

HARRISON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2015**

HARRISON COUNTY, TEXAS

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FINANCIAL SECTION

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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, 2015, 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, 2015, 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 2015 Harrison County, Texas adopted new accounting guidance, Governmental Accounting Standards (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* and Governmental Account Standards (GASB) Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*. 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, pension schedules 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 combining nonmajor fund financial statements 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 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 24, 2016, 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 24, 2016

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**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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Management's Discussion and Analysis

As Management of Harrison County, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended September 30, 2015. 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 \$12,756,662. This is a decrease of \$2,580,168, which is a decrease of 16.8%. This decrease is comprised of a loss of \$2,580,168 from operations. The decrease was primarily caused by the allocation of the FY 2015 portion of the OPEB liability for the County. The amount of OPEB expense for the year was \$526,133.
- Total net position are comprised of: 1) net investment in capital assets, of \$17,371,467, including property and equipment, net of accumulated depreciation; 2) debt covenants, grantors, or statute restricts net position of \$2,009,029; and 3) the County's unrestricted net position at year-end is \$(6,623,834).
- Total governmental long-term debt of the County decreased by \$561,275. 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 \$8,036,898 or 44% 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, deferred outflows/inflows of resources and liabilities, with the difference 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 \$23,152,982. This amount is net of accumulated depreciation of \$22,236,478. 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 \$12,756,662; a total of \$2,009,029 is restricted for specific purposes, as required by state law or grantor requirements; \$17,371,467 represents the County's net investment in capital assets, and \$(6,623,834) in unrestricted net position is available for funding general operations. Unrestricted net position decreased by \$2,495,557, total assets decreased \$1,302,002, and total net position decreased by \$2,580,168.

HARRISON COUNTY'S NET POSITION
(in Thousands)

	Governmental Activities	
	2015	2014
Current and other assets	\$ 15,096	\$ 15,947
Capital assets	<u>23,153</u>	<u>23,604</u>
Total assets	<u>38,249</u>	<u>39,551</u>
Deferred outflows of resources	<u>1,495</u>	<u>-</u>
Current liabilities	3,917	4,577
Noncurrent liabilities	<u>22,751</u>	<u>19,637</u>
Total liabilities	<u>26,668</u>	<u>24,214</u>
Deferred inflows of resources	<u>319</u>	<u>-</u>
Net position:		
Net investment, in capital assets	17,371	17,256
Restricted	2,009	2,209
Unrestricted	<u>(6,624)</u>	<u>(4,128)</u>
Total net position	<u>\$ 12,757</u>	<u>\$ 15,337</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 \$26,657,991. Total governmental expenses were \$27,363,463 resulting in a decrease in net position of \$2,580,168. More details about the decrease are discussed in the Financial Analysis of the County Funds.

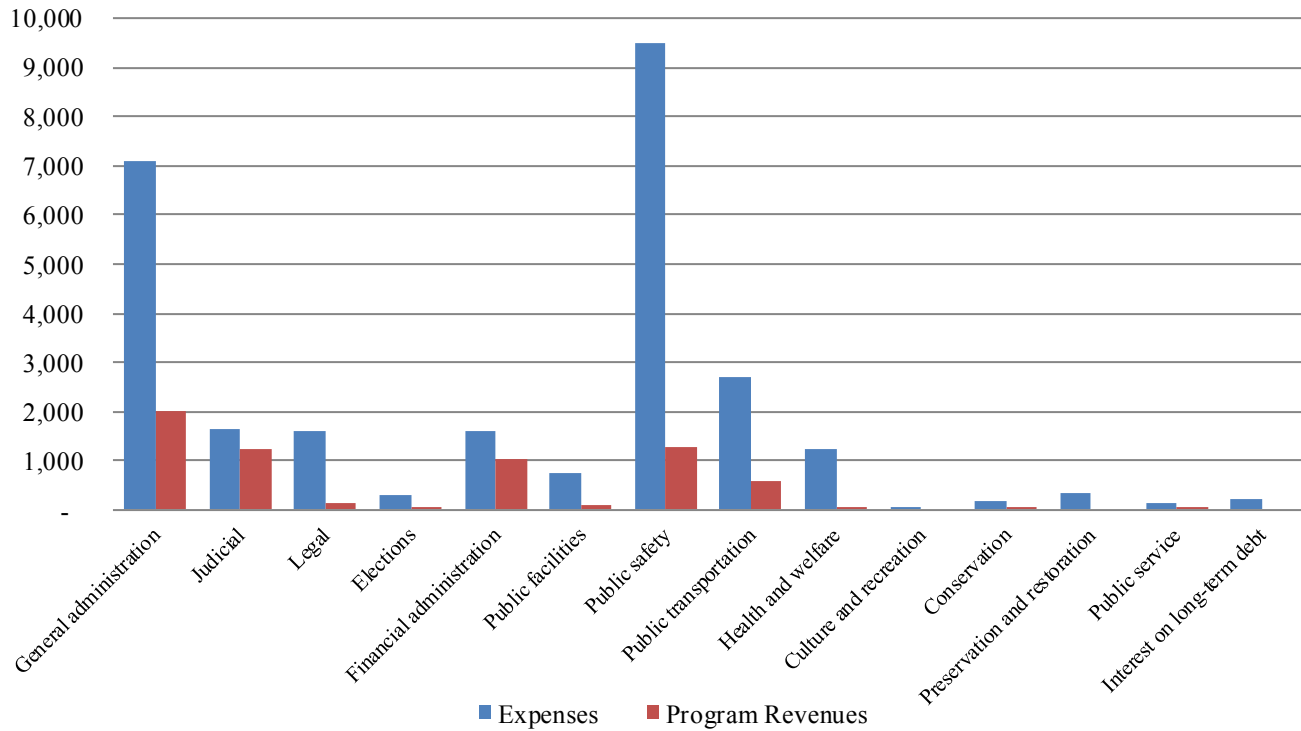
HARRISON COUNTY'S CHANGES IN NET POSITION
(in Thousands)

	Governmental Activities	
	2015	2014
Revenues:		
Program revenues:		
Charges for services	\$ 4,965	\$ 4,965
Operating grants and contributions	1,445	1,849
General revenues:		
Property taxes	19,725	19,599
Interest	60	45
Gain on sale of assets	-	47
Other	462	363
Total revenues	26,658	26,868
Expenses:		
General administration	7,089	6,635
Judicial	1,630	1,739
Legal	1,591	1,504
Elections	310	235
Financial administration	1,605	1,640
Public facilities	762	710
Public safety	9,508	9,728
Public transportation	2,696	3,952
Health and welfare	1,241	1,420
Culture and recreation	75	74
Conservation	174	198
Preservation and restoration	339	352
Public service	125	93
Interest on long-term debt	220	233
Total expenses	27,363	28,513
Change in net position	(705)	(1,645)
Net position - beginning	15,337	17,078
Prior period adjustment	(1,875)	(96)
Net position - ending	\$ 12,757	\$ 15,337

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 The OPEB plan. FY 2015 was the sixth year for inclusion in the financial statements. The addition of this liability increased expenses and decreased net position by \$526,133.

Expenses and Program Revenues - Governmental Activities (in Thousands)



HARRISON COUNTY'S GOVERNMENTAL ACTIVITIES
(in Thousands)

	Charges	% of	Functional	Percent	Funded by	
	for Services		Expenses		of Total	Other Revenues
	2015	Total	2015		Amount	Percent
General administration	\$ 2,008	7.5%	\$ 7,089	25.9%	\$(5,081)	(71.7%)
Judicial	1,192	4.5%	1,630	6.0%	(438)	(26.9%)
Legal	13	0.1%	1,591	5.8%	(1,578)	(99.2%)
Elections	3	0.0%	310	1.1%	(307)	(98.9%)
Financial administration	1,019	3.8%	1,605	5.9%	(585)	(36.5%)
Public facilities	-	- %	762	2.8%	(762)	(100.0%)
Public safety	418	1.6%	9,508	34.7%	(9,089)	(95.6%)
Public transportation	311	1.2%	2,696	9.9%	(2,385)	(88.5%)
Health and welfare	-	- %	1,241	4.5%	(1,241)	(100.0%)
Culture and recreation	-	- %	75	0.3%	(75)	(100.0%)
Conservation	-	- %	174	0.6%	(174)	(100.0%)
Preservation and restoration	-	- %	339	1.2%	(339)	(100.0%)
Public service	-	- %	125	0.5%	(125)	(100.0%)
Interest on long-term debt	-	- %	220	0.8%	(220)	(100.0%)
Total	4,965	18.6%	\$ 27,363	100.0%	(22,397)	
OPERATING GRANTS						
AND CONTRIBUTIONS	1,445	5.4%			1,445	
CAPITAL GRANTS						
AND CONTRIBUTIONS	-	- %			-	
GENERAL REVENUES	<u>20,248</u>	<u>76.0%</u>			<u>20,248</u>	
TOTAL REVENUES	<u>\$ 26,658</u>	<u>100.0%</u>				
CHANGE IN NET POSITION					<u>\$(704)</u>	

Capital Assets and Debt Administration

Capital Assets – Capital assets decreased by approximately \$451,000 primarily due to depreciation expense exceeding the amount of capital additions.

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

	Governmental Activities	
	2015	2014
Land, buildings and improvements	\$ 17,552	\$ 18,272
Autos and trucks	1,110	1,250
Heavy equipment	2,301	1,541
Other equipment, furniture and fixtures	190	219
Construction in progress	147	147
Infrastructure	<u>1,853</u>	<u>2,175</u>
Total capital assets, net	<u>\$ 23,153</u>	<u>\$ 23,604</u>

Outstanding Debt

The table below reports the outstanding balances of debt for 2015 and 2014 for governmental activities. The County's balance in general obligation debt and notes payable decreased from fiscal year 2014. However, the net OPEB obligation increased during fiscal year 2015, making the County's overall debt balance lower than fiscal year 2014. 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	
	2015	2014
General obligation debt	\$ 3,100	\$ 3,425
Notes payable	2,627	2,863
Net pension liability	2,820	2,903
Net OPEB obligation	14,234	13,707
Compensated absences	<u>1,233</u>	<u>1,230</u>
Total long-term debt	<u>\$ 24,014</u>	<u>\$ 24,128</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 \$10,872,233, a decrease of \$281,222 from the prior year. This represented a 2.5% decrease in total fund balances. This increase was mainly in the Road and Bridge Fund, due to a decrease of revenues and an increase in expenditures, mainly for capital equipment. The other driving factor was the net operating loss in the Juvenile Services fund.

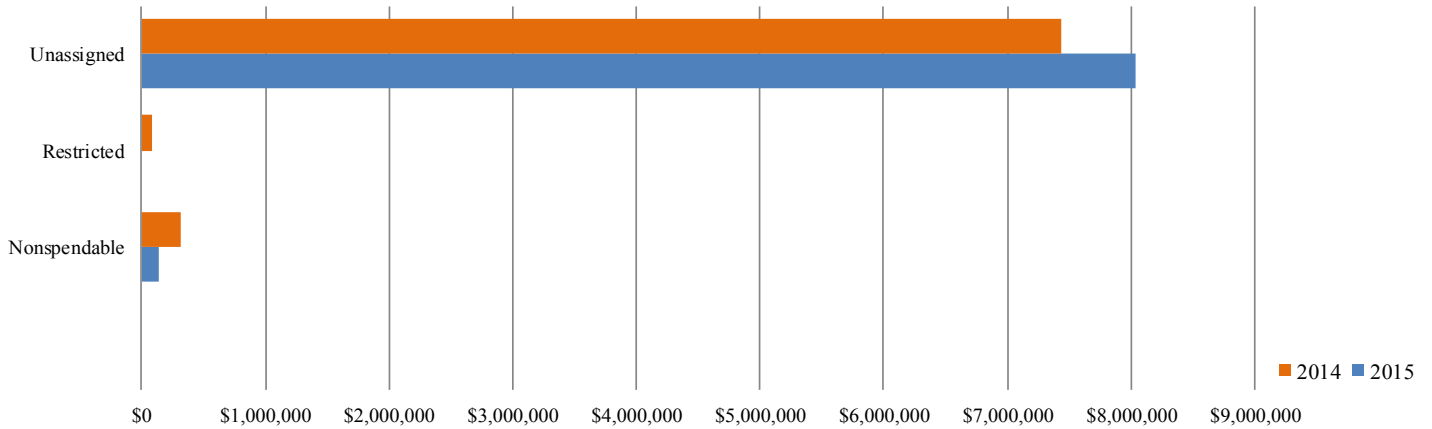
The General Fund is the primary day-to-day operating fund that finances services such as the courts and law enforcement. Approximately 84% of the revenue to support these services is generated by ad valorem taxes. General Fund operations resulted in an increase in fund balance of \$419,887. The ending fund balance of \$8,178,129 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 5.4% over fiscal year 2014 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 \$363,614. The decrease was mainly caused by greater expenditures for capital outlay for FY 2015.

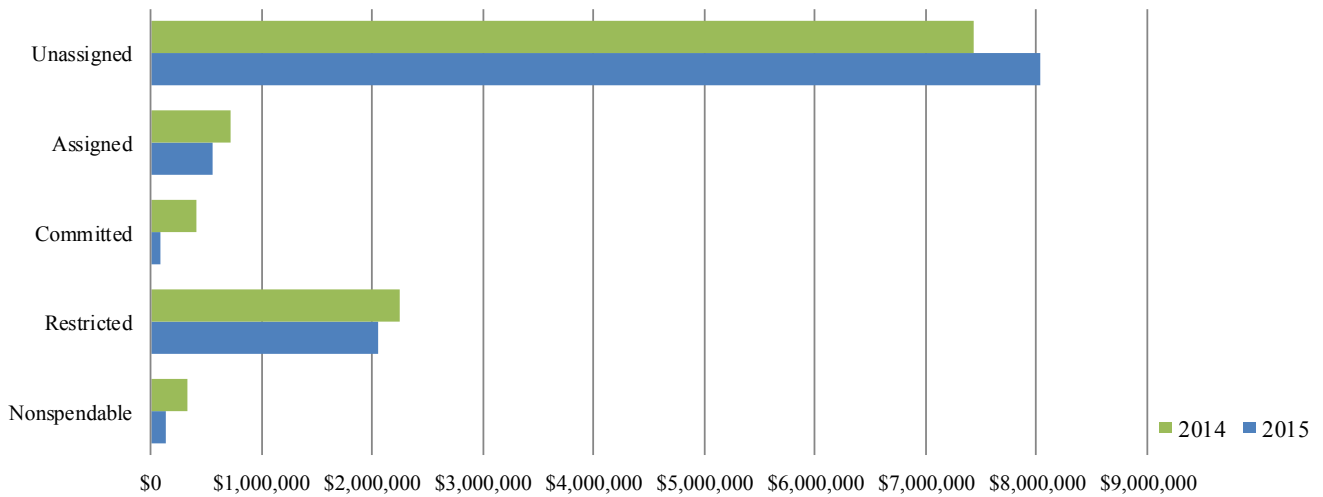
The County Grant is reported as a major governmental fund, because it represents a material percentage of the total revenue and expenditures of all governmental funds. The result of operations was an increase in fund balance of \$260. This fund was mainly increased through revenues exceeding expenditures in the current year.

All other governmental funds are combined to form the nonmajor governmental fund category. Combined fund balances decreased by \$337,755.

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 \$240,168.

The original General Fund budget planned for expenditures to exceed revenues by \$975,428. However, actual expenditures were \$1,628,173 less than what was budgeted. Since actual revenues exceeded expenditures by \$469,468, the County had an increase in fund balance.

The original Road and Bridge Fund budget planned for expenditures to exceed revenues by \$957,772. However, actual expenditures were \$584,229 more than what was budgeted.

BUDGET FOR 2015 – 2016 AND LATER

For the FY 2016, the County adopted a property tax rate of \$.31895 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 2016 budget, the County has budgeted \$300,000 to contribute to the 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. The County has a lease purchase program in which the County sells back old motorgraders and acquires new ones. This program occurs every three years and is an ongoing capital management program. With the exception of this recurring lease purchases, the County has not issued any new debt and continues to pay down current debt.

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

**BASIC
FINANCIAL STATEMENTS**

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HARRISON COUNTY, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2015

	Primary Government	Component Unit
	Governmental Activities	Industrial Development Authority
ASSETS		
Cash and cash equivalents	\$ 11,937,335	\$ 163,387
Investments	-	1,733,417
Receivables, net:		
Property taxes	1,533,930	-
Accounts receivable	314,525	-
Due from other governments	648,750	-
Due from agency funds	518,953	-
Prepaid expenditures	142,121	-
Capital assets, net of accumulated depreciation		
Land, buildings and improvements	23,299,643	-
Autos and trucks	4,636,533	-
Heavy equipment	4,705,366	-
Other equipment, furniture and fixtures	1,054,117	-
Construction in progress	147,405	-
Infrastructure	11,546,396	-
Accumulated depreciation	(22,236,478)	-
Total capital assets	23,152,982	-
Total assets	38,248,596	1,896,804
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	1,495,121	-
Total deferred outflows of resources	1,495,121	-
LIABILITIES		
Accounts payable	822,732	-
Accrued wages payable	388,195	-
Accrued interest payable	61,665	-
Unearned revenue	1,382,004	-
Other liabilities:		
Due within one year	1,262,483	-
Due in more than one year	22,751,390	-
Total liabilities	26,668,469	-
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	318,586	-
Total deferred inflows of resources	318,586	-
NET POSITION		
Net investment in capital assets	17,371,467	-
Restricted for:		
Debt service	15,251	-
Capital projects	364,826	-
Special purposes	1,628,952	-
Unrestricted	(6,623,834)	1,881,572
Total net position	\$ 12,756,662	\$ 1,881,572

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

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HARRISON COUNTY, TEXAS

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2015

				Changes Net Position	Component Unit
	Program Revenues			Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
PRIMARY GOVERNMENT					
General administration	\$ 7,088,950	\$ 2,008,119	\$ 14,886	\$(5,065,945)	\$ -
Judicial	1,629,963	1,192,018	24,063	(413,882)	-
Legal	1,591,311	13,416	113,080	(1,464,815)	-
Elections	309,929	3,400	37,194	(269,335)	-
Financial administration	1,604,853	1,019,397	-	(585,456)	-
Public facilities	762,376	-	79,537	(682,839)	-
Public safety	9,508,122	417,885	852,636	(8,237,601)	-
Public transportation	2,695,851	310,905	256,454	(2,128,492)	-
Health and welfare	1,240,519	-	23,217	(1,217,302)	-
Culture and recreation	74,511	-	-	(74,511)	-
Conservation	173,548	-	7,358	(166,190)	-
Preservation and restoration	338,517	-	-	(338,517)	-
Public service	124,950	-	36,657	(88,293)	-
Interest and other charges	220,063	-	-	(220,063)	-
Total primary government governmental activities	<u>27,363,463</u>	<u>4,965,140</u>	<u>1,445,082</u>	<u>(20,953,241)</u>	<u>-</u>
COMPONENT UNIT					
Industrial Development Authority	\$ <u>16,641</u>	\$ <u>-</u>	\$ <u>-</u>	<u>-</u>	<u>(16,641)</u>
General revenues					
Property taxes				19,683,320	-
Miscellaneous taxes				41,832	-
Investment earnings				60,447	12,940
Miscellaneous				462,170	-
Total general revenues				<u>20,247,769</u>	<u>12,940</u>
Change in net position				(705,472)	(3,701)
Net position, beginning				<u>15,336,830</u>	<u>1,885,273</u>
Prior period adjustment				<u>(1,874,696)</u>	<u>-</u>
Net position, ending				<u>\$ 12,756,662</u>	<u>\$ 1,881,572</u>

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

HARRISON COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	General	Road and Bridge	County Grant	Other Governmental	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 9,202,186	\$ 334,435	\$ -	\$ 2,158,009	\$ 11,694,630
Receivables, net					
Property taxes	1,533,930	-	-	-	1,533,930
Accounts receivable	235,840	5,967	-	3,786	245,593
Due from other governments	159,588	173,012	289,619	26,531	648,750
Due from other funds	511,767	187,682	-	67,295	766,744
Prepaid expenditures	141,231	-	-	890	142,121
Total assets	<u>11,784,542</u>	<u>701,096</u>	<u>289,619</u>	<u>2,256,511</u>	<u>15,031,768</u>
LIABILITIES					
Accounts payable	329,853	81,311	1,899	100,653	513,716
Accrued wages payable	275,709	63,524	-	48,962	388,195
Due to other funds	-	-	247,791	-	247,791
Unearned revenue	1,373,022	-	-	8,982	1,382,004
Total liabilities	<u>1,978,584</u>	<u>144,835</u>	<u>249,690</u>	<u>158,597</u>	<u>2,531,706</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	1,435,561	-	-	-	1,435,561
Unavailable revenue-court fines	192,268	-	-	-	192,268
Total deferred inflows of resources	<u>1,627,829</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,627,829</u>
Fund balances					
Nonspendable	141,231	-	-	890	142,121
Restricted					
Debt service	-	-	-	57,087	57,087
Capital projects	-	-	-	364,826	364,826
Bail bond services	-	-	-	124,434	124,434
Airport maintenance	-	-	-	153,590	153,590
Court technology and security	-	-	-	422,814	422,814
VIT escrow	-	-	-	89,516	89,516
Law library	-	-	-	68,582	68,582
Grants	-	-	39,929	431,441	471,370
District Attorney services	-	-	-	57,639	57,639
Records management and preservation	-	-	-	76,752	76,752
Other	-	-	-	164,255	164,255
Committed for:					
Jury services	-	-	-	32,991	32,991
Juvenile services	-	-	-	53,097	53,097
Assigned for:					
Road and bridge equipment	-	556,261	-	-	556,261
Unassigned	8,036,898	-	-	-	8,036,898
Total fund balances	<u>8,178,129</u>	<u>556,261</u>	<u>39,929</u>	<u>2,097,914</u>	<u>10,872,233</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 11,784,542</u>	<u>\$ 701,096</u>	<u>\$ 289,619</u>	<u>\$ 2,256,511</u>	<u>\$ 15,031,768</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, 2015

	General	Road and Bridge	County Grant	Other Governmental	Total Governmental Funds
REVENUES					
Ad valorem taxes	\$ 15,729,684	\$ 1,527,252	\$ -	\$ 2,439,662	\$ 19,696,598
Miscellaneous taxes	41,832	-	-	-	41,832
Licenses and permits	91,355	1,023,784	-	2,150	1,117,289
Fines and forfeitures	22,401	883,242	-	785	906,428
Intergovernmental	164,880	256,454	458,780	159,141	1,039,255
Charges for services	2,304,042	245,362	-	811,431	3,360,835
Investment earnings	41,972	7,217	260	9,173	58,622
Miscellaneous	347,600	3,926	-	24,789	376,315
Total revenues	<u>18,743,766</u>	<u>3,947,237</u>	<u>459,040</u>	<u>3,447,131</u>	<u>26,597,174</u>
EXPENDITURES					
Current expenditures:					
General administration	4,125,663	2,253,952	-	524,834	6,904,449
Judicial	1,252,121	-	-	343,313	1,595,434
Legal	1,522,577	-	4,255	47,120	1,573,952
Elections	200,393	-	-	98,657	299,050
Financial administration	1,578,513	-	-	-	1,578,513
Public facilities	739,642	-	-	-	739,642
Public transportation	-	2,933,181	-	26,371	2,959,552
Public safety	7,050,151	-	358,843	1,380,520	8,789,514
Health and welfare	1,149,276	-	85,583	-	1,234,859
Culture and recreation	68,387	-	-	-	68,387
Conservation	165,867	-	-	-	165,867
Public service	124,950	-	-	-	124,950
Capital outlay	214,327	454,731	10,099	20,993	700,150
Debt service:					
Principal	54,581	-	-	1,221,539	1,276,120
Interest and other charges	27,850	-	-	171,539	199,389
Total expenditures	<u>18,274,298</u>	<u>5,641,864</u>	<u>458,780</u>	<u>3,834,886</u>	<u>28,209,828</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>469,468</u>	<u>(1,694,627)</u>	<u>260</u>	<u>(387,755)</u>	<u>(1,612,654)</u>
OTHER FINANCING SOURCES (USES)					
Issuance of notes payable	-	714,000	-	-	714,000
Sale of capital assets	419	617,013	-	-	617,432
Operating transfer in	-	-	-	51,074	51,074
Operating transfers out	(50,000)	-	-	(1,074)	(51,074)
Total other financing sources (uses)	<u>(49,581)</u>	<u>1,331,013</u>	<u>-</u>	<u>50,000</u>	<u>1,331,432</u>
NET CHANGE IN FUND BALANCES	419,887	(363,614)	260	(337,755)	(281,222)
FUND BALANCES, BEGINNING	<u>7,758,242</u>	<u>919,875</u>	<u>39,669</u>	<u>2,435,669</u>	<u>11,153,455</u>
FUND BALANCES, ENDING	<u>\$ 8,178,129</u>	<u>\$ 556,261</u>	<u>\$ 39,929</u>	<u>\$ 2,097,914</u>	<u>\$ 10,872,233</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, 2015

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

Total fund balances of governmental funds	\$ 10,872,233
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	23,152,982
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.	2,621
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,859,128
Long-term liabilities, including bonds payable and the net pension liability, are not due and payable in the current period and therefore not reported in the funds.	(<u>23,130,302</u>)
Net position of governmental activities	\$ <u><u>12,756,662</u></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, 2015

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

Net change in fund balances - total governmental funds \$(281,222)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current year.

Capital outlay	\$ 1,930,571	
Depreciation expense	<u>(1,849,844)</u>	80,727

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net position. 1,275,275

The issuance of debt has no effect on the governmental funds. (714,000)

Revenues in the statement of activities that do not provide current financial resources and are not reported as revenue in the funds. (13,585)

Interest expense on long-term debt and contractual obligations is not accrued in the governmental funds. (19,829)

The net effect of various sales and disposals of capital assets is to decrease net assets. (531,577)

Delinquent property taxes receivable which do not provide current financial resources are not reported as revenue in the funds. (13,278)

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. (3,196)

Pension costs and 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. (294,834)

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. (189,953)

Changes in net position of governmental activities \$(705,472)

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

HARRISON COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Ad valorem taxes	\$ 15,725,585	\$ 15,725,585	\$ 15,729,684	\$ 4,099
Miscellaneous taxes	30,000	30,000	41,832	11,832
Licenses, permits and fees	123,000	123,000	91,355	(31,645)
Intergovernmental	160,168	162,292	164,880	2,588
Fines and forfeitures	39,075	39,075	22,401	(16,674)
Charges for services	2,348,315	2,348,315	2,304,042	(44,273)
Investment earnings	30,512	30,512	41,972	11,460
Miscellaneous	230,220	230,220	347,600	117,380
Total revenues	<u>18,686,875</u>	<u>18,688,999</u>	<u>18,743,766</u>	<u>54,767</u>
EXPENDITURES				
General administration	5,116,807	4,789,290	4,125,663	663,627
Judicial	1,325,107	1,326,866	1,252,121	74,745
Legal	1,287,226	1,581,312	1,522,577	58,735
Elections	199,246	227,847	200,393	27,454
Financial administration	1,623,890	1,623,890	1,578,513	45,377
Public facilities	725,148	739,642	739,642	-
Public safety	7,324,658	7,334,723	7,050,151	284,572
Health and welfare	1,600,816	1,595,896	1,149,276	446,620
Culture and recreation	62,100	68,700	68,387	313
Conservation	184,923	186,923	165,867	21,056
Public service	129,950	129,950	124,950	5,000
Capital outlay	-	215,000	214,327	673
Debt service				
Principal	54,581	54,581	54,581	-
Interest and other charges	27,851	27,851	27,850	1
Total expenditures	<u>19,662,303</u>	<u>19,902,471</u>	<u>18,274,298</u>	<u>1,628,173</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(975,428)</u>	<u>(1,213,472)</u>	<u>469,468</u>	<u>1,682,940</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	30,000	30,000	419	(29,581)
Operating transfers out	<u>(200,000)</u>	<u>(200,000)</u>	<u>(50,000)</u>	<u>150,000</u>
Total other financing sources (uses)	<u>(170,000)</u>	<u>(170,000)</u>	<u>(49,581)</u>	<u>120,419</u>
NET CHANGE IN FUND BALANCES	<u>(1,145,428)</u>	<u>(1,383,472)</u>	<u>419,887</u>	<u>1,803,359</u>
FUND BALANCES, BEGINNING	<u>7,758,242</u>	<u>7,758,242</u>	<u>7,758,242</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 6,612,814</u>	<u>\$ 6,374,770</u>	<u>\$ 8,178,129</u>	<u>\$ 1,803,359</u>

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

HARRISON COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Road and Bridge Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Ad valorem taxes	\$ 1,525,890	\$ 1,525,890	\$ 1,527,252	\$ 1,362
Licenses, permits and fees	1,138,960	1,138,960	1,023,784	(115,176)
Fines and forfeitures	1,015,000	1,015,000	883,242	(131,758)
Intergovernmental	79,000	79,000	256,454	177,454
Charges for services	200,000	288,362	245,362	(43,000)
Investment earnings	2,150	2,150	7,217	5,067
Miscellaneous	<u>500</u>	<u>500</u>	<u>3,926</u>	<u>3,426</u>
Total revenues	<u>3,961,500</u>	<u>4,049,862</u>	<u>3,947,237</u>	<u>(102,625)</u>
EXPENDITURES				
General administration	2,265,272	2,266,273	2,253,952	12,321
Public transportation	2,199,269	2,336,631	2,933,181	(596,550)
Capital outlay	<u>454,731</u>	<u>454,731</u>	<u>454,731</u>	<u>-</u>
Total expenditures	<u>4,919,272</u>	<u>5,057,635</u>	<u>5,641,864</u>	<u>(584,229)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(957,772)</u>	<u>(1,007,773)</u>	<u>(1,694,627)</u>	<u>(686,854)</u>
OTHER FINANCING SOURCES (USES)				
Loan and bond proceeds	-	-	714,000	714,000
Sale of capital assets	615,000	615,000	617,013	2,013
Operating transfers in	<u>150,000</u>	<u>150,000</u>	<u>-</u>	<u>(150,000)</u>
Total other financing sources (uses)	<u>765,000</u>	<u>765,000</u>	<u>1,331,013</u>	<u>566,013</u>
NET CHANGE IN FUND BALANCES	<u>(192,772)</u>	<u>(242,773)</u>	<u>(363,614)</u>	<u>(120,841)</u>
FUND BALANCES, BEGINNING	<u>919,875</u>	<u>919,875</u>	<u>919,875</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 727,103</u>	<u>\$ 677,102</u>	<u>\$ 556,261</u>	<u>\$(120,841)</u>

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

HARRISON COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
COUNTY GRANT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	County Grant Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,318,008	\$ 1,334,343	\$ 458,780	\$(875,563)
Investment earnings	-	-	260	260
Total revenues	<u>1,318,008</u>	<u>1,334,343</u>	<u>459,040</u>	<u>(875,303)</u>
EXPENDITURES				
Legal	13,839	13,839	4,255	9,584
Public safety	707,134	723,469	358,843	364,626
Health and welfare	403,090	403,090	85,583	317,507
Capital outlay	<u>193,945</u>	<u>193,945</u>	<u>10,099</u>	<u>183,846</u>
Total expenditures	<u>1,318,008</u>	<u>1,334,343</u>	<u>458,780</u>	<u>875,563</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>260</u>	<u>260</u>
FUND BALANCES, BEGINNING	<u>39,669</u>	<u>39,669</u>	<u>39,669</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 39,669</u>	<u>\$ 39,669</u>	<u>\$ 39,929</u>	<u>\$ 260</u>

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

HARRISON COUNTY, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

SEPTEMBER 30, 2015

	<u>Governmental Activities Internal Service Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 242,705
Accounts receivable	<u>68,932</u>
Total assets	<u>311,637</u>
LIABILITIES	
Current liabilities:	
Accounts payable	<u>309,016</u>
Total liabilities	<u>309,016</u>
NET POSITION	
Unrestricted	<u>2,621</u>
Total net position	<u>\$ 2,621</u>

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

HARRISON COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Governmental Activities
	Internal Service Fund
OPERATING REVENUES	
Charges for services	\$ 2,390,795
Total operating revenues	<u>2,390,795</u>
OPERATING EXPENSES	
Benefit payments	<u>2,582,573</u>
Total operating expenses	<u>2,582,573</u>
OPERATING GAIN (LOSS)	<u>(191,778)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	<u>1,825</u>
Total nonoperating revenues (expenses)	<u>1,825</u>
CHANGE IN NET POSITION	<u>(189,953)</u>
TOTAL NET POSITION, BEGINNING	<u>192,574</u>
TOTAL NET POSITION, ENDING	<u>\$ 2,621</u>

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

HARRISON COUNTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Governmental Activities
	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from premiums and contributions	\$ 2,368,415
Payments for claims	(2,468,720)
Net cash provided by operating activities	<u>(100,305)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>1,825</u>
Net cash provided by investing activities	<u>1,825</u>
NET INCREASE IN CASH	(98,480)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>341,185</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>242,705</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating loss	(191,778)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
(Increase) decrease in receivables	(22,380)
Increase (decrease) in payables	<u>113,853</u>
Total adjustments	<u>91,473</u>
Net cash provided by operating activities	<u><u>\$ (100,305)</u></u>

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

HARRISON COUNTY, TEXAS

STATEMENT OF NET POSITION

FIDUCIARY FUNDS

SEPTEMBER 30, 2015

	<u>OPEB Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 500,000	\$ 5,370,079
Investments	<u>-</u>	<u>1,939,847</u>
Total assets	<u>500,000</u>	<u>7,309,926</u>
LIABILITIES		
Current liabilities:		
Accounts payable	-	107,473
Due to other governments	-	1,437,934
Due to other funds	-	518,953
Unearned revenue	-	349,032
Court ordered funds	-	3,060,669
Court ordered trust and prisoner funds	<u>-</u>	<u>1,835,865</u>
Total liabilities	<u>-</u>	<u>7,309,926</u>
NET POSITION		
Held in trust for other postemployment benefits	<u>\$ 500,000</u>	<u>\$ -</u>

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

HARRISON COUNTY, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2015

	<u>OPEB Trust Fund</u>
ADDITIONS	
Employer contributions	\$ <u>500,000</u>
Total additions	<u>500,000</u>
DEDUCTIONS	
Total deductions	<u>-</u>
CHANGE IN NET POSITION	500,000
NET POSITION, BEGINNING	<u>-</u>
NET POSITION, ENDING	<u>\$ 500,000</u>

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

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HARRISON COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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.

The **Other Post-Employment Benefits (OPEB) Trust Fund** is used to account for the County's other post-employment benefit trust fund, which accumulated resources for the payment of medical costs associated with the County's other post-employment benefit plan.

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, 2015, the County's investments were with its depository bank, Texas Term and Texas Class. Texas Term and Texas Class are "public funds investment pools," 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.

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 the following items that qualify for reporting in this category:

- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets – The difference is deferred and amortized over a closed five year period.

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 two types of items that qualify for reporting in this category. Accordingly, these items, deferred inflows related to pensions and unavailable revenue, are reported only in the governmental activities statement of net position and the governmental funds balance sheet respectively. The governmental activities report deferred inflows related to pensions. The governmental funds report unavailable revenues from two sources: property taxes and court fines. These amounts are deferred and recognized as an inflow of resources in that period that the amounts become available.

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 and law enforcement 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expenses, information about the Fiduciary Net Position of the Texas County and District Retirement System (TCDRS) and additions to/deductions from TCERS's Fiduciary Net Position have been determined on the same basis as they are reported by TCERS. For this purpose, plan contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position Flow Assumptions

Sometimes the County will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the County's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

Sometimes the County will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the County's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

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.

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

The GASB has issued Statement No. 68, “*Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27,*” which became effective for fiscal year 2015. This statement changes the focus of pension accounting for employers from whether they are responsibly funding their plan over time to a point-in-time liability or asset that is reflected in the employer’s financial statements for any actuarially unfunded portion of pension benefits earned to date.

The implementation of Statement No. 68 resulted in restatement of beginning net position for the recording for the beginning net pension liability in the amount of \$2,902,266, and the beginning deferred outflow for contributions made after the measurement date in the amount of \$1,027,570. These items cumulatively resulted in a restatement of governmental activities net position in the amount of \$1,874,696.

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, 2015, 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, 2015, the County had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Primary government:		
Texas Term	\$ 4,350,445	1
Texas Class	<u>5,305,962</u>	53
Total fair value	<u>\$ 9,656,407</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, 2015, 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
Texas Class	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 \$1,324,754 of primarily U.S. corporate stock and \$408,663 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 3.66 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 or better.

Receivables

Receivables at September 30, 2015, for the County's individual major funds and aggregate nonmajor funds, including the applicable allowance for uncollectibles, were as follows:

	<u>General</u>	<u>Road and Bridge</u>	<u>County Grant</u>	<u>Nonmajor</u>	<u>Total</u>
Receivables:					
Delinquent taxes	\$ 2,180,553	\$ -	\$ -	\$ -	\$ 2,180,553
Accounts receivable	1,966,253	5,967	-	3,786	1,976,006
Due from other governments	<u>159,588</u>	<u>173,012</u>	<u>289,619</u>	<u>26,531</u>	<u>648,750</u>
Total receivables	<u>4,306,394</u>	<u>178,979</u>	<u>289,619</u>	<u>30,317</u>	<u>4,805,309</u>
Less: allowance for uncollectibles	<u>2,377,036</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,377,036</u>
Net total receivables	<u>\$ 1,929,358</u>	<u>\$ 178,979</u>	<u>\$ 289,619</u>	<u>\$ 30,317</u>	<u>\$ 2,428,273</u>

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

Capital Assets

Capital asset activity for governmental activities for the year ended September 30, 2015, 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	147,405	-	-	147,405
Total assets not being depreciated	<u>743,849</u>	<u>-</u>	<u>-</u>	<u>743,849</u>
Capital assets, being depreciated:				
Buildings and improvements	22,703,199	-	-	22,703,199
Autos and trucks	4,418,560	253,610	(35,637)	4,636,533
Heavy equipment	3,833,039	1,650,245	(777,918)	4,705,366
Equipment, furniture and fixtures	1,042,618	16,896	(5,397)	1,054,117
Infrastructure	11,536,576	9,820	-	11,546,396
Total capital assets being depreciated	<u>43,533,992</u>	<u>1,930,571</u>	<u>(818,952)</u>	<u>44,645,611</u>
Less accumulated depreciation:				
Buildings and improvements	5,027,688	719,992	-	5,747,680
Autos and trucks	3,168,821	393,682	(35,637)	3,526,866
Heavy equipment	2,292,537	358,171	(246,341)	2,404,367
Equipment, furniture and fixtures	824,001	46,027	(5,397)	864,631
Infrastructure	9,360,962	331,972	-	9,692,934
Total accumulated depreciation	<u>20,674,009</u>	<u>1,849,844</u>	<u>(287,375)</u>	<u>22,236,478</u>
Total capital assets being depreciated, net	<u>22,859,983</u>	<u>80,727</u>	<u>(531,577)</u>	<u>22,409,133</u>
Governmental activities capital assets, net	<u>\$ 23,603,832</u>	<u>\$ 80,727</u>	<u>\$ (531,577)</u>	<u>\$ 23,152,982</u>

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

Governmental activities:	
General administration	\$ 12,177
Judicial	14,400
Legal	9,779
Elections	7,269
Financial administration	2,744
Public safety	574,995
Public transportation	880,655
Health and welfare	870
Culture and recreation	6,124
Preservation and restoration	338,517
Conservation	<u>2,314</u>
Total depreciation expense	<u>\$ 1,849,844</u>

Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2015, is as follows:

Due to/from Other Funds

	Payable fund		
	County Grant	Agency	Total
Receivable fund:			
General	\$ 247,791	\$ 263,976	\$ 511,767
Road and Bridge	-	187,682	187,682
Other Governmental	-	67,295	67,295
	<u> </u>	<u> </u>	<u> </u>
Total	\$ <u>247,791</u>	\$ <u>518,953</u>	\$ <u>766,744</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

	Transfers in	
	Other Governmental	Total
Transfers out:		
General	\$ 50,000	\$ 50,000
Other governmental	1,074	1,074
	<u> </u>	<u> </u>
Total	\$ <u>51,074</u>	\$ <u>51,074</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 2015, 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, 2015. 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>\$1,188,022</u>

Long-term Debt

Schedule of Contractual Obligations

Series and Original Issue Amount	Final Maturity	Interest Rate	Outstanding 09/30/2015
Certificates of Obligations - 2006			
\$ 5,350,000	02/15/23	4.00% - 4.150%	\$ 3,100,000
Secured Equipment - Note #xxxx009			
1,050,000	09/25/28	3.03%	882,591
Secured Equipment - Note #xxxx010			
188,631	11/27/19	3.19%	138,957
Secured Equipment - Note #xxxx011			
150,007	04/29/20	3.19%	110,504
Secured Equipment - Note #xxxx012			
230,785	07/31/16	2.75%	57,281
Secured Equipment - Note #xxxx013			
723,601	11/17/17	2.14%	723,601
Secured Equipment - Note #xxxx014			
714,000	5/8/2018	2.19%	<u>714,000</u>
Total			<u>\$ 5,726,934</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 #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 General 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.

Secured Equipment Loan #xxxx014, BancorpSouth Equipment Finance, Hattiesburg, Mississippi – On May 05, 2015, Harrison County executed a loan agreement to borrow \$714,000 in order to finance the entire purchase of new equipment used in the Road and Bridge Department. The stated interest rate is 2.19%. 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	\$ 3,425,000	\$ -	\$ 325,000	\$ 3,100,000	\$ 325,000
Notes payable	2,863,209	714,000	950,275	2,626,934	629,178
Compensated absences	1,230,025	39,801	36,605	1,233,221	308,305
Net pension liability	2,902,266		82,334	2,819,932	
OPEB payable	13,707,653	526,133	-	14,233,786	-
	<u>\$ 24,128,153</u>	<u>\$ 1,279,934</u>	<u>\$ 1,394,214</u>	<u>\$ 24,013,873</u>	<u>\$ 1,262,483</u>

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

	Principal	Interest	Total
General obligation debt	\$ 3,100,000	\$ 533,716	\$ 3,633,716
Notes payable	<u>2,626,934</u>	<u>278,777</u>	<u>2,905,711</u>
	<u>\$ 5,726,934</u>	<u>\$ 812,493</u>	<u>\$ 6,539,427</u>

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

Year Ending September 30,	Principal	Interest	Total
2016	\$ 954,178	\$ 186,498	\$ 1,140,676
2017	935,391	157,793	1,093,184
2018	974,210	129,473	1,103,683
2019	488,060	100,318	588,378
2020	516,617	81,260	597,877
2021-2025	1,622,974	145,365	1,768,339
2026-2028	<u>235,504</u>	<u>11,786</u>	<u>247,290</u>
Total	<u>\$ 5,726,934</u>	<u>\$ 812,493</u>	<u>\$ 6,539,427</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, 2015. 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 2015 have been reported as expenditures in the General Fund and Special Revenue Funds.

During the year ended September 30, 2015, 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 2015. 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, 2015. 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
09/30/2015	\$ 195,163	\$ 2,658,232	\$(2,544,379)	\$ 309,016
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

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.

Defined Benefit Pension Plan

Plan Description

The County participates in 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 nontraditional defined benefit pension plans. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tcdrs.org.

All eligible employees of the County are required to participate in TCDRS.

Benefits Provided

TCDRS provides retirement, disability and death benefits for all of its fulltime employees. Benefit provisions are adopted by the governing body of the County, within the options available in the state statutes governing TCDRS.

Members can retire at age 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 vested after eight years of service, 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 resulting benefits can be expected to 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.

Employees covered by benefit terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	215
Inactive employees entitled to but not yet receiving benefits	190
Active employees	<u>318</u>
	<u><u>723</u></u>

Contributions

The contribution rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employee gross earnings, as adopted by the employer's governing body. Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer's plan. Under the state law governing TCDRS, the contribution rate for each entity is determined annually by the actuary and approved by the TCDRS Board of Trustees. The replacement life entry age actuarial cost method is used in determining the contribution rate. The actuarially determined rate is the estimated amount necessary to fund benefits in an orderly manner for each participant over his or her career so that sufficient funds are accumulated by the time benefit payments begin, with an additional amount to finance any unfunded accrued liability.

Employees for the County were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the County were 12.11% and 12.06% in calendar years 2014 and 2015, respectively. The County's contributions to TCDRS for the year ended September 30, 2015, were \$1,365,098, and were equal to the required contributions.

Net Pension Liability

The County's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.5% per year
Investment rate of return	8.1%, net of pension plan investment expense, including inflation

Mortality rates for active members, retirees, and beneficiaries were based on the following:

Depositing members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both with the projection scale AA.
Service retirees, beneficiaries and non-depositing members	The RP-2000 Combined Mortality Table with the projection scale AA, with a one-year set-forward for males and no age adjustment for females.
Disabled retirees	RP-2000 Disabled Mortality Table for males with no age adjustment and RP-2000 Disabled Mortality Table for females with a two-year set-forward, both with the projection scale AA.

The actuarial assumptions that determined the total pension liability as of December 31, 2014, were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2012, except where required to be different by GASB 68.

The long-term expected rate of return on pension plan investments is 8.10%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees.

The long-term expected rate of return on TCDRS is determined by adding inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information below are based on January 2015 information for a 7 to 10 year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. The target allocation and best estimates of geometric real rates return for each major assets class are summarized in the following table:

Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected minus Inflation) ⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	16.50%	5.35%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	12.00%	8.35%
Global Equities	MSCI World (net) Index	1.50%	5.65%
International Equities - Developed	50% MSCI World Ex USA (net) + 50% MSCI World ex USA 100% Hedged to USD (net) Index	11.00%	5.35%
International Equities - Emerging	50% MSCI EM Standard (net) Index + 50% MSCI EM 100% Hedged to USD (net) Index	9.00%	6.35%
Investment-Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	0.55%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.75%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	5.00%	5.54%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	2.00%	5.80%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	6.75%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	4.00%
Commodities	Bloomberg Commodities Index	2.00%	-0.20%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	5.30%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁴⁾	3.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	25.00%	5.15%

⁽¹⁾ Target asset allocation adopted at the April 2015 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return in addition to assumed inflation of 1.7% per Cliffwater's 2015 capital market assumptions.

⁽³⁾ Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

⁽⁴⁾ Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.1%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2013	\$ 50,216,737	\$ 47,314,471	\$ 2,902,266
Changes for the year:			
Service cost	1,413,572	-	1,413,572
Interest on total pension liability ⁽¹⁾	4,023,176	-	4,023,176
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	(424,782)	-	(424,782)
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(170,476)	(170,476)	-
Benefit payments	(2,360,642)	(2,360,642)	-
Administrative expenses	-	(37,419)	37,419
Member contributions	-	780,821	(780,821)
Net investment income	-	3,275,031	(3,275,031)
Employer contributions	-	1,350,827	(1,350,827)
Other ⁽²⁾	-	(274,959)	274,959
Balance at 12/31/2014	<u>\$ 52,697,585</u>	<u>\$ 49,877,654</u>	<u>\$ 2,819,932</u>

⁽¹⁾ Reflects the change in the liability due to the time value of money. TCDRS does not charge fees

⁽²⁾ Relates to allocation of system-wide items.

Sensitivity Analysis

The following presents the net pension liability of the County, calculated using the discount rate of 8.1%, as well as what the County’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.1%) or 1-percentage-higher (9.1%) than the current rate:

	1% Decrease 7.1%	Current Discount Rate 8.1%	1% Increase 9.1%
Total pension liability	\$ 59,036,598	\$ 52,697,587	\$ 47,451,841
Fiduciary net position	<u>49,877,654</u>	<u>49,877,655</u>	<u>49,877,654</u>
Net pension liability/(asset)	<u>\$ 9,158,944</u>	<u>\$ 2,819,932</u>	<u>\$ (2,425,813)</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s Fiduciary Net Position is available in a separately-issued TCDRS financial report. The report may be obtained on the Internet at www.tcdrs.org.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 3015, the County recognized pension expense of \$1,133,806.

At September 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual economic experience	\$ 318,586	\$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	453,274
Contributions subsequent to the measurement date	<u>-</u>	<u>1,041,847</u>
Total	<u>\$ 318,586</u>	<u>\$ 1,495,121</u>

\$134,688 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ended September 30,		
2016	\$	7,123
2017		7,123
2018		7,123
2019		113,319

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)	\$ 1,795,936
Interest on Net OPEB Obligation	705,944
Adjustment to the ARC	(884,424)
Annual OPEB Cost	1,617,456
Employer Contributions with Interest	(1,091,323)
Increase (Decrease) in Net OPEB Obligation	526,133
Net OPEB Obligation, beginning of year	<u>13,707,653</u>
Net OPEB Obligation, end of year	<u>\$ 14,233,786</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
9/30/2015	\$ 1,617,456	\$ 1,091,323	67%	\$ 14,233,786
9/30/2014	1,858,190	736,973	40%	13,707,653
9/30/2013	1,876,305	672,682	36%	12,586,436

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
12/31/2014	\$ -	\$ 17,432,406	\$ 17,432,406	- %	\$ 5,945,774	293.2%

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	12/31/2014	12/31/2012
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	5.15	4.5%
Payroll Growth Rate	3%	3%
Projected Salary Increases	4%	4%
General Inflation Rate	2.5%	3%
Healthcare cost trend rate	10%	10%
The number of active members is assumed to remain constant in the future		

**REQUIRED
SUPPLEMENTARY INFORMATION**

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HARRISON COUNTY, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Plan Year Ended December 31	<u>2014</u>
Total Pension Liability	
Service Cost	\$ 1,413,572
Interest total pension liability	4,023,176
Effect of plan changes	-
Effect of assumption changes or inputs	-
Effect of economic/demographic (gains) or losses	(424,782)
Benefit payments/refunds of contributions	(2,531,118)
Net change in total pension liability	2,480,850
Total pension liability - beginning	<u>50,216,737</u>
Total pension liability - ending (a)	<u><u>\$ 52,697,587</u></u>
Plan Fiduciary Net Position	
Employer contributions	\$ 1,350,827
Member contributions	780,821
Investment income net of investment expenses	3,275,031
Benefit payments refunds of contributions	(2,531,118)
Administrative expenses	(37,419)
Other	<u>(274,959)</u>
Net change in plan fiduciary net position	2,563,184
Plan fiduciary net position - beginning	<u>47,314,471</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 49,877,655</u></u>
Net pension liability - ending (a) - (b)	<u><u>\$ 2,819,932</u></u>
Fiduciary net position as a percentage of total pension liability	94.65%
Pensionable covered payroll	\$ 11,154,589
Net pension liability as a percentage of covered payroll	25.28%

HARRISON COUNTY, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Fiscal Year Ended September 30,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	\$ 1,311,752	\$ 1,311,752	\$ -	\$ 10,997,967	11.9%
2015	1,365,098	1,365,098	-	11,308,155	12.1%

HARRISON COUNTY, TEXAS

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Valuation Timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry age normal
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	0.03
Salary Increases	Annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee.
Investment Rate of Return	0.081 Cost-of-Living Adjustments are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustment is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Cost-of Living Adjustments	
Retirement Age	Experience-based table of rates based on a study of the period 2009-2012. New employees are assumed to replace any terminated members and have similar entry ages.
Turnover	
Mortality	
Depositing members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both with the projection scale AA.
Service retirees, beneficiaries and non-depositing members	The RP-2000 Combined Mortality Table with the projection scale AA, with a one-year set-forward for males and no age adjustment for females.
Disabled retirees	RP-2000 Disabled Mortality Table for males with no age adjustment and RP-2000 Disabled Mortality Table for females with a two-year set-forward, both with the projection scale AA.
Other Information	There were no benefit changes during the year.

HARRISON COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b)	Unfunded AAL (UAAL) (b-a)	Covered Payroll (c)	UAAL as a Percentage of of Covered Payroll (b-a)/(c)
12/31/2010	\$ -	\$ 29,751,427	0.0%	\$ 29,751,427	\$ 10,418,248	285.57%
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%
12/31/2014	-	17,432,406	0.0%	17,432,406	5,945,774	293.19%

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

**COMBINING AND INDIVIDUAL
FUND FINANCIAL STATEMENTS**

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HARRISON COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,732,376	\$ 50,627	\$ 375,006	\$ 2,158,009
Receivables:				
Accounts receivable	3,786	-	-	3,786
Due from other governments	26,531	-	-	26,531
Due from other funds	60,555	6,460	280	67,295
Prepaid expenditures	<u>890</u>	<u>-</u>	<u>-</u>	<u>890</u>
Total assets	<u>1,824,138</u>	<u>57,087</u>	<u>375,286</u>	<u>2,256,511</u>
LIABILITIES				
Liabilities:				
Accounts payable	90,193	-	10,460	100,653
Accrued wages payable	48,962	-	-	48,962
Unearned revenue	<u>8,982</u>	<u>-</u>	<u>-</u>	<u>8,982</u>
Total liabilities	<u>148,137</u>	<u>-</u>	<u>10,460</u>	<u>158,597</u>
Fund balances				
Nonspendable	890	-	-	890
Restricted	1,589,023	57,087	364,826	2,010,936
Committed	<u>86,088</u>	<u>-</u>	<u>-</u>	<u>86,088</u>
Total fund equity	<u>1,676,001</u>	<u>57,087</u>	<u>364,826</u>	<u>2,097,914</u>
Total liabilities and fund equity	<u>\$ 1,824,138</u>	<u>\$ 57,087</u>	<u>\$ 375,286</u>	<u>\$ 2,256,511</u>

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HARRISON COUNTY, TEXAS

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
REVENUES				
Ad valorem taxes	\$ 1,014,884	\$ 1,365,658	\$ 59,120	\$ 2,439,662
Licenses and permits	2,150	-	-	2,150
Intergovernmental	159,141	-	-	159,141
Charges for services	811,431	-	-	811,431
Fines and forfeitures	785	-	-	785
Investment earnings	7,131	633	1,409	9,173
Miscellaneous	24,789	-	-	24,789
Total revenues	2,020,311	1,366,291	60,529	3,447,131
EXPENDITURES				
Current expenditures:				
General administration	439,625	750	84,459	524,834
Judicial	343,313	-	-	343,313
Legal	47,120	-	-	47,120
Elections	98,657	-	-	98,657
Public safety	1,380,520	-	-	1,380,520
Public transportation	26,371	-	-	26,371
Capital outlay	20,993	-	-	20,993
Debt service				
Principal	-	1,221,539	-	1,221,539
Interest and other charges	-	171,539	-	171,539
Total expenditures	2,356,599	1,393,828	84,459	3,834,886
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(336,288)	(27,537)	(23,930)	(387,755)
OTHER FINANCING SOURCES (USES)				
Operating transfer in	51,074	-	-	51,074
Operating transfer out	(1,074)	-	-	(1,074)
Total other financing sources (uses)	50,000	-	-	50,000
NET CHANGE IN FUND BALANCES	(286,288)	(27,537)	(23,930)	(337,755)
FUND BALANCES, BEGINNING	1,962,289	84,624	388,756	2,435,669
FUND BALANCES, ENDING	\$ 1,676,001	\$ 57,087	\$ 364,826	\$ 2,097,914

HARRISON COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

SEPTEMBER 30, 2015

	<u>Jury</u>	<u>Bail Bond Board</u>	<u>Drug Forfeitures</u>	<u>Permanent School Fund</u>	<u>Airport Maintenance</u>	<u>Tax Collector VIT</u>
ASSETS						
Cash and cash equivalents	\$ 33,030	\$ 124,434	\$ 8,783	\$ 96,963	\$ 149,080	\$ 89,008
Receivables:						
Accounts receivable	-	-	-	-	3,494	-
Due from other governments	3,502	-	-	-	2,817	-
Due from other funds	2,490	-	-	-	-	508
Prepaid expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>39,022</u>	<u>124,434</u>	<u>8,783</u>	<u>\$ 96,963</u>	<u>155,391</u>	<u>89,516</u>
LIABILITIES						
Liabilities:						
Accounts payable	1,180	-	-	-	1,801	-
Accrued wages payable	4,851	-	-	-	-	-
Unearned revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>6,031</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,801</u>	<u>-</u>
Fund balances						
Nonspendable	-	-	-	-	-	-
Restricted	-	124,434	8,783	96,963	153,590	89,516
Committed	<u>32,991</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund equity	<u>32,991</u>	<u>124,434</u>	<u>8,783</u>	<u>96,963</u>	<u>153,590</u>	<u>89,516</u>
Total liabilities and fund balances	<u>\$ 39,022</u>	<u>\$ 124,434</u>	<u>\$ 8,783</u>	<u>\$ 96,963</u>	<u>\$ 155,391</u>	<u>\$ 89,516</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>
\$ 305,130	\$ 66,768	\$ 78,142	\$ 406,180	\$ 88,810	\$ 64,229	\$ 24,190
-	-	27	-	-	265	-
-	-	19,093	-	-	1,119	-
1,103	7,175	4,173	32,061	4,966	-	1,361
<u>729</u>	<u>-</u>	<u>161</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>306,962</u>	<u>73,943</u>	<u>101,596</u>	<u>438,241</u>	<u>93,776</u>	<u>65,613</u>	<u>25,551</u>
14,490	5,189	5,438	6,800	-	474	-
-	172	41,418	-	1,995	-	-
-	-	1,482	-	-	7,500	-
<u>14,490</u>	<u>5,361</u>	<u>48,338</u>	<u>6,800</u>	<u>1,995</u>	<u>7,974</u>	<u>-</u>
729	-	161	-	-	-	-
291,743	68,582	-	431,441	91,781	57,639	25,551
-	-	53,097	-	-	-	-
<u>292,472</u>	<u>68,582</u>	<u>53,258</u>	<u>431,441</u>	<u>91,781</u>	<u>57,639</u>	<u>25,551</u>
<u>\$ 306,962</u>	<u>\$ 73,943</u>	<u>\$ 101,596</u>	<u>\$ 438,241</u>	<u>\$ 93,776</u>	<u>\$ 65,613</u>	<u>\$ 25,551</u>

HARRISON COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

SEPTEMBER 30, 2015

	<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	\$ 4	\$ 12,392	\$ 47,495	\$ 26,147	\$ 353
Receivables:					
Accounts receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Due from other funds	120	1,749	2,710	400	1,025
Prepaid expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>124</u>	<u>14,141</u>	<u>50,205</u>	<u>26,547</u>	<u>1,378</u>
LIABILITIES					
Liabilities:					
Accounts payable	-	-	-	-	1,370
Accrued wages payable	-	526	-	-	-
Unearned revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>526</u>	<u>-</u>	<u>-</u>	<u>1,370</u>
Fund balances					
Nonspendable	-	-	-	-	-
Restricted	124	13,615	50,205	26,547	8
Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund equity	<u>124</u>	<u>13,615</u>	<u>50,205</u>	<u>26,547</u>	<u>8</u>
Total liabilities and fund equity	<u>\$ 124</u>	<u>\$ 14,141</u>	<u>\$ 50,205</u>	<u>\$ 26,547</u>	<u>\$ 1,378</u>

<u>Vital Archive Fee</u>	<u>Election Contracts</u>	<u>Court Initiated Guardianship</u>	<u>Totals</u>
\$ 15,730	\$ 72,502	\$ 23,006	\$ 1,732,376
-	-	-	3,786
-	-	-	26,531
294	-	420	60,555
<u>-</u>	<u>-</u>	<u>-</u>	<u>890</u>
<u>16,024</u>	<u>72,502</u>	<u>23,426</u>	<u>1,824,138</u>
-	53,451	-	90,193
-	-	-	48,962
-	-	-	8,982
<u>-</u>	<u>53,451</u>	<u>-</u>	<u>148,137</u>
-	-	-	890
16,024	19,051	23,426	1,589,023
-	-	-	86,088
<u>16,024</u>	<u>19,051</u>	<u>23,426</u>	<u>1,676,001</u>
<u>\$ 16,024</u>	<u>\$ 72,502</u>	<u>\$ 23,426</u>	<u>\$ 1,824,138</u>

HARRISON COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Jury	Bail Bond Board	Drug Forfeitures	Permanent School Fund	Airport Maintenance	Tax Collector VIT
REVENUES						
Ad valorem taxes	\$ 167,505	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	2,150	-	-	-	-
Intergovernmental	5,202	-	4,080	-	2,817	-
Charges for services	6,449	-	-	-	154,197	14,369
Fines and forfeitures	-	-	-	-	-	-
Investment earnings	203	809	65	92	255	667
Miscellaneous	-	-	-	8,448	16,326	-
Total revenues	179,359	2,959	4,145	8,540	173,595	15,036
EXPENDITURES						
Current expenditures:						
General administration	-	-	-	-	124,557	868
Judicial	205,938	-	-	-	-	-
Legal	-	-	-	-	-	-
Elections	-	-	-	-	-	-
Public safety	450	-	4,008	-	-	-
Public transportation	-	-	-	-	26,371	-
Capital outlay	-	-	-	-	-	-
Total expenditures	206,388	-	4,008	-	150,928	868
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(27,029)	2,959	137	8,540	22,667	14,168
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
NET CHANGE IN FUND BALANCE	(27,029)	2,959	137	8,540	22,667	14,168
FUND BALANCE, BEGINNING	60,020	121,475	8,646	88,423	130,923	75,348
FUND BALANCE, ENDING	\$ 32,991	\$ 124,434	\$ 8,783	\$ 96,963	\$ 153,590	\$ 89,516

Justice Technology	Law Library	Juvenile Services	Records Management	Security	District Attorney Special	District Court Technology
\$ -	\$ -	\$ 847,379	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	87,348	-	-	22,500	-
21,666	36,472	147,239	325,737	46,523	5,661	4,591
-	-	-	-	-	785	-
464	103	791	1,541	443	104	135
-	-	15	-	-	-	-
<u>22,130</u>	<u>36,575</u>	<u>1,082,772</u>	<u>327,278</u>	<u>46,966</u>	<u>29,050</u>	<u>4,726</u>
19,548	5,622	-	281,744	-	-	-
-	29,206	-	-	80,265	-	-
-	-	-	-	-	47,110	-
-	-	-	-	-	-	-
11,632	-	1,364,430	-	-	-	-
-	-	-	-	-	-	-
-	-	20,993	-	-	-	-
<u>31,180</u>	<u>34,828</u>	<u>1,385,423</u>	<u>281,744</u>	<u>80,265</u>	<u>47,110</u>	<u>-</u>
(9,050)	1,747	(302,651)	45,534	(33,299)	(18,060)	4,726
-	-	-	-	50,000	-	1,074
-	-	-	-	-	-	-
-	-	-	-	50,000	-	1,074
(9,050)	1,747	(302,651)	45,534	16,701	(18,060)	5,800
<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>\$ 292,472</u>	<u>\$ 68,582</u>	<u>\$ 53,258</u>	<u>\$ 431,441</u>	<u>\$ 91,781</u>	<u>\$ 57,639</u>	<u>\$ 25,551</u>

HARRISON COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>County Court Technology</u>	<u>Case Manager</u>	<u>District Clerk Preservation</u>	<u>County Clerk Preservation</u>	<u>6th Court of Appeal</u>
REVENUES					
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	1,867	20,976	9,107	4,340	-
Fines and forfeitures	-	-	-	-	-
Investment earnings	39	67	290	170	13
Miscellaneous	-	-	-	-	-
Total revenues	<u>1,906</u>	<u>21,043</u>	<u>9,397</u>	<u>4,510</u>	<u>13</u>
EXPENDITURES					
Current expenditures:					
General administration	7,286	-	-	-	-
Judicial	-	16,384	-	-	-
Legal	-	-	-	-	10
Elections	-	-	-	-	-
Public safety	-	-	-	-	-
Public transportation	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	<u>7,286</u>	<u>16,384</u>	<u>-</u>	<u>-</u>	<u>10</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(5,380)</u>	<u>4,659</u>	<u>9,397</u>	<u>4,510</u>	<u>3</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	-	-	-	-
Operating transfers out	<u>(1,074)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,074)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(6,454)</u>	<u>4,659</u>	<u>9,397</u>	<u>4,510</u>	<u>3</u>
FUND BALANCE, BEGINNING	<u>6,578</u>	<u>8,956</u>	<u>40,808</u>	<u>22,037</u>	<u>5</u>
FUND BALANCE, ENDING	<u>\$ 124</u>	<u>\$ 13,615</u>	<u>\$ 50,205</u>	<u>\$ 26,547</u>	<u>\$ 8</u>

<u>Vital Archive Fees</u>	<u>Election Contracts</u>	<u>Court Initiated Guardianship</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ 1,014,884
-	-	-	2,150
-	37,194	-	159,141
4,037	3,400	4,800	811,431
-	-	-	785
223	498	159	7,131
-	-	-	24,789
<u>4,260</u>	<u>41,092</u>	<u>4,959</u>	<u>2,020,311</u>
-	-	-	439,625
11,520	-	-	343,313
-	-	-	47,120
-	98,657	-	98,657
-	-	-	1,380,520
-	-	-	26,371
-	-	-	20,993
<u>11,520</u>	<u>98,657</u>	<u>-</u>	<u>2,356,599</u>
(7,260)	(57,565)	4,959	(336,288)
-	-	-	51,074
-	-	-	(1,074)
-	-	-	50,000
(7,260)	(57,565)	4,959	(286,288)
<u>23,284</u>	<u>76,616</u>	<u>18,467</u>	<u>1,962,289</u>
<u>\$ 16,024</u>	<u>\$ 19,051</u>	<u>\$ 23,426</u>	<u>\$ 1,676,001</u>

HARRISON COUNTY, TEXAS

COMBINING STATEMENT OF ASSETS AND LIABILITIES

AGENCY FUNDS

SEPTEMBER 30, 2015

	<u>County Treasurer</u>	<u>County Clerk</u>	<u>District Attorney</u>	<u>District Clerk</u>
ASSETS				
Cash and cash equivalents	\$ 140,409	\$ 554,109	\$ 32,514	\$ 2,777,893
Investments	<u>-</u>	<u>226,342</u>	<u>-</u>	<u>1,563,505</u>
Total assets	<u>140,409</u>	<u>780,451</u>	<u>32,514</u>	<u>4,341,398</u>
LIABILITIES				
Accounts payable	-	3,021	32,514	1,864
Due to other governments	140,390	6,283	-	77,540
Due to other funds	19	79,698	-	103,928
Unearned revenue	-	-	-	-
Court ordered funds	-	465,107	-	2,594,562
Court ordered trust and prisoner funds	<u>-</u>	<u>226,342</u>	<u>-</u>	<u>1,563,504</u>
Total liabilities	<u>\$ 140,409</u>	<u>\$ 780,451</u>	<u>\$ 32,514</u>	<u>\$ 4,341,398</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>
\$ 124,690	\$ 999	\$ 214,376	\$ 1,467,371	\$ 29,211	\$ 28,507	\$ 5,370,079
<u>-</u>	<u>-</u>	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>1,939,847</u>
<u>124,690</u>	<u>999</u>	<u>214,376</u>	<u>1,617,371</u>	<u>29,211</u>	<u>28,507</u>	<u>7,309,926</u>
-	593	5,171	33,858	1,945	28,507	107,473
45,254	40	-	1,162,216	6,211	-	1,437,934
78,436	366	26	235,425	21,055	-	518,953
-	-	163,160	185,872	-	-	349,032
1,000	-	-	-	-	-	3,060,669
<u>-</u>	<u>-</u>	<u>46,019</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,835,865</u>
<u>\$ 124,690</u>	<u>\$ 999</u>	<u>\$ 214,376</u>	<u>\$ 1,617,371</u>	<u>\$ 29,211</u>	<u>\$ 28,507</u>	<u>\$ 7,309,926</u>

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**INTERNAL CONTROL
AND COMPLIANCE SECTION**

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Harrison County, Texas, as of and for the year ended September 30, 2015, 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 24, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Waco, Texas
June 24, 2016

HARRISON COUNTY, TEXAS

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Item 2014-001

<u>State Program:</u>	County Energy Transportation Reinvestment Zones (CETRZ)
<u>Condition:</u>	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.
<u>Cause:</u>	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.
<u>Recommendation:</u>	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.
<u>Management's Response:</u>	The County will verify that the reconciliation process is being performed on a regular and timely basis.
<u>Contact Person Responsible For Corrective Action:</u>	Harrison County Treasurer and County Auditor.
<u>Anticipated Completion Date:</u>	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.
<u>Current Status:</u>	Issue was resolved during the current year.

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

Honorable County Judge and
County Commissioners
Harrison County, Texas

We have audited the financial statements of Harrison County, Texas (the “County”) as of and for the year ended September 30, 2015, and have issued our report thereon dated June 24, 2016. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated September 03, 2015, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the County solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

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**Governmental Audit
Quality Center**

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, and, as appropriate, our firm have complied with all relevant ethical requirements regarding independence.

As a part of the engagement we assisted in preparing the financial statements and related notes to the financial statements of the County in conformity with U.S. generally accepted accounting principles based on information provided by you. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services were not conducted in accordance with *Government Auditing Services*.

In order to ensure we maintain our independence for performing these nonaudit services certain safeguards were applied to this engagement. Management assumed responsibility for the financial statements and related notes to the financial statements and any other nonaudit services we provided. Management acknowledged in the management representation letter our assistance with the preparation of the financial statements and related notes to the financial statements and that these items were reviewed and approved prior to their issuance and accepted responsibility for them. Further, the nonaudit services were oversaw by an individual within management that has the suitable skill, knowledge, or experience; evaluated the adequacy and results of the services; and accepted responsibility for them.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the County is included in Note 1 to the financial statements. As described in Note 1 to the financial statements, during the year, the County changed its method of accounting for pension liabilities by adopting Governmental Accounting Standards (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and Governmental Accounting Standards (GASB) Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Accordingly, the cumulative effect of the accounting change as of the beginning of the year has been reported in the Statement of Activities. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

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 and in relation to the applicable opinion units.

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

Management's estimate of the net pension and OPEB liabilities are based on actuarial assumptions which are determined by the demographics of the plan and future projections that the actuarial makes based on historical information of the plan and the investment market. We evaluated the key factors and assumptions used to develop the net pension and OPEB liabilities and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the County's financial statements relate to the net pension liability. The disclosures in the financial statements are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated June 24, 2016.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the County, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the County's auditors.

This report is intended solely for the information and use of the Commissioners' Court 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 24, 2016