u>	<u>-</u>	<u>-</u>	<u>7,626</u>
Total assets	<u>2,157,763</u>	<u>84,624</u>	<u>389,009</u>	<u>2,631,396</u>
LIABILITIES				
Liabilities:				
Accounts payable	\$ 252,579	\$ -	\$ 253	\$ 252,832
Accrued wages payable	<u>31,323</u>	<u>-</u>	<u>-</u>	<u>31,323</u>
Total liabilities	<u>283,902</u>	<u>-</u>	<u>253</u>	<u>284,155</u>
Fund balances				
Nonspendable	7,626	-	-	7,626
Restricted	1,450,542	84,624	388,756	1,923,922
Committed	<u>415,693</u>	<u>-</u>	<u>-</u>	<u>415,693</u>
Total fund equity	<u>1,873,861</u>	<u>84,624</u>	<u>388,756</u>	<u>2,347,241</u>
Total liabilities and fund equity	<u>\$ 2,157,763</u>	<u>\$ 84,624</u>	<u>\$ 389,009</u>	<u>\$ 2,631,396</u>

THIS PAGE LEFT BLANK INTENTIONALLY

HARRISON COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
REVENUES				
Ad valorem taxes	\$ 990,883	\$ 1,352,268	\$ 152,399	\$ 2,495,550
Licenses and permits	1,660	-	-	1,660
Intergovernmental	231,235	-	-	231,235
Charges for services	853,992	-	-	853,992
Investment earnings	6,172	1,705	1,169	9,046
Miscellaneous	73,740	-	-	73,740
Total revenues	<u>2,157,682</u>	<u>1,353,973</u>	<u>153,568</u>	<u>3,665,223</u>
EXPENDITURES				
Current expenditures:				
General administration	664,937	750	84,248	749,935
Judicial	340,545	-	-	340,545
Legal	45,719	-	-	45,719
Elections	54,704	-	-	54,704
Public safety	1,415,576	-	-	1,415,576
Public transportation	28,309	-	-	28,309
Debt service				
Principal	-	1,456,876	-	1,456,876
Interest and other charges	-	215,777	-	215,777
Total expenditures	<u>2,549,790</u>	<u>1,673,403</u>	<u>84,248</u>	<u>4,307,441</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(392,108)</u>	<u>(319,430)</u>	<u>69,320</u>	<u>(642,218)</u>
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	-	47,075	-	47,075
Operating transfer in	50,000	-	-	50,000
Total other financing sources (uses)	<u>50,000</u>	<u>47,075</u>	<u>-</u>	<u>97,075</u>
NET CHANGE IN FUND BALANCES	<u>(342,108)</u>	<u>(272,355)</u>	<u>69,320</u>	<u>(545,143)</u>
FUND BALANCES, BEGINNING	<u>2,215,969</u>	<u>356,979</u>	<u>319,436</u>	<u>2,892,384</u>
FUND BALANCES, ENDING	<u>\$ 1,873,861</u>	<u>\$ 84,624</u>	<u>\$ 388,756</u>	<u>\$ 2,347,241</u>

HARRISON COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2014

	<u>Jury</u>	<u>Bail Bond Board</u>	<u>Drug Forfeitures</u>	<u>Airport Maintenance</u>	<u>Tax Collector VIT</u>
ASSETS					
Cash and cash equivalents	\$ 51,537	\$ 121,475	\$ 8,049	\$ 129,361	\$ 75,022
Receivables:					
Accounts receivable	-	-	-	16,874	-
Due from other governments	14,620	-	-	2,228	-
Due from other funds	675	-	-	-	326
Prepaid expenditures	<u>-</u>	<u>-</u>	<u>597</u>	<u>5,966</u>	<u>-</u>
Total assets	<u>66,832</u>	<u>121,475</u>	<u>8,646</u>	<u>154,429</u>	<u>75,348</u>
LIABILITIES					
Liabilities:					
Accounts payable	\$ 2,615	\$ -	\$ -	\$ 23,506	\$ -
Accrued wages payable	<u>4,197</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>6,812</u>	<u>-</u>	<u>-</u>	<u>23,506</u>	<u>-</u>
Fund balances					
Nonspendable	-	-	597	5,966	-
Restricted	-	121,475	8,049	124,957	75,348
Committed	<u>60,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund equity	<u>60,020</u>	<u>121,475</u>	<u>8,646</u>	<u>130,923</u>	<u>75,348</u>
Total liabilities and fund balances	<u>\$ 66,832</u>	<u>\$ 121,475</u>	<u>\$ 8,646</u>	<u>\$ 154,429</u>	<u>\$ 75,348</u>

<u>Justice Technology</u>	<u>Law Library</u>	<u>Juvenile Services</u>	<u>Records Management</u>	<u>Security</u>	<u>District Attorney Special</u>	<u>District Court Technology</u>
\$ 298,925	\$ 66,190	\$ 348,063	\$ 533,253	\$ 73,131	\$ 79,289	\$ 19,381
-	-	10,626	40,000	-	160	-
-	-	23,216	-	-	-	-
1,770	3,115	2,473	27,056	3,644	-	370
<u>827</u>	<u>-</u>	<u>236</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>301,522</u>	<u>69,305</u>	<u>384,614</u>	<u>600,309</u>	<u>76,775</u>	<u>79,449</u>	<u>19,751</u>
\$ -	\$ 2,319	\$ 3,870	\$ 214,402	\$ -	\$ 3,750	\$ -
-	151	24,835	-	1,695	-	-
<u>-</u>	<u>2,470</u>	<u>28,705</u>	<u>214,402</u>	<u>1,695</u>	<u>3,750</u>	<u>-</u>
827	-	236	-	-	-	-
300,695	66,835	-	385,907	75,080	75,699	19,751
-	-	355,673	-	-	-	-
<u>301,522</u>	<u>66,835</u>	<u>355,909</u>	<u>385,907</u>	<u>75,080</u>	<u>75,699</u>	<u>19,751</u>
<u>\$ 301,522</u>	<u>\$ 69,305</u>	<u>\$ 384,614</u>	<u>\$ 600,309</u>	<u>\$ 76,775</u>	<u>\$ 79,449</u>	<u>\$ 19,751</u>

HARRISON COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

SEPTEMBER 30, 2014

	<u>County Court Technology</u>	<u>Case Manager</u>	<u>District Clerk Preservation</u>	<u>County Clerk Preservation</u>	<u>6th Court of Appeal</u>
ASSETS					
Cash and cash equivalents	\$ 7,091	\$ 7,875	\$ 40,178	\$ 21,684	\$ 5
Receivables:					
Accounts receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Due from other funds	118	1,526	630	353	455
Prepaid expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>7,209</u>	<u>9,401</u>	<u>40,808</u>	<u>22,037</u>	<u>460</u>
LIABILITIES					
Liabilities:					
Accounts payable	\$ 631	\$ -	\$ -	\$ -	\$ 460
Accrued wages payable	<u>-</u>	<u>445</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>631</u>	<u>445</u>	<u>-</u>	<u>-</u>	<u>460</u>
Fund balances					
Nonspendable	-	-	-	-	-
Restricted	6,578	8,956	40,808	22,037	-
Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund equity	<u>6,578</u>	<u>8,956</u>	<u>40,808</u>	<u>22,037</u>	<u>-</u>
Total liabilities and fund equity	<u>\$ 7,209</u>	<u>\$ 9,401</u>	<u>\$ 40,808</u>	<u>\$ 22,037</u>	<u>\$ 460</u>

<u>Vital Archive Fee</u>	<u>Election Contracts</u>	<u>Court Initiated Guardianship</u>	<u>Totals</u>
\$ 22,989	\$ 63,220	\$ 18,007	\$ 1,984,725
-	14,422	-	82,082
-	-	-	40,064
295	-	460	43,266
<u>-</u>	<u>-</u>	<u>-</u>	<u>7,626</u>
<u>23,284</u>	<u>77,642</u>	<u>18,467</u>	<u>2,157,763</u>
\$ -	\$ 1,026	\$ -	\$ 252,579
-	-	-	31,323
<u>-</u>	<u>1,026</u>	<u>-</u>	<u>283,902</u>
-	-	-	7,626
23,284	76,616	18,467	1,450,542
-	-	-	415,693
<u>23,284</u>	<u>76,616</u>	<u>18,467</u>	<u>1,873,861</u>
<u>\$ 23,284</u>	<u>\$ 77,642</u>	<u>\$ 18,467</u>	<u>\$ 2,157,763</u>

-

HARRISON COUNTY, TEXAS

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

NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>Jury</u>	<u>Bail Bond Board</u>	<u>Drug Forfeitures</u>	<u>Airport Maintenance</u>	<u>Tax Collector VIT</u>
REVENUES					
Ad valorem taxes	\$ 151,813	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	1,660	-	-	-
Intergovernmental	30,158	-	4,030	1,694	-
Charges for services	3,332	-	-	151,940	5,265
Investment earnings	173	849	45	331	478
Miscellaneous	-	-	-	73,650	-
Total revenues	<u>185,476</u>	<u>2,509</u>	<u>4,075</u>	<u>227,615</u>	<u>5,743</u>
EXPENDITURES					
Current expenditures:					
General administration	-	50,000	-	270,970	4,550
Judicial	212,619	-	-	-	-
Legal	-	-	-	-	-
Elections	-	-	-	-	-
Public safety	1,380	-	1,363	-	-
Public transportation	-	-	-	28,309	-
Total expenditures	<u>213,999</u>	<u>50,000</u>	<u>1,363</u>	<u>299,279</u>	<u>4,550</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(28,523)</u>	<u>(47,491)</u>	<u>2,712</u>	<u>(71,664)</u>	<u>1,193</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(28,523)</u>	<u>(47,491)</u>	<u>2,712</u>	<u>(71,664)</u>	<u>1,193</u>
FUND BALANCE, BEGINNING	<u>88,543</u>	<u>168,966</u>	<u>5,934</u>	<u>202,587</u>	<u>74,155</u>
FUND BALANCE, ENDING	<u>\$ 60,020</u>	<u>\$ 121,475</u>	<u>\$ 8,646</u>	<u>\$ 130,923</u>	<u>\$ 75,348</u>

<u>Justice Technology</u>	<u>Law Library</u>	<u>Juvenile Services</u>	<u>Records Management</u>	<u>Security</u>	<u>District Attorney Special</u>	<u>District Court Technology</u>
\$ -	\$ -	\$ 839,070	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	102,989	-	-	22,500	-
28,867	37,693	212,550	295,938	52,626	7,417	5,148
301	75	1,220	1,079	400	139	105
-	-	90	-	-	-	-
<u>29,168</u>	<u>37,768</u>	<u>1,155,919</u>	<u>297,017</u>	<u>53,026</u>	<u>30,056</u>	<u>5,253</u>
12,428	6,722	-	319,821	-	-	-
-	33,072	-	-	78,509	-	-
-	-	-	-	-	45,719	-
-	-	-	-	-	-	-
8,204	-	1,392,979	-	-	-	-
-	-	-	-	-	-	-
<u>20,632</u>	<u>39,794</u>	<u>1,392,979</u>	<u>319,821</u>	<u>78,509</u>	<u>45,719</u>	<u>-</u>
<u>8,536</u>	<u>(2,026)</u>	<u>(237,060)</u>	<u>(22,804)</u>	<u>(25,483)</u>	<u>(15,663)</u>	<u>5,253</u>
-	-	-	-	50,000	-	-
-	-	-	-	50,000	-	-
8,536	(2,026)	(237,060)	(22,804)	24,517	(15,663)	5,253
<u>292,986</u>	<u>68,861</u>	<u>592,969</u>	<u>408,711</u>	<u>50,563</u>	<u>91,362</u>	<u>14,498</u>
<u>\$ 301,522</u>	<u>\$ 66,835</u>	<u>\$ 355,909</u>	<u>\$ 385,907</u>	<u>\$ 75,080</u>	<u>\$ 75,699</u>	<u>\$ 19,751</u>

HARRISON COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	County Court Technology	Case Manager	District Clerk Preservation	County Clerk Preservation	6th Court of Appeal
REVENUES					
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	1,841	22,496	8,922	4,463	-
Investment earnings	35	27	219	120	-
Miscellaneous	-	-	-	-	-
Total revenues	1,876	22,523	9,141	4,583	-
EXPENDITURES					
Current expenditures:					
General administration	446	-	-	-	-
Judicial	-	15,995	-	-	-
Legal	-	-	-	-	-
Elections	-	-	-	-	-
Public safety	-	-	-	-	-
Public transportation	-	-	-	-	-
Total expenditures	446	15,995	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,430	6,528	9,141	4,583	-
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
NET CHANGE IN FUND BALANCE	1,430	6,528	9,141	4,583	-
FUND BALANCE, BEGINNING	5,148	2,428	31,667	17,454	-
FUND BALANCE, ENDING	\$ 6,578	\$ 8,956	\$ 40,808	\$ 22,037	\$ -

<u>Vital Archive Fees</u>	<u>Election Contracts</u>	<u>Court Initiated Guardianship</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ 990,883
-	-	-	1,660
-	69,864	-	231,235
4,194	6,640	4,660	853,992
128	340	108	6,172
<u>-</u>	<u>-</u>	<u>-</u>	<u>73,740</u>
<u>4,322</u>	<u>76,844</u>	<u>4,768</u>	<u>2,157,682</u>
-	-	-	664,937
350	-	-	340,545
-	-	-	45,719
-	54,704	-	54,704
-	-	11,650	1,415,576
<u>-</u>	<u>-</u>	<u>-</u>	<u>28,309</u>
<u>350</u>	<u>54,704</u>	<u>11,650</u>	<u>2,549,790</u>
<u>3,972</u>	<u>22,140</u>	<u>(6,882)</u>	<u>(392,108)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
3,972	22,140	(6,882)	(342,108)
<u>19,312</u>	<u>54,476</u>	<u>25,349</u>	<u>2,215,969</u>
<u>\$ 23,284</u>	<u>\$ 76,616</u>	<u>\$ 18,467</u>	<u>\$ 1,873,861</u>

HARRISON COUNTY, TEXAS

COMBINING STATEMENT OF ASSETS AND LIABILITIES

AGENCY FUNDS

SEPTEMBER 30, 2014

	<u>County Treasurer</u>	<u>County Clerk</u>	<u>District Attorney</u>	<u>District Clerk</u>
ASSETS				
Cash and cash equivalents	\$ 146,481	\$ 590,271	\$ 26,459	\$ 2,251,669
Investments	<u>-</u>	<u>327,387</u>	<u>-</u>	<u>1,470,490</u>
Total assets	<u>146,481</u>	<u>917,658</u>	<u>26,459</u>	<u>3,722,159</u>
LIABILITIES				
Accounts payable	\$ -	\$ 5,431	\$ 26,459	\$ 12,480
Due to other governments	146,460	6,201	-	13,458
Due to other funds	21	68,276	-	15,948
Unearned revenue	-	-	-	-
Court ordered funds	-	510,363	-	2,209,783
Court ordered trust and prisoner funds	<u>-</u>	<u>327,387</u>	<u>-</u>	<u>1,470,490</u>
Total liabilities	<u>\$ 146,481</u>	<u>\$ 917,658</u>	<u>\$ 26,459</u>	<u>\$ 3,722,159</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>
\$ 125,942	\$ 1,154	\$ 147,835	\$ 1,592,515	\$ 39,191	\$ 27,930	\$ 4,949,447
<u>-</u>	<u>-</u>	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>1,947,877</u>
<u>125,942</u>	<u>1,154</u>	<u>147,835</u>	<u>1,742,515</u>	<u>39,191</u>	<u>27,930</u>	<u>6,897,324</u>
\$ -	\$ 593	\$ 2,713	\$ 8,649	\$ 387	\$ 27,930	\$ 84,642
49,721	-	-	1,419,505	9,526	-	1,644,871
75,221	561	30	125,520	29,278	-	314,855
-	-	126,292	188,841	-	-	315,133
1,000	-	-	-	-	-	2,721,146
<u>-</u>	<u>-</u>	<u>18,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,816,677</u>
\$ <u>125,942</u>	\$ <u>1,154</u>	\$ <u>147,835</u>	\$ <u>1,742,515</u>	\$ <u>39,191</u>	\$ <u>27,930</u>	\$ <u>6,897,324</u>

THIS PAGE LEFT BLANK INTENTIONALLY

**INTERNAL CONTROL
AND COMPLIANCE SECTION**

THIS PAGE LEFT BLANK INTENTIONALLY



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, 2014, 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 25, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs (Finding 2014-001) to be a material weakness.

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*.

Harrison County, Texas' Response to Findings

Harrison County, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Harrison County, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 25, 2015



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 ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE STATE OF TEXAS UNIFORM GRANT MANAGEMENT STANDARDS**

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

Report on Compliance for Each Major State Program

We have audited Harrison County, Texas' (the "County") compliance with the types of compliance requirements described in the *State of Texas Uniform Grant Management Standards* that could have a direct and material effect on each of the County's major state programs for the year ended September 30, 2014. The County's major state 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 state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major state 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 the *State of Texas Uniform Grant Management Standards*. Those standards 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 state 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 state program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major State 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 state programs for the year ended September 30, 2014.

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 state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Texas Uniform Grant Management Standards*, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 state 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 state program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Item 2014-001 to be a material weakness.

Harrison County, Texas' response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Harrison County, Texas' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the *State of Texas Uniform Grant Management Standards*. Accordingly, this report is not suitable for any other purpose.

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

Waco, Texas
June 25, 2015

HARRISON COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED SEPTEMBER 30, 2014

State Grantor/Pass-through Grantor/Program Title	Grantor's Pass-through Number	State Expenditures
<u>Texas Statewide Tobacco Education and Prevention Program</u>		
CPA Tobacco Compliance Grant 2014		\$ 9,150
Total Texas Statewide Tobacco Education and Prevention Program		<u>9,150</u>
<u>Sabine Valley Center</u>		
Mental Officer Grant	E-060-93/14	<u>27,000</u>
Total Sabine Valley Center		<u>27,000</u>
<u>Task Force on Indigent Defense</u>		
Indigent Defense Services	212-12-102	<u>103,931</u>
Total Task Force on Indigent Defense		<u>103,931</u>
<u>Texas Department of Transportation</u>		
County Energy Transportation Reinvestment Zones (CETRZ)		<u>442,566</u>
Total Texas Department of Transportation		<u>442,566</u>
<u>Comptroller of Public Accounts</u>		
Assist Prosecutor Longevity		2,908
LEOSE		<u>4,030</u>
Total Comptroller of Public Accounts		<u>6,938</u>
<u>Office of the Attorney General</u>		
SANE		<u>9,628</u>
Total Office of the Attorney General		<u>9,628</u>
Total State Expenditures		<u>\$ 599,213</u>

HARRISON COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS

YEAR ENDED SEPTEMBER 30, 2014

1. The Schedule of Expenditures of State Awards is a summary of the activity of the County's state 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 state 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 state 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, 2014

Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	2014-001
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	None

State Awards:

Internal control over major programs:	
Material weakness(es) identified?	2014-001
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 State of Texas Uniform Grant Management Standards	No
--	----

Identification of major programs:
County Energy Transportation Reinvestment Zones (CETRZ)

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
--	-----------

Auditee qualified as low-risk auditee	No
---------------------------------------	----

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

2014-001

Findings and Questioned Costs for State Awards

2014-001

HARRISON COUNTY, TEXAS

**SCHEDULE OF FINDINGS AND RESPONSES
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Item 2014-001

State Program: County Energy Transportation Reinvestment Zones (CETRZ)

Condition: Bank reconciliations are performed to make sure that the cash balance on the general ledger is recorded at the proper amount. These reconciliations assist in finding errors that effect cash on the County's general ledger or errors made by the bank. With the County having a general ledger balance of greater than \$18 million in cash, the reconciliation process is key in making sure the cash balances are correct.

Cause: The County Treasurer's office was not performing in the reconciliations on various County bank accounts on a timely basis. There are other employees in the Treasurer's office that have not been adequately trained to reconcile the bank accounts when the treasurer is not able to.

Recommendation: The County should have a standard deadline for making sure that all County bank accounts have been reconciled. There deadlines should be confirmed with Court and any deviations from these deadlines should be discussed with the County Auditor or the Commissioner's Court. The other employees in the office should also be trained to perform the reconciliation duties.

Management's Response: The County will verify that the reconciliation process is being performed on a regular and timely basis.

Contact Person Responsible
For Corrective Action: Harrison County Treasurer and County Auditor.

Anticipated Completion
Date: The reconciliations were up to date as of the end of fieldwork. They will be monitored on an ongoing basis to make sure they are being performed on a timely basis.



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, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, the State of Texas Uniform Grant Management 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 16, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Harrison County, Texas are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the County changed accounting policies related reporting of bond issuance by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 65, Item Previously Reported as Assets and Liabilities, in 2014. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the governmental activities. 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 25, 2015.

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 State 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

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 25, 2015