

**HARRISON COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2011**

**HARRISON COUNTY, TEXAS**

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# **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harrison County, Texas, as of and for the year ended September 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Harrison County, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison County, Texas, as of September 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Road and Bridge Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2012, on our consideration of the Harrison County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Harrison County, Texas' financial statements as a whole. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

June 22, 2012

**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, 2011. This information is not intended to be a complete statement of the County's financial condition. We recommend and encourage readers to consider the information presented here in conjunction with the accompanying financial statements and disclosures.

### **FINANCIAL HIGHLIGHTS**

- The County's net assets, as indicated in the government-wide financial statements, are \$18,965,516. This is a decrease of \$1,175,991, which is a decrease of 5.8%. This decrease is comprised of a loss of \$3,583,697 from operations. The decrease was primarily caused by the FY 2011 portion of the OPEB expense for the County. The amount of OPEB expense for the year was \$2,808,481.
- Total net assets are comprised of: 1) capital assets, net of related debt, of \$21,778,040, including property and equipment, net of accumulated depreciation; 2) debt covenants, grantors, or statute restricts net assets of \$2,212,291; and 3) the County's unrestricted net assets at year-end are \$(5,024,815).
- Total governmental long-term debt of the County increased by \$3,381,576. This was mainly due to another year of the ARC of the County's OPEB liability.
- The unassigned fund balance in the General Fund, as shown in the fund financial statements on page 13, is \$3,471,386 or 19% of General Fund expenditures.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

#### **Government-wide Financial Statements**

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

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

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

### **Fund Financial Statements**

Funds are established to account for money designated for specific purposes by the Commissioners' Court or by grantors such as the State of Texas. The fund financial statements differ from the government-wide statements in that they focus on significant funds rather than the County as a whole. Major funds are presented separately. The fund financial statements for major funds begin on page 13. Fund data for nonmajor funds is included in combining statements starting on page 46. The basic funds are classified by type: each type used by the County is described in the following paragraphs.

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

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

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

**Notes to the Financial Statements**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**The County as a Whole**

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

The Summary of Net Assets lists assets in the order of liquidity, beginning with cash and ending with capital assets. Receivables include unpaid property taxes and unpaid court costs and fines assessed by the courts. Each receivable is reported net of an allowance for uncollectibles account. Historical collection data for property taxes shows an average annual collection rate of 98 percent. Total land, buildings, infrastructure, equipment, and improvements (including construction in progress of \$10,156,527 are \$27,764,627. This amount is net of accumulated depreciation of \$16,574,128. We have to conclude that many assets (such as vehicles, office equipment, mobile equipment, etc.) exist with limited useful life that must be replaced in the near future. Liabilities are reported by current (payable in one year) and long-term classifications. Information concerning long-term debt is detailed on pages 36 – 38 in the notes to the financial statements. Net assets at year-end are \$18,965,516; a total of \$2,212,291 is restricted for specific purposes, as required by state law or grantor requirements; \$21,778,040 represents the County’s investment in capital assets, net of related debt, and \$(5,024,815) in unrestricted net assets is available for funding general operations. Unrestricted net assets decreased by \$7,469,087, total assets decreased \$4,391,583, and total net assets decreased by \$1,175,991.

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

	Governmental Activities	
	2011	2010
Current and other assets	\$ 11,515	\$ 24,939
Capital assets	27,765	18,732
Total assets	<u>39,280</u>	<u>43,671</u>
Current liabilities	4,606	10,998
Noncurrent liabilities	15,708	12,531
Total liabilities	<u>20,314</u>	<u>23,529</u>
Net assets:		
Invested in capital assets, net of related debt	21,778	17,563
Restricted	2,212	135
Unrestricted	( 5,025)	2,444
Total net assets	<u>\$ 18,966</u>	<u>\$ 20,142</u>

The Changes in Net Assets itemizes the basic source of revenue and expenses as to the services provided. Total revenue for governmental activities was \$27,016,958. Total governmental expenses were \$30,600,655 resulting in a decrease in net assets of \$3,583,697. More details about the increase are discussed in the Financial Analysis of the County Funds.

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

	Governmental Activities	
	2011	2010
Revenues:		
Program revenues:		
Charges for services	\$ 5,121	\$ 4,874
Capital grants and contributions	35	134
Operating grants and contributions	2,045	1,304
General revenues:		
Property taxes	19,604	18,931
Interest	28	49
Gain on sale of assets	-	17
Other	183	544
Total revenues	<u>27,017</u>	<u>25,853</u>
Expenses:		
General administration	9,123	7,432
Judicial	2,011	2,251
Legal	1,575	1,147
Elections	243	274
Financial administration	1,942	1,968
Public facilities	921	867
Public safety	10,211	10,005
Public transportation	2,758	5,213
License and weights division	-	23
Health and welfare	1,197	1,314
Culture and recreation	75	74
Conservation	196	217
Preservation and restoration	20	24
Public service	94	77
Interest on long-term debt	236	230
Total expenses	<u>30,601</u>	<u>31,116</u>
Change in net assets	( 3,584)	( 5,263)
Net assets - beginning	20,142	25,024
Prior period adjustment	2,408	381
Net assets - ending	<u>\$ 18,966</u>	<u>\$ 20,142</u>

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

The main reason for the increase in expenses in the General Administration, Judicial and Public Safety functions is the addition of the County's liability for OPEB. FY 2011 was the third year for inclusion in the financial statements. The addition of this liability increased expenses and decreased net assets by \$2,808,481.

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

	Charges for Services 2011	% of Total	Functional Expenses 2011	Percent of Total	Funded by Other Revenues	
					Amount	Percent
General administration	\$ 1,767	6.5%	\$ 9,123	29.8%	\$( 7,356)	( 80.6%)
Judicial	1,500	5.6%	2,011	6.6%	( 511)	( 25.4%)
Legal	33	0.1%	1,575	5.1%	( 1,543)	( 97.9%)
Elections	-	- %	243	0.8%	( 243)	( 100.0%)
Financial administration	1,113	4.1%	1,942	6.3%	( 829)	( 42.7%)
Public facilities	-	- %	921	3.0%	( 921)	( 100.0%)
Public safety	411	1.5%	10,211	33.4%	( 9,798)	( 96.0%)
Public transportation	295	1.1%	2,758	9.0%	( 2,462)	( 89.3%)
Health and welfare	-	- %	1,197	3.9%	( 1,197)	( 100.0%)
Culture and recreation	-	- %	75	0.2%	( 75)	( 100.0%)
Conservation	-	- %	196	0.6%	( 196)	( 100.0%)
Preservation and restoration	-	- %	20	0.1%	( 20)	( 100.0%)
Public service	-	- %	94	0.3%	( 94)	( 100.0%)
Interest on long-term debt	-	- %	236	0.8%	( 236)	( 100.0%)
<b>Total</b>	<b>5,119</b>	<b>18.9%</b>	<b>\$ 30,601</b>	<b>100.0%</b>	<b>( 25,480)</b>	
<b>OPERATING GRANTS AND CONTRIBUTIONS</b>	<b>2,045</b>	<b>7.6%</b>			<b>2,045</b>	
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	<b>35</b>	<b>0.1%</b>			<b>35</b>	
<b>GENERAL REVENUES</b>	<b>19,815</b>	<b>73.3%</b>			<b>19,815</b>	
<b>TOTAL REVENUES</b>	<b>\$ 27,015</b>	<b>100.0%</b>				
<b>CHANGE IN NET ASSETS</b>					<b>\$( 3,585)</b>	

**Capital Assets and Debt Administration**

*Capital Assets* – Capital assets increased by approximately \$9,033,000 primarily due to depreciation expense exceeding the amount of capital additions.

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

	Governmental Activities	
	2011	2010
Land, buildings and improvements	\$ 10,283	\$ 2,109
Autos and trucks	1,467	1,411
Heavy equipment	2,017	1,797
Other equipment, furniture and fixtures	354	252
Construction in progress	10,157	11,789
Infrastructure	3,487	1,374
<b>Total capital assets, net</b>	<b>\$ 27,765</b>	<b>\$ 18,732</b>

## Outstanding Debt

The table below reports the outstanding balances of debt for 2011 and 2010 for governmental activities. In 2002, the County financed a large capital improvement project with certificates of obligation. The County's overall debt increased due to the issuance of debt for the purpose of purchasing several County vehicles and the continued increase in the County's OPEB obligation. Detailed information concerning the County's long-term debt is available in the notes to the financial statements on pages 36 – 38.

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

	Governmental Activities	
	2011	2010
General obligation debt	\$ 4,300	\$ 4,575
Capital leases	1,782	952
Net OPEB obligation	9,590	6,781
Compensated absences	<u>1,050</u>	<u>1,032</u>
Total long-term debt	<u>\$ 16,722</u>	<u>\$ 13,340</u>

## FINANCIAL ANALYSIS OF THE COUNTY FUNDS

### Governmental Funds

The governmental fund statements presented on pages 13 – 22 include the General Fund and Road and Bridge Fund which comprise the County's major funds and all other governmental funds combined. These statements focus on short-term transactions and the impact they have on financial resources for future financial requirements. The total fund balances at year-end for all governmental funds is \$6,260,333, a decrease of \$(7,148,466) from the prior year. This represented a (53%) decrease in total fund balances. There was also a significant decline in cash in the County's General Fund. There were two important items that caused this decrease. The first was the payment of disputed tax collections that were being held as deferred revenue by the County. The Supreme Court ruled in favor of the plaintiffs in this tax dispute case causing the County to return the collected property taxes. This was an approximately \$6 million decrease in General Fund cash. The General Fund also moved approximately \$2 million to the Jail Construction Fund to aid in paying final construction costs on the new jail project.

The General Fund is the primary day-to-day operating fund that finances services such as the courts and law enforcement. Approximately 87% of the revenue to support these services is generated by ad valorem taxes. General Fund operations resulted in a decrease in fund balance of \$(2,970,340). The ending fund balance of \$3,741,362 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 a decrease of (44%) over fiscal year 2010 fund balance.

The Road and Bridge Fund is reported as a major governmental fund, because it represents a material percentage of the total revenue and expenditures of all governmental funds. The result of operations was an increase in fund balance of \$(104,400). This fund balance was increased through the issuance of capital leases and sales of equipment.

The Jail Construction Fund is reported as a major governmental fund, because it represents a material percentage of the total assets and other financing sources of all governmental funds. The net change in operations was a decrease in fund balance of \$4,562,369. This balance was due to the issuance of the certificates of obligation in FY 2009 but construction that will not be complete until a later fiscal year. All other governmental funds are combined to form the nonmajor governmental fund category; the funds included in the combination are itemized in the combining statements on pages 46 – 53 of this report. Combined fund balances increased by \$279,843.

### **Proprietary Funds**

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

### **Budgetary Highlights**

Budgetary statements of revenues, expenditures, and changes in fund balance for the General Fund and the Road and Bridge Fund are on pages 17 – 18. The statements report the budget and the actual amounts for each category. The variance is the difference between actual and the final budget. The County's Commissioners' Court, prior to the beginning of the fiscal year, adopted the original budget and the Court approves amendments to the budget during the year. During the current year, the original General Fund expenditure budget was increased by \$1,452,064. There were two main reasons for the increase in the original budget. The first was an unexpected increase in the variable cost portion of the County's health insurance plan. The other reason was extra funds needed to open and operate the new jail as it started operations in FY 2011.

The original General Fund budget planned for revenues to exceed expenditures by \$50,752. However, actual expenditures were \$399,965 less than what was budgeted. Since actual expenditures exceeded revenues by \$(914,307), the County had a loss in FY 2011. The General Fund also transferred money to the Capital Projects Fund to assist with jail construction costs. This also increased the decrease to General Fund fund balance.

The original Road and Bridge Fund budget planned for expenditures to exceed revenues by \$358,589.

The original Jail Construction Fund budget planned for expenditures to exceed revenues by \$6,958,835. Actual expenditures exceeded revenues by \$4,562,369.

### **BUDGET FOR 2011 – 2012 AND LATER**

For the 2011-2012 FY the County adopted a property tax rate of \$.3169 per hundred dollars of taxable value. This rate was more than the effective rate. Harrison County must adopt a balanced budget worst case or a budget that will allow for increases in the surplus best case.

For the 2011-2012 FY, the Maintenance and Operations section of the expenditure budget was \$1,976,635 less than the budget for the previous year. The increase in health care costs continue to be a concern of the Commissioners' Court and the Court continues to look for any cost saving ideas that they feel will help in balancing the County's budget.

## **REQUESTS FOR INFORMATION**

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

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

**BASIC  
FINANCIAL STATEMENTS**

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# HARRISON COUNTY, TEXAS

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

	<u>Primary Government Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 7,805,814
Receivables, net:	
Property taxes	1,395,964
Accounts receivable	698,711
Due from other governments	1,032,190
Due from agency funds	331,341
Prepaid expenditures	155,277
Unamortized bond issuance costs	95,768
Capital assets, net of accumulated depreciation	
Land, buildings and improvements	13,150,200
Autos and trucks	3,968,831
Heavy equipment	4,223,022
Other equipment, furniture and fixtures	1,200,139
Construction in progress	10,156,527
Infrastructure	11,640,036
Accumulated depreciation	<u>( 16,574,128)</u>
Total capital assets	<u>27,764,627</u>
Total assets	<u>39,279,692</u>
<b>LIABILITIES</b>	
Accounts payable	2,310,692
Accrued wages payable	203,109
Accrued interest payable	48,581
Unearned revenue	1,029,403
Other liabilities:	
Due within one year	1,014,635
Due in more than one year	<u>15,707,756</u>
Total liabilities	<u>20,314,176</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	21,778,040
Restricted for:	
Debt service	395,200
Capital projects	126,443
Special purposes	1,690,648
Unrestricted	<u>( 5,024,815)</u>
Total net assets	<u>\$ 18,965,516</u>

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

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# HARRISON COUNTY, TEXAS

## STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2011

	Program Revenues				Changes Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government
					Governmental Activities
<b>PRIMARY GOVERNMENT</b>					
General administration	\$ 9,122,870	\$ 1,766,709	\$ -	\$ -	\$( 7,356,161)
Judicial	2,011,321	1,500,287	42,876	-	( 468,158)
Legal	1,575,269	33,671	330,061	-	( 1,211,537)
Elections	242,500	-	-	35,395	( 207,105)
Financial administration	1,941,815	1,113,002	-	-	( 828,813)
Public facilities	921,004	-	8,588	-	( 912,416)
Public safety	10,210,527	412,178	1,113,563	-	( 8,684,786)
Public transportation	2,757,660	295,456	79,002	-	( 2,383,202)
Health and welfare	1,196,743	-	464,749	-	( 731,994)
Culture and recreation	75,433	-	-	-	( 75,433)
Conservation	195,668	-	6,651	-	( 189,017)
Preservation and restoration	19,774	-	-	-	( 19,774)
Public service	93,700	-	-	-	( 93,700)
Interest and other charges	<u>236,371</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 236,371)</u>
Total primary government governmental activities	<u>\$ 30,600,655</u>	<u>\$ 5,121,303</u>	<u>\$ 2,045,490</u>	<u>\$ 35,395</u>	<u>( 23,398,467)</u>
General revenues					
Property taxes					19,573,990
Miscellaneous taxes					30,136
Interest earnings					28,081
Miscellaneous					<u>182,563</u>
Total general revenues					<u>19,814,770</u>
Change in net assets					( 3,583,697)
Net assets, beginning					<u>20,141,507</u>
Prior period adjustments					<u>2,407,706</u>
Net assets, ending					<u>\$ 18,965,516</u>

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

# HARRISON COUNTY, TEXAS

## BALANCE SHEET

### GOVERNMENTAL FUNDS

SEPTEMBER 30, 2011

	General	Road and Bridge	Jail Construction	Other Governmental	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 4,590,514	\$ 431,211	\$ 1,273	\$ 2,780,138	\$ 7,803,136
Receivables, net					
Property taxes	1,395,964	-	-	-	1,395,964
Accounts receivable	58,774	6,165	-	5,841	70,780
Due from other governments	233,312	18,631	-	780,247	1,032,190
Due from other funds	576,890	113,281	-	36,281	726,452
Prepaid expenses	144,726	24	-	10,527	155,277
 Total assets	\$ 7,000,180	\$ 569,312	\$ 1,273	\$ 3,613,034	\$ 11,183,799
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 838,307	\$ 295,983	\$ 362,387	\$ 494,778	\$ 1,991,455
Accrued wages payable	151,605	34,703	-	16,801	203,109
Due to other funds	-	-	-	395,111	395,111
Deferred revenue	2,268,906	-	-	64,885	2,333,791
Total liabilities	3,258,818	330,686	362,387	971,575	4,923,466
<b>Fund balances</b>					
Nonspendable	144,726	-	-	-	144,726
Restricted					
Debt service	-	-	-	443,781	443,781
Capital projects	-	-	-	126,443	126,443
Bail bond services	-	-	-	163,762	163,762
Airport maintenance	-	-	-	278,907	278,907
Court technology and security	-	-	-	404,587	404,587
VIT escrow	-	-	-	69,566	69,566
Law library	-	-	-	101,532	101,532
Grants	-	-	-	38,499	38,499
District Attorney services	-	-	-	99,119	99,119
Records management and preservation	-	-	-	508,695	508,695
Other	-	-	-	25,981	25,981
Committed for:					
Jury services	-	-	-	66,229	66,229
Juvenile services	-	-	-	314,358	314,358
Assigned for:					
Court maintenance	42,750	-	-	-	42,750
Computer equipment	82,500	-	-	-	82,500
Road damage repairs	-	218,933	-	-	218,933
Unassigned	3,471,386	19,693	( 361,114)	-	3,129,965
Total fund balances	3,741,362	238,626	( 361,114)	2,641,459	6,260,333
 Total liabilities and fund balances	\$ 7,000,180	\$ 569,312	\$ 1,273	\$ 3,613,034	\$ 11,183,799

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

## HARRISON COUNTY, TEXAS

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

SEPTEMBER 30, 2011

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

Total fund balances of governmental funds	\$ 6,260,333
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	27,764,627
The Internal Service Fund is used to charge the costs of health insurance to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net assets.	43,724
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,572,036
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the funds.	( 16,675,204)
Net assets of governmental activities	<u>\$ 18,965,516</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, 2011**

	General	Road and Bridge	Jail Construction	Other Governmental	Total Governmental Funds
<b>REVENUES</b>					
Ad valorem taxes	\$ 15,436,077	\$ 1,703,182	\$ -	\$ 2,526,745	\$ 19,666,004
Miscellaneous taxes	30,136	-	-	-	30,136
Licenses and permits	128,944	1,108,451	-	1,590	1,238,985
Fines and forfeitures	38,219	1,171,732	-	6,747	1,216,698
Governmental	433,717	79,002	-	1,592,272	2,104,991
Charges for services	1,618,728	264,351	-	765,314	2,648,393
Investment earnings	18,587	570	4,505	4,324	27,986
Miscellaneous	80,347	6,124	-	96,092	182,563
Total revenues	<u>17,784,755</u>	<u>4,333,412</u>	<u>4,505</u>	<u>4,993,084</u>	<u>27,115,756</u>
<b>EXPENDITURES</b>					
Current expenditures:					
General administration	5,045,021	3,097,771	-	519,719	8,662,511
Judicial	1,283,703	-	-	363,419	1,647,122
Legal	1,564,030	-	-	5,386	1,569,416
Elections	170,374	-	-	35,395	205,769
Financial administration	1,664,260	-	-	-	1,664,260
Public facilities	921,004	-	-	-	921,004
Public transportation	-	2,509,973	-	9,418	2,519,391
Public safety	6,725,346	-	-	2,192,796	8,918,142
Health and welfare	998,320	-	-	138,839	1,137,159
Culture and recreation	59,523	-	-	-	59,523
Conservation	173,781	-	-	-	173,781
Public service	93,700	-	-	-	93,700
Capital outlay	-	213,481	6,607,266	581,455	7,402,202
Debt service:					
Principal	-	-	-	702,156	702,156
Interest and other charges	-	-	-	214,281	214,281
Total expenditures	<u>18,699,062</u>	<u>5,821,225</u>	<u>6,607,266</u>	<u>4,762,864</u>	<u>35,890,417</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>( 914,307)</u>	<u>( 1,487,813)</u>	<u>( 6,602,761)</u>	<u>230,220</u>	<u>( 8,774,661)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Loan and bond proceeds	297,362	943,703	-	20,089	1,261,154
Sale of capital assets	16,531	348,510	-	-	365,041
Operating transfer in	48,000	300,000	2,040,392	81,157	2,469,549
Operating transfers out	<u>( 2,417,926)</u>	<u>-</u>	<u>-</u>	<u>( 51,623)</u>	<u>( 2,469,549)</u>
Total other financing sources (uses)	<u>( 2,056,033)</u>	<u>1,592,213</u>	<u>2,040,392</u>	<u>49,623</u>	<u>1,626,195</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>( 2,970,340)</u>	<u>104,400</u>	<u>( 4,562,369)</u>	<u>279,843</u>	<u>( 7,148,466)</u>
<b>FUND BALANCES, BEGINNING</b>	<u>6,711,702</u>	<u>134,226</u>	<u>4,201,255</u>	<u>2,361,616</u>	<u>13,408,799</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 3,741,362</u>	<u>\$ 238,626</u>	<u>\$( 361,114)</u>	<u>\$ 2,641,459</u>	<u>\$ 6,260,333</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, 2011

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

Net change in fund balances - total governmental funds		\$( 7,148,466)
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	\$ 8,348,409	
Depreciation expense	<u>( 1,336,646)</u>	
		7,011,763
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net assets.		706,393
The issuance of debt has no effect on the governmental funds.		( 1,261,154)
Revenues in the statement of activities that do not provide current financial resources and are not reported as revenue in the funds.		( 6,879)
Delinquent property taxes receivable which do not provide current financial resources are not reported as revenue in the funds.		( 92,014)
Other post employment benefit expense is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		( 2,808,481)
The Internal Service Fund is used to charge the costs of health insurance to individual funds. The net revenue (expense) of the activity of the Internal Service Fund is reported with governmental activities.		<u>424,843</u>
Changes in net assets of governmental activities		<u>\$( 3,583,697)</u>

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

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## HARRISON COUNTY, TEXAS

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

#### GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>REVENUES</b>				
Ad valorem taxes	\$ 15,189,665	\$ 15,189,665	\$ 15,436,077	\$ 246,412
Miscellaneous taxes	28,000	28,000	30,136	2,136
Licenses, permits and fees	157,200	157,200	128,944	( 28,256)
Governmental	115,800	417,339	433,717	16,378
Fines and forfeitures	51,750	51,750	38,219	( 13,531)
Charges for services	1,849,950	1,849,950	1,618,728	( 231,222)
Investment earnings	162,600	162,600	18,587	( 144,013)
Miscellaneous	110,250	110,250	80,347	( 29,903)
Total revenues	17,665,215	17,966,754	17,784,755	( 181,999)
<b>EXPENDITURES</b>				
General administration	3,949,486	5,089,782	5,045,021	44,761
Judicial	1,317,148	1,299,886	1,283,703	16,183
Legal	1,446,522	1,632,968	1,564,030	68,938
Elections	191,914	187,164	170,374	16,790
Financial administration	1,680,311	1,677,853	1,664,260	13,593
Public facilities	910,900	973,271	921,004	52,267
Public safety	5,971,752	6,803,672	6,725,346	78,326
Health and welfare	1,853,888	1,100,888	998,320	102,568
Culture and recreation	60,600	60,600	59,523	1,077
Conservation	179,242	179,242	173,781	5,461
Public service	85,200	93,700	93,700	-
Total expenditures	17,646,963	19,099,027	18,699,062	399,965
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	18,252	( 1,132,273)	( 914,307)	217,966
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan and bond proceeds	-	297,362	297,362	-
Sale of capital assets	32,500	32,500	16,531	( 15,969)
Operating transfers in	-	-	48,000	48,000
Operating transfers out	-	-	( 2,417,926)	( 2,417,926)
Total other financing sources (uses)	32,500	329,862	( 2,056,033)	( 2,385,895)
<b>NET CHANGE IN FUND BALANCES</b>	50,752	( 802,411)	( 2,970,340)	( 2,167,929)
<b>FUND BALANCES, BEGINNING</b>	6,711,702	6,711,702	6,711,702	-
<b>FUND BALANCES, ENDING</b>	\$ 6,762,454	\$ 5,909,291	\$ 3,741,362	\$( 2,167,929)

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

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## HARRISON COUNTY, TEXAS

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

#### ROAD AND BRIDGE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Road and Bridge Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>REVENUES</b>				
Ad valorem taxes	\$ 1,677,076	\$ 1,677,076	\$ 1,703,182	\$ 26,106
Licenses, permits and fees	1,200,200	1,200,200	1,108,451	( 91,749)
Fines and forfeitures	990,000	990,000	1,171,732	181,732
Governmental	79,000	79,000	79,002	2
Charges for services	-	319,264	264,351	( 54,913)
Investment earnings	7,500	7,500	570	( 6,930)
Miscellaneous	2,500	2,500	6,124	3,624
Total revenues	<u>3,956,276</u>	<u>4,275,540</u>	<u>4,333,412</u>	<u>57,872</u>
<b>EXPENDITURES</b>				
General administration	2,421,415	2,424,407	3,097,771	( 673,364)
Public transportation	1,893,450	2,594,105	2,509,973	84,132
Capital outlay	-	213,481	213,481	-
Total expenditures	<u>4,314,865</u>	<u>5,231,993</u>	<u>5,821,225</u>	<u>( 589,232)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 358,589)</u>	<u>( 956,454)</u>	<u>( 1,487,813)</u>	<u>( 531,359)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan and bond proceeds	-	209,309	943,703	734,394
Sale of capital assets	450,000	450,000	348,510	( 101,490)
Total other financing sources (uses)	<u>450,000</u>	<u>659,309</u>	<u>1,592,213</u>	<u>932,904</u>
<b>NET CHANGE IN FUND BALANCES</b>	91,411	( 297,145)	104,400	401,545
<b>FUND BALANCES, BEGINNING</b>	<u>134,226</u>	<u>134,226</u>	<u>134,226</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 225,637</u>	<u>\$( 162,919)</u>	<u>\$ 238,626</u>	<u>\$ 401,545</u>

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

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**HARRISON COUNTY, TEXAS**

**STATEMENT OF NET ASSETS**

**PROPRIETARY FUNDS**

**SEPTEMBER 30, 2011**

	<u>Governmental Activities</u> <u>Internal Service Fund</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 2,678
Accounts receivable	<u>360,283</u>
Total assets	<u>362,961</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	<u>319,237</u>
Total liabilities	<u>319,237</u>
<b>NET ASSETS</b>	
Unrestricted	<u>43,724</u>
Total net assets	<u>\$ 43,724</u>

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

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**HARRISON COUNTY, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Governmental Activities
	Internal Service Fund
<b>OPERATING REVENUES</b>	
Charges for services	\$ 4,249,740
Total operating revenues	<u>4,249,740</u>
<b>OPERATING EXPENSES</b>	
Benefit payments	<u>3,824,992</u>
Total operating expenses	<u>3,824,992</u>
<b>OPERATING INCOME</b>	424,748
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	<u>95</u>
Total nonoperating revenues (expenses)	<u>95</u>
<b>CHANGE IN NET ASSETS</b>	424,843
<b>TOTAL NET ASSETS, BEGINNING</b>	( <u>381,119</u> )
<b>TOTAL NET ASSETS, ENDING</b>	<u>\$ 43,724</u>

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

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**HARRISON COUNTY, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Governmental Activities
	Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from premiums and contributions	\$ 3,889,457
Payments for claims	( 3,950,512)
Net cash used by operating activities	<u>( 61,055)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	<u>95</u>
Net cash provided by investing activities	<u>95</u>
<b>NET DECREASE IN CASH</b>	( 60,960)
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>63,638</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 2,678</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating income	\$ 424,748
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
(Increase) decrease in receivables	( 360,283)
Increase (decrease) in payables	<u>( 125,520)</u>
Total adjustments	<u>( 485,803)</u>
Net cash used by operating activities	<u>\$ ( 61,055)</u>

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

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**HARRISON COUNTY, TEXAS**

**STATEMENT OF NET ASSETS**

**FIDUCIARY FUNDS**

**SEPTEMBER 30, 2011**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 3,593,825
Accounts receivable	227,381
Investments	<u>6,164,374</u>
Total assets	<u>\$ 9,985,580</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 276,180
Due to other governments	1,197,629
Due to other funds	331,341
Deferred revenue	270,730
Court ordered funds	1,863,274
Court ordered trust and prisoner funds	<u>6,046,426</u>
Total liabilities	<u>\$ 9,985,580</u>

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

# HARRISON COUNTY, TEXAS

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements of Harrison County, Texas, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

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

#### A. Reporting Entity

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

(continued)

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

### **B. Government-wide and Fund Financial Statements**

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

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

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

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

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

(continued)

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

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

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

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

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

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

The **General Fund** is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

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

(continued)

# 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Additionally, the County reports the following fund types:

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

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

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

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

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

## D. Assets, Liabilities and Net Assets or Equity

### **Deposits and Investments**

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

(continued)

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

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

**Receivables and Payables**

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

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

**Prepaid Expenditures**

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

**Capital Assets**

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

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

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

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

(continued)

# 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

### **Compensated Absences**

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

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

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

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

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

### **Long-term Obligations**

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

### ***Fund Balance 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:

(continued)

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

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

#### *Fund Balance Classification* (Continued)

- **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 court 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 negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

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

(continued)

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

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

#### Equity Classifications

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

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

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

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

#### Use of Estimates

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

## 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### Budgetary Information

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

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

(continued)

## 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

### **Budgetary Information** (Continued)

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

Expenditures may not legally exceed budgeted appropriations at the activity level. The budget is amended only by approval of the Commissioners' Court. Proposed amendments are presented to the Commissioners' Court in a public meeting and each amendment must have Commissioners' Court approval. As required by law, such amendments made before the fact, are reflected in the official minutes of the Commissioners' Court meetings, and are not made after fiscal year-end. During the year, the budget was amended as necessary. Significant budget amendments passed during the year ended September 30, 2011, are discussed in the Management Discussion and Analysis (MD&A) starting on page 3 of this report.

### **Excess of Expenditures over Appropriations**

For the year ended September 30, 2011, expenditures exceeded appropriations in the following functions of the Road and Bridge Fund:

General administration	\$ 673,364
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### **Deficit Fund Equity**

The Jail Construction Fund had a deficit fund equity of \$361,114 as of September 30, 2011. The deficit in net assets for this fund will be made up through transfers from the General Fund.

### 3. DETAILED NOTES ON ALL FUNDS

#### Deposits and Investments

##### Investments

As of September 30, 2011, the County had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Primary government:		
Texas Term	\$ 4,469,944	50
MBIA	<u>2,209,569</u>	36
Total fair value	<u>\$ 6,679,513</u>	

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

##### Deposits

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

*Custodial Credit Risk.* In the case of deposits, this is the risk that in the event of a bank failure, the County's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government Obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2011, the County's deposit balance in the amount of \$12,802,535 was collateralized with securities held by the pledging financial institution in the County's name, or FDIC insurance.

(continued)

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

#### Deposits and Investments (Continued)

##### Deposits (Continued)

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

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

#### Analysis of Specific Deposit and Investment Risk

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

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

#### Receivables

Receivables at September 30, 2009, for the County's individual major funds and nonmajor and Internal Service Funds in the aggregate, including the applicable allowances for uncollectibles, are as follows:

	<u>General</u>	<u>Road and Bridge</u>	<u>Nonmajor</u>	<u>Total</u>
Receivables:				
Delinquent taxes	\$ 2,035,935	\$ -	\$ -	\$ 2,035,935
Accounts receivable	58,774	6,165	5,841	70,780
Due from other governments	<u>233,312</u>	<u>18,631</u>	<u>780,247</u>	<u>1,032,190</u>
Total receivables	<u>2,328,021</u>	<u>24,796</u>	<u>786,088</u>	<u>3,138,905</u>
Less: allowance for uncollectibles	<u>639,971</u>	<u>-</u>	<u>-</u>	<u>639,971</u>
Net total receivables	<u>\$ 1,688,050</u>	<u>\$ 24,796</u>	<u>\$ 786,088</u>	<u>\$ 2,498,934</u>

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

(continued)

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

**Capital Assets (Continued)**

Capital asset activity for governmental activities for the year ended September 30, 2011, was as follows:

**Primary Government**

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 596,444	\$ -	\$ -	\$ -	\$ 596,444
Construction in progress	<u>11,788,823</u>	<u>6,647,920</u>	<u>( 8,280,216)</u>	<u>-</u>	<u>10,156,527</u>
Total assets not being depreciated	<u>12,385,267</u>	<u>6,647,920</u>	<u>( 8,280,216)</u>	<u>-</u>	<u>10,752,971</u>
Capital assets, being depreciated:					
Buildings and improvements	4,273,540	8,280,216	-	-	12,553,756
Autos and trucks	3,701,383	495,081	( 227,633)	-	3,968,831
Heavy equipment	3,860,536	857,237	( 494,751)	-	4,223,022
Equipment, furniture and fixtures	1,031,088	169,051	-	-	1,200,139
Infrastructure	<u>11,503,406</u>	<u>179,120</u>	<u>-</u>	<u>( 42,490)</u>	<u>11,640,036</u>
Total capital assets being depreciated	<u>24,369,953</u>	<u>9,980,705</u>	<u>( 722,384)</u>	<u>( 42,490)</u>	<u>33,585,784</u>
Less accumulated depreciation:					
Buildings and improvements	2,761,735	105,845	-	-	2,867,580
Autos and trucks	2,290,536	394,085	( 183,079)	-	2,501,542
Heavy equipment	2,063,235	295,119	( 152,548)	-	2,205,806
Equipment, furniture and fixtures	778,228	68,348	-	-	846,576
Infrastructure	<u>10,129,571</u>	<u>473,249</u>	<u>-</u>	<u>( 2,450,196)</u>	<u>8,152,624</u>
Total accumulated depreciation	<u>18,023,305</u>	<u>1,336,646</u>	<u>( 335,627)</u>	<u>( 2,450,196)</u>	<u>16,574,128</u>
Total capital assets being depreciated, net	<u>6,346,648</u>	<u>8,644,059</u>	<u>( 386,757)</u>	<u>2,407,706</u>	<u>17,011,656</u>
Governmental activities capital assets, net	<u>\$ 18,731,915</u>	<u>\$ 15,291,979</u>	<u>\$( 8,666,973)</u>	<u>\$ 2,407,706</u>	<u>\$ 27,764,627</u>

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

<b>Governmental activities:</b>	
General administration	\$ 4,399
Judicial	11,916
Legal	5,853
Elections	7,374
Financial administration	13,343
Public safety	354,200
Public transportation	930,049
Health and welfare	870
Culture and recreation	6,124
Preservation and restoration	203
Conservation	<u>2,315</u>
Total depreciation expense	<u>\$ 1,336,646</u>

(continued)

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

**Interfund Receivables, Payables, and Transfers**

The composition of interfund balances as of September 30, 2011, is as follows:

**Due to/from Other Funds**

	Due from		
	Other Governmental	Agency	Total
Due to:			
General	\$ 395,111	\$ 181,779	\$ 576,890
Road and bridge	-	113,281	113,281
Other governmental	-	36,281	36,281
Total	<u>\$ 395,111</u>	<u>\$ 331,341</u>	<u>\$ 726,452</u>

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

**Interfund Transfers**

	Transfers in				Total
	General	Road and Bridge	Jail Construction	Other Governmental	
Transfers out:					
General	\$ -	\$ 300,000	\$ 2,036,769	\$ 81,157	\$ 2,417,926
Other governmental	<u>48,000</u>	-	<u>3,623</u>	-	<u>51,623</u>
Total	<u>\$ 48,000</u>	<u>\$ 300,000</u>	<u>\$ 2,040,392</u>	<u>\$ 81,157</u>	<u>\$ 2,469,549</u>

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

**Deferred Revenues**

	09/30/11
Delinquent property taxes	\$ 1,304,388
Protested property taxes	964,518
State and federal grants	<u>64,885</u>
Total per fund financial statements	<u>\$ 2,333,791</u>

(continued)

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

**Deferred Revenues** (Continued)

**Delinquent Tax Receivable, Net**

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

**Protested Property Taxes**

Harrison County contracts with the Harrison County Appraisal District to maintain the property tax roll and assess property tax values. Due to a lawsuit between a taxpayer and Harrison County Appraisal District, Harrison County has received payment for taxes that is being contested. Final outcome of this lawsuit has been determined. In fiscal year 2011, 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, 2011. The County has chosen to not recognize the remaining tax revenue or interest earned on these funds as revenue in the year received and defer this revenue until all final payments have been made.

	<u>Total Collected</u>
Total deferred revenue due to protested property taxes	\$ <u>964,518</u>

**Long-term Debt**

**Schedule of Contractual Obligations**

Series and Original Issue Amount	Final Maturity	Interest Rate	Outstanding 09/30/11	
Certificates of Obligations - 2006	\$ 5,350,000	02/15/23	4.00% - 4.150%	\$ 4,300,000
Secured Equipment - Note #xxxx002	556,275	02/15/12	3.55%	434,690
Secured Equipment - Note #xxxx003	259,641	02/15/12	3.49%	86,512
Secured Equipment - Note #xxxx004	526,759	03/25/14	3.34%	526,759
Secured Equipment - Note #xxxx005	734,394	07/25/14	3.34%	<u>734,394</u>
Total				\$ <u>6,082,355</u>

(continued)

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

#### Long-term Debt (Continued)

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

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

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

**Secured Equipment Loan #xxxx003**, BancorpSouth Equipment Finance, Hattiesburg, Mississippi – On October 27, 2009, Harrison County executed a loan agreement to borrow \$259,641 in order to finance the entire purchase of 11 new vehicles for the Sheriff's office. The stated interest rate is 3.59%. The vehicles were collateralized as security on the loan. Principal and interest payments on this loan are funded from property tax revenues in the Debt Service Fund.

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

**Secured Equipment Loan #xxxx005**, BancorpSouth Equipment Finance, Hattiesburg, Mississippi – On March 29, 2011, Harrison County executed a loan agreement to borrow \$734,394 in order to finance the entire purchase of three new pieces of heavy equipment used in the Road and Bridge Department. The stated interest rate is 3.34%. The equipment was collateralized as security on the loan. Principal and interest payments on this loan are funded from the Debt Service Fund.

(continued)

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

**Long-term Debt** (Continued)

**Long-term Liabilities Activity**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation debt	\$ 4,575,000	\$ -	\$ 275,000	\$ 4,300,000	\$ 275,000
Notes payable	952,594	1,261,154	431,393	1,782,355	739,635
Compensated absences	1,032,043	18,334	-	1,050,377	-
OPEB payable	<u>6,781,178</u>	<u>2,808,481</u>	<u>-</u>	<u>9,589,659</u>	<u>-</u>
	<u>\$ 13,340,815</u>	<u>\$ 4,087,969</u>	<u>\$ 706,393</u>	<u>\$ 16,722,391</u>	<u>\$ 1,014,635</u>

Current year debt service payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
General obligation debt	\$ 4,300,000	\$ 1,135,141	\$ 5,435,141
Notes payable	<u>1,782,355</u>	<u>126,220</u>	<u>1,908,575</u>
	<u>\$ 6,082,355</u>	<u>\$ 1,261,361</u>	<u>\$ 7,343,716</u>

Future debt service requirements are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,014,635	\$ 229,633	\$ 1,244,268
2013	525,842	191,971	717,813
2014	1,116,878	173,935	1,290,813
2015	325,000	132,106	457,106
2016	325,000	119,106	444,106
2017-2021	1,900,000	377,841	2,277,841
2022-2023	<u>875,000</u>	<u>36,769</u>	<u>911,769</u>
Total	<u>\$ 6,082,355</u>	<u>\$ 1,261,361</u>	<u>\$ 7,343,716</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, 2011. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

(continued)

4. **OTHER INFORMATION** (Continued)

**Risk Management** (Continued)

In addition, Harrison County is a member of the Texas Association of Counties (TAC) Risk Management Pool, a public entity risk pool, participating in property and casualty insurance coverage, automobile insurance coverage, and public official and law enforcement liability coverage. The pool is authorized by Chapter 119, Local Government Code and provides coverage through an interlocal agreement, The Interlocal Cooperation Act – Chapter 791, Texas Government Code). The interlocal agreement provides that the TAC pool will be self-sustaining through member premiums and will reinsure through commercial insurance companies for claims in excess of \$250,000 for each insured event. Premiums paid to the pool during 2011 have been reported as expenditures in the General Fund and Special Revenue Funds.

During the year ended September 30, 2011, employees of the County were covered by a health insurance plan (the “Plan”). The County contributed to the Plan for employees and, employees, at their option, authorized payroll withholding to pay contributions for their dependents. All contributions were paid to an Internal Service Fund maintained by the County for the purpose of self-insuring these health costs. A claims administration agreement (the Agreement) was executed with a third party administrator to provide for the payment of health benefits to the employees of the County. Reinsurance coverage was obtained for a \$100,000 specific deductible and \$900,000 maximum reimbursement per person.

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

A liability was recorded at year-end for claims incurred prior to September 30, 2011, and paid within 60 days of year-end. A liability has not been estimated for claims incurred but not reported.

An analysis of claims activity is presented below:

	Beginning Balance	Current Year Claims Expenditures	Actual Claims Payments	Ending Balance
09/30/2011	\$ 444,757	\$ 4,272,195	\$( 4,397,714)	\$ 319,238
09/30/2010	535,048	2,874,750	( 2,965,041)	444,757
09/30/2009	380,382	3,153,054	( 2,998,388)	535,048

(continued)

#### 4. OTHER INFORMATION (Continued)

##### **Contingent Liabilities and Commitments**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

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

##### **Pension Plan**

###### **Plan Description**

The County provides retirement, disability, and death benefits for all of its fulltime employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 618 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS board of trustees at P. O. Box 2034, Austin, Texas 78768-2034.

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

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

(continued)

4. **OTHER INFORMATION (Continued)**

**Pension Plan** (Continued)

**Funding Policy**

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. It was 10.27% for the months in calendar year 2010, and 10.32% in calendar year 2011. The contribution rate payable by the employee members is the rate of 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

**Schedule of Actuarial Liabilities and Funding Progress**

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

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

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
09/30/09	\$ 980,480	100%	\$ -
09/30/10	1,010,659	100%	-
09/30/11	1,124,662	100%	-

**Annual Pension Cost**

For the employer's accounting year ended September 30, 2011, the annual pension cost for the TCDRS plan for its employees was \$1,124,662 and the actual contributions were \$1,124,662. The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations for the years ended December 31, 2002 through December 31, 2010, the basis for determining the contribution rate for calendar years 2010 and 2011. The December 31, 2010 valuation is the most recent valuation.

(continued)

4. **OTHER INFORMATION (Continued)**

**Pension Plan** (Continued)

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

Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2008	\$ 22,888,448	\$ 27,805,830	\$ 4,917,382	82.32%	\$ 9,723,794	50.57%
2009	24,683,370	29,573,819	4,890,449	83.46%	10,198,693	47.95%
2010	25,420,366	30,870,743	5,450,377	82.34%	10,418,248	52.32%

**Post-retirement Health Care Benefits**

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

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

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

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

(continued)

4. **OTHER INFORMATION** (Continued)

**Post-retirement Health Care Benefits** (Continued)

**Annual OPEB Cost and Net OPEB Obligation**

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

Annual Required Contribution (ARC)	\$ 3,073,822
Interest on Net OPEB Obligation	<u>305,153</u>
Annual OPEB Cost	3,378,975
Employer Contributions with Interest	( 570,494)
Increase (Decrease) in Net OPEB Obligation	2,808,481
Net OPEB Obligation, beginning of year	<u>6,781,178</u>
Net OPEB Obligation, end of year	<u>\$ 9,589,659</u>

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

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

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
09/30/11	\$ 3,378,975	\$ 570,494	7%	\$ 9,589,659
09/30/10	3,784,339	373,801	7%	6,781,178
09/30/09	3,632,660	262,020	7%	3,370,640

**Funding Status and Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (AAL) (UAAL)	Funded Ratio	Covered Payroll
09/30/08	\$ -	\$ 35,154,799	\$ 35,154,799	- %	\$ -
09/30/10	-	29,751,427	29,751,427	- %	-

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

(continued)

4. **OTHER INFORMATION (Continued)**

**Post-retirement Health Care Benefits** (Continued)

**An Annual OPEB Cost and Net OPEB Obligation** (Continued)

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

**Actuarial Methods and Assumptions**

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

The actuarial methods and significant assumptions used are as follows:

Actuarial Valuation Date	12/31/10	12/31/08
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level percent of payroll	Level percent of payroll
Remaining Amortization Period	30 years	30 years
Asset Valuation Method	Market Value	Market Value
Actuarial Assumptions:		
Investment Rate of Return	4.5%	4.5%
Payroll Growth Rate	3%	3%
Projected Salary Increases	4%	4%
General Inflation Rate	3%	3%
Healthcare cost trend rate	10%	10%
The number of active members is assumed to remain constant in the future		

(continued)

4. **OTHER INFORMATION (Continued)**

**Change in Accounting Policies**

For fiscal year 2011, the County has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that compromise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the County reclassifying fund balances of its governmental funds.

**Restatement of Prior Year's Fund Balance**

The implementation of GASB Statement No. 54 had the following effect on fund balances of the major and nonmajor funds as they were previously reported:

	<u>General</u>	<u>Road and and Bridge</u>	<u>Jail Construction</u>	<u>Internal Service</u>	<u>Other Governmental</u>	<u>Total</u>
Fund balance at September 30, 2011	\$ 6,301,512	\$( 185,038)	\$ 4,201,255	\$( 381,119)	\$ 3,091,070	\$ 13,027,680
Change in Accounting Principle, GASB 54	<u>410,190</u>	<u>319,264</u>	<u>-</u>	<u>-</u>	<u>( 729,454)</u>	<u>-</u>
Fund balance at September 30, 2011, restated	<u>\$ 6,711,702</u>	<u>\$ 134,226</u>	<u>\$ 4,201,255</u>	<u>\$( 381,119)</u>	<u>\$ 2,361,616</u>	<u>\$ 13,027,680</u>

**COMBINING AND INDIVIDUAL  
FUND FINANCIAL STATEMENTS  
AND SCHEDULES**

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**HARRISON COUNTY, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2011**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,339,065	\$ 441,073	\$ -	\$ 2,780,138
Receivables:				
Accounts receivable	5,841	-	-	5,841
Due from other governments	355,195	-	425,052	780,247
Due from other funds	33,243	2,708	330	36,281
Prepaid expenses	<u>10,527</u>	<u>-</u>	<u>-</u>	<u>10,527</u>
 Total assets	 <u>\$ 2,743,871</u>	 <u>\$ 443,781</u>	 <u>\$ 425,382</u>	 <u>\$ 3,613,034</u>
<b>LIABILITIES AND FUND EQUITY</b>				
Liabilities:				
Accounts payable	\$ 494,778	\$ -	\$ -	\$ 494,778
Accrued wages payable	16,801	-	-	16,801
Due to other funds	96,172	-	298,939	395,111
Deferred revenue	<u>64,885</u>	<u>-</u>	<u>-</u>	<u>64,885</u>
Total liabilities	<u>672,636</u>	<u>-</u>	<u>298,939</u>	<u>971,575</u>
Fund equity:				
Fund balance:				
Restricted	1,690,648	443,781	126,443	2,260,872
Committed	<u>380,587</u>	<u>-</u>	<u>-</u>	<u>380,587</u>
Total fund equity	<u>2,071,235</u>	<u>443,781</u>	<u>126,443</u>	<u>2,641,459</u>
 Total liabilities and fund equity	 <u>\$ 2,743,871</u>	 <u>\$ 443,781</u>	 <u>\$ 425,382</u>	 <u>\$ 3,613,034</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, 2011

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Ad valorem taxes	\$ 1,202,003	\$ 1,180,957	\$ 143,785	\$ 2,526,745
Licenses and permits	1,590	-	-	1,590
Governmental revenue	1,592,272	-	-	1,592,272
Charges for services	765,314	-	-	765,314
Fines and forfeitures	6,747	-	-	6,747
Investment earnings	3,742	436	146	4,324
Miscellaneous	87,043	-	9,049	96,092
Total revenues	3,658,711	1,181,393	152,980	4,993,084
<b>EXPENDITURES</b>				
Current expenditures:				
General administration	519,719	-	-	519,719
Judicial	363,419	-	-	363,419
Legal	5,386	-	-	5,386
Elections	35,395	-	-	35,395
Public safety	2,192,796	-	-	2,192,796
Public transportation	9,418	-	-	9,418
Health and welfare	138,839	-	-	138,839
Capital outlay	462,274	-	119,181	581,455
Debt service				
Principal	-	702,156	-	702,156
Interest and other charges	-	214,281	-	214,281
Total expenditures	3,727,246	916,437	119,181	4,762,864
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	( 68,535)	264,956	33,799	230,220
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan proceeds	20,089	-	-	20,089
Operating transfer in	45,866	-	35,291	81,157
Operating transfer out	( 51,623)	-	-	( 51,623)
Total other financing sources (uses)	14,332	-	35,291	49,623
<b>NET CHANGE IN FUND BALANCES</b>	( 54,203)	264,956	69,090	279,843
<b>FUND BALANCES, BEGINNING</b>	2,125,438	178,825	57,353	2,361,616
<b>FUND BALANCES, ENDING</b>	\$ 2,071,235	\$ 443,781	\$ 126,443	\$ 2,641,459

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

**SEPTEMBER 30, 2011**

	<u>Jury</u>	<u>Bail Bond Board</u>	<u>Drug Forfeitures</u>	<u>Airport Maintenance</u>	<u>Tax Collector VIT</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 61,977	\$ 163,762	\$ 8,156	\$ 266,715	\$ 69,670
Receivables:					
Accounts receivable	-	-	-	5,721	-
Due from other governments	7,072	-	-	1,105	-
Due from other funds	557	-	-	-	104
Prepaid expenses	<u>-</u>	<u>-</u>	<u>784</u>	<u>7,085</u>	<u>-</u>
Total assets	<u>\$ 69,606</u>	<u>\$ 163,762</u>	<u>\$ 8,940</u>	<u>\$ 280,626</u>	<u>\$ 69,774</u>
<b>LIABILITIES AND FUND EQUITY</b>					
Liabilities:					
Accounts payable	\$ 982	\$ -	\$ -	\$ 1,719	\$ 208
Accrued wages payable	2,395	-	-	-	-
Due to other funds	-	-	-	-	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>3,377</u>	<u>-</u>	<u>-</u>	<u>1,719</u>	<u>208</u>
Fund equity:					
Fund balance:					
Restricted	-	163,762	8,940	278,907	69,566
Committed	<u>66,229</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund equity	<u>66,229</u>	<u>163,762</u>	<u>8,940</u>	<u>278,907</u>	<u>69,566</u>
Total liabilities and fund equity	<u>\$ 69,606</u>	<u>\$ 163,762</u>	<u>\$ 8,940</u>	<u>\$ 280,626</u>	<u>\$ 69,774</u>

<u>Justice Technology</u>	<u>Law Library</u>	<u>Juvenile Services</u>	<u>County Grant</u>	<u>Records Management</u>	<u>Security</u>	<u>District Attorney Special</u>	<u>District Court Technology</u>	<u>County Court Technology</u>
\$ 297,057	\$ 97,953	\$ 384,253	\$ -	\$ 746,241	\$ 93,593	\$ 100,920	\$ 7,041	\$ 1,621
-	-	-	-	-	-	120	-	-
-	-	3,568	343,450	-	-	-	-	-
1,804	3,786	2,362	-	16,677	3,947	425	386	192
<u>-</u>	<u>-</u>	<u>2,658</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 298,861</u>	<u>\$ 101,739</u>	<u>\$ 392,841</u>	<u>\$ 343,450</u>	<u>\$ 762,918</u>	<u>\$ 97,540</u>	<u>\$ 101,465</u>	<u>\$ 7,427</u>	<u>\$ 1,813</u>
\$ -	\$ 99	\$ 4,368	\$ 207,400	\$ 277,236	\$ 2	\$ 471	\$ -	\$ -
-	108	12,641	177	-	1,156	-	-	-
-	-	-	95,838	-	-	-	-	-
-	-	61,474	1,536	-	-	1,875	-	-
<u>-</u>	<u>207</u>	<u>78,483</u>	<u>304,951</u>	<u>277,236</u>	<u>1,158</u>	<u>2,346</u>	<u>-</u>	<u>-</u>
298,861	101,532	-	38,499	485,682	96,382	99,119	7,427	1,813
-	-	314,358	-	-	-	-	-	-
<u>298,861</u>	<u>101,532</u>	<u>314,358</u>	<u>38,499</u>	<u>485,682</u>	<u>96,382</u>	<u>99,119</u>	<u>7,427</u>	<u>1,813</u>
<u>\$ 298,861</u>	<u>\$ 101,739</u>	<u>\$ 392,841</u>	<u>\$ 343,450</u>	<u>\$ 762,918</u>	<u>\$ 97,540</u>	<u>\$ 101,465</u>	<u>\$ 7,427</u>	<u>\$ 1,813</u>

(continued)

**HARRISON COUNTY, TEXAS**

**COMBINING BALANCE SHEET**

**NONMAJOR SPECIAL REVENUE FUNDS**

**(Continued)**

**SEPTEMBER 30, 2011**

	<u>Case Manager</u>	<u>District Clerk Preservation</u>	<u>County Clerk Preservation</u>	<u>6th Court of Appeal</u>	<u>Vital Archive Fee</u>	<u>Totals</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ -	\$ 13,348	\$ 8,415	\$ 470	\$ 17,873	\$ 2,339,065
Receivables:						
Accounts receivable	-	-	-	-	-	5,841
Due from other governments	-	-	-	-	-	355,195
Due from other funds	762	730	520	540	451	33,243
Prepaid expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,527</u>
Total assets	<u>\$ 762</u>	<u>\$ 14,078</u>	<u>\$ 8,935</u>	<u>\$ 1,010</u>	<u>\$ 18,324</u>	<u>\$ 2,743,871</u>
<b>LIABILITIES AND FUND EQUITY</b>						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ 1,010	\$ 1,283	\$ 494,778
Accrued wages payable	324	-	-	-	-	16,801
Due to other funds	334	-	-	-	-	96,172
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,885</u>
Total liabilities	<u>658</u>	<u>-</u>	<u>-</u>	<u>1,010</u>	<u>1,283</u>	<u>672,636</u>
Fund equity:						
Fund balance:						
Restricted	104	14,078	8,935	-	17,041	1,690,648
Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>380,587</u>
Total fund equity	<u>104</u>	<u>14,078</u>	<u>8,935</u>	<u>-</u>	<u>17,041</u>	<u>2,071,235</u>
Total liabilities and fund equity	<u>\$ 762</u>	<u>\$ 14,078</u>	<u>\$ 8,935</u>	<u>\$ 1,010</u>	<u>\$ 18,324</u>	<u>\$ 2,743,871</u>

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## HARRISON COUNTY, TEXAS

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

#### NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Jury	Bail Bond Board	Drug Forfeitures	Airport Maintenance	Tax Collector VIT
<b>REVENUES</b>					
Ad valorem taxes	\$ 206,530	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	1,590	-	-	-
Governmental revenue	24,106	-	4,105	6,838	-
Charges for services	4,862	-	-	147,968	5,706
Fines and forfeitures	-	-	-	-	-
Investment earnings	136	102	5	432	197
Miscellaneous	-	50,000	-	37,043	-
Total revenues	235,634	51,692	4,110	192,281	5,903
<b>EXPENDITURES</b>					
Current expenditures:					
General administration	-	-	-	141,074	1,094
Judicial	208,629	-	-	-	-
Legal	-	-	-	-	-
Elections	-	-	-	-	-
Public safety	-	-	3,214	-	-
Public transportation	-	-	-	9,418	-
Health and welfare	-	-	-	-	-
Capital outlay	-	-	-	20,550	-
Total expenditures	208,629	-	3,214	171,042	1,094
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>					
	27,005	51,692	896	21,239	4,809
<b>OTHER FINANCING SOURCES (USES)</b>					
Loan proceeds	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
<b>NET CHANGE IN FUND BALANCE</b>	27,005	51,692	896	21,239	4,809
<b>FUND BALANCE, BEGINNING</b>	39,224	112,070	8,044	257,668	64,757
<b>FUND BALANCE, ENDING</b>	\$ 66,229	\$ 163,762	\$ 8,940	\$ 278,907	\$ 69,566

<u>Justice Technology</u>	<u>Law Library</u>	<u>Juvenile Services</u>	<u>County Grant</u>	<u>Records Management</u>	<u>Security</u>	<u>District Attorney Special</u>	<u>District Court Technology</u>	<u>County Court Technology</u>
\$ -	\$ -	\$ 995,473	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	665,585	858,513	-	-	33,125	-	-
37,774	42,936	201,584	-	208,361	61,002	16,503	4,287	1,171
-	-	-	-	-	-	6,747	-	-
495	237	655	58	969	112	274	3	-
-	-	-	-	-	-	-	-	-
<u>38,269</u>	<u>43,173</u>	<u>1,863,297</u>	<u>858,571</u>	<u>209,330</u>	<u>61,114</u>	<u>56,649</u>	<u>4,290</u>	<u>1,171</u>
5,932	-	-	-	337,513	-	-	-	-
-	54,154	-	-	-	82,576	-	-	-
-	-	-	5,386	-	-	-	-	-
-	-	-	35,395	-	-	-	-	-
-	-	1,813,706	304,429	-	-	71,447	-	-
-	-	-	-	-	-	-	-	-
-	-	-	138,839	-	-	-	-	-
-	-	20,795	374,381	-	-	46,548	-	-
<u>5,932</u>	<u>54,154</u>	<u>1,834,501</u>	<u>858,430</u>	<u>337,513</u>	<u>82,576</u>	<u>117,995</u>	<u>-</u>	<u>-</u>
<u>32,337</u>	<u>( 10,981)</u>	<u>28,796</u>	<u>141</u>	<u>( 128,183)</u>	<u>( 21,462)</u>	<u>( 61,346)</u>	<u>4,290</u>	<u>1,171</u>
-	-	20,089	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	( 5,757)	( 45,866)	-	-	-	-
-	-	20,089	( 5,757)	( 45,866)	-	-	-	-
32,337	( 10,981)	48,885	( 5,616)	( 174,049)	( 21,462)	( 61,346)	4,290	1,171
<u>266,524</u>	<u>112,513</u>	<u>265,473</u>	<u>44,115</u>	<u>659,731</u>	<u>117,844</u>	<u>160,465</u>	<u>3,137</u>	<u>642</u>
<u>\$ 298,861</u>	<u>\$ 101,532</u>	<u>\$ 314,358</u>	<u>\$ 38,499</u>	<u>\$ 485,682</u>	<u>\$ 96,382</u>	<u>\$ 99,119</u>	<u>\$ 7,427</u>	<u>\$ 1,813</u>

(continued)

## HARRISON COUNTY, TEXAS

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

#### NONMAJOR SPECIAL REVENUE FUNDS

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Case Manager	District Clerk Preservation	County Clerk Preservation	6th Court of Appeal	Vital Archive Fees	Totals
<b>REVENUES</b>						
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,202,003
Licenses and permits	-	-	-	-	-	1,590
Governmental revenue	-	-	-	-	-	1,592,272
Charges for services	14,844	7,980	5,110	-	5,226	765,314
Fines and forfeitures	-	-	-	-	-	6,747
Investment earnings	2	6	4	-	55	3,742
Miscellaneous	-	-	-	-	-	87,043
Total revenues	<u>14,846</u>	<u>7,986</u>	<u>5,114</u>	<u>-</u>	<u>5,281</u>	<u>3,658,711</u>
<b>EXPENDITURES</b>						
Current expenditures:						
General administration	-	-	-	-	34,106	519,719
Judicial	17,525	-	-	535	-	363,419
Legal	-	-	-	-	-	5,386
Elections	-	-	-	-	-	35,395
Public safety	-	-	-	-	-	2,192,796
Public transportation	-	-	-	-	-	9,418
Health and welfare	-	-	-	-	-	138,839
Capital outlay	-	-	-	-	-	462,274
Total expenditures	<u>17,525</u>	<u>-</u>	<u>-</u>	<u>535</u>	<u>34,106</u>	<u>3,727,246</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 2,679)</u>	<u>7,986</u>	<u>5,114</u>	<u>( 535)</u>	<u>( 28,825)</u>	<u>( 68,535)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Loan proceeds	-	-	-	-	-	20,089
Operating transfers in	-	-	-	-	45,866	45,866
Operating transfers out	-	-	-	-	-	( 51,623)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,866</u>	<u>14,332</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>( 2,679)</u>	<u>7,986</u>	<u>5,114</u>	<u>( 535)</u>	<u>17,041</u>	<u>( 54,203)</u>
<b>FUND BALANCE, BEGINNING</b>	<u>2,783</u>	<u>6,092</u>	<u>3,821</u>	<u>535</u>	<u>-</u>	<u>2,125,438</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 104</u>	<u>\$ 14,078</u>	<u>\$ 8,935</u>	<u>\$ -</u>	<u>\$ 17,041</u>	<u>\$ 2,071,235</u>

**HARRISON COUNTY, TEXAS**

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

**JAIL CONSTRUCTION FUND**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Jail Construction			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>REVENUES</b>				
Investment earnings	\$ 150,000	\$ 150,000	\$ 4,505	\$( 145,495)
Total revenues	<u>150,000</u>	<u>150,000</u>	<u>4,505</u>	<u>( 145,495)</u>
<b>EXPENDITURES</b>				
Capital outlay	<u>7,108,835</u>	<u>7,108,835</u>	<u>6,607,266</u>	<u>501,569</u>
Total expenditures	<u>7,108,835</u>	<u>7,108,835</u>	<u>6,607,266</u>	<u>501,569</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	( 6,958,835)	( 6,958,835)	( 6,602,761)	356,074
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	<u>-</u>	<u>-</u>	<u>2,040,392</u>	<u>2,040,392</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>2,040,392</u>	<u>2,040,392</u>
<b>NET CHANGE IN FUND BALANCES</b>	( 6,958,835)	( 6,958,835)	( 4,562,369)	2,396,466
<b>FUND BALANCES, BEGINNING</b>	<u>4,201,255</u>	<u>4,201,255</u>	<u>4,201,255</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$( 2,757,580)</u>	<u>\$( 2,757,580)</u>	<u>\$( 361,114)</u>	<u>\$ 2,396,466</u>

# HARRISON COUNTY, TEXAS

## COMBINING STATEMENT OF ASSETS AND LIABILITIES

### AGENCY FUNDS

SEPTEMBER 30, 2011

	<u>County Treasurer</u>	<u>County Clerk</u>	<u>District Attorney</u>	<u>District Clerk</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 198,559	\$ 527,751	\$ 19,838	\$ 1,458,010
Accounts receivable	-	-	-	-
Investments	<u>-</u>	<u>792,097</u>	<u>-</u>	<u>5,222,277</u>
Total assets	<u>\$ 198,559</u>	<u>\$ 1,319,848</u>	<u>\$ 19,838</u>	<u>\$ 6,680,287</u>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 9,721	\$ 19,838	\$ 4,140
Due to other governments	198,453	6,116	-	11,102
Due to other funds	106	64,944	-	26,464
Deferred revenue	-	-	-	-
Court ordered funds	-	446,970	-	1,416,304
Court ordered trust and prisoner funds	<u>-</u>	<u>792,097</u>	<u>-</u>	<u>5,222,277</u>
Total liabilities	<u>\$ 198,559</u>	<u>\$ 1,319,848</u>	<u>\$ 19,838</u>	<u>\$ 6,680,287</u>

<u>Justices of the Peace</u>	<u>Juvenile Center</u>	<u>Sheriff</u>	<u>Tax Assessor- Collector</u>	<u>Fines Collection</u>	<u>Totals</u>
\$ 98,970	\$ 688	\$ 179,147	\$ 1,065,030	\$ 45,832	\$ 3,593,825
-	-	227,381	-	-	227,381
-	-	-	150,000	-	6,164,374
<u>\$ 98,970</u>	<u>\$ 688</u>	<u>\$ 406,528</u>	<u>\$ 1,215,030</u>	<u>\$ 45,832</u>	<u>\$ 9,985,580</u>
\$ 358	\$ 593	\$ 230,645	\$ 3,721	\$ 7,164	\$ 276,180
36,595	95	-	933,832	11,436	1,197,629
62,017	-	1,742	148,836	27,232	331,341
-	-	142,089	128,641	-	270,730
-	-	-	-	-	1,863,274
-	-	32,052	-	-	6,046,426
<u>\$ 98,970</u>	<u>\$ 688</u>	<u>\$ 406,528</u>	<u>\$ 1,215,030</u>	<u>\$ 45,832</u>	<u>\$ 9,985,580</u>

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**INTERNAL CONTROL  
AND COMPLIANCE SECTION**

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harrison County, Texas, as of and for the year ended September 30, 2011, which collectively comprise the County's basic financial statements and have issued our report thereon dated June 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be a significant deficiency in internal control over financial reporting listed as Item 2011-1. 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.

## **Compliance and Other Matters**

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

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

This report is intended solely for the information and use of management, Commissioners' Court, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

June 22, 2012



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

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

**Compliance**

We have audited Harrison County, Texas' (the "County") compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the County's major federal programs for the year ended September 30, 2011. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, the County, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

## Internal Control Over Compliance

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

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

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

This report is intended solely for the information and use of management, Commissioners' Court, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Patillo, Brown & Hill, L.L.P.

June 22, 2012

**HARRISON COUNTY, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED SEPTEMBER 30, 2011**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grantor's Pass-through Number	Federal Expenditures
<b><u>U. S. Department of Agriculture</u></b>			
Passed through Texas Health and Human Services:			
National School Lunch Program	10.555	75P6008	\$ 19,964
Total Passed through Texas Health and Human Services			<u>19,964</u>
Total U. S. Department of Agriculture			<u>19,964</u>
<b><u>U. S. Department of Housing and Urban Development</u></b>			
Passed through General Land Office:			
2008 Disaster Recovery Grant	14.228	DRS010065	176,845
Total Passed through General Land Office			<u>176,845</u>
Passed through Texas Department of Agriculture:			
Talley Water Supply Grant	14.228	729319	172,961
Karnack Water Supply Grant	14.228	728106	161,664
Leigh Water Supply Grant	14.228	726106	1,750
Total Passed through Texas Department of Agriculture			<u>336,375</u>
Total U. S. Department of Housing and Urban Development			<u>513,220</u>
<b><u>U. S. Department of Justice</u></b>			
Passed through the Office of the Governor:			
Bullet Proof Partnership Program	16.607	2009-SB-B9-2139	1,163
Total Passed through Office of the Governor			<u>1,163</u>
Direct:			
Sheriff SCAAP Grant	16.606	2010-AP-BX-0063	7,804
Justice Assistance Grant Program	16.738	2010-DJ-BX-0389	12,268
Total Direct Programs			<u>20,072</u>
Total U. S. Department of Justice			<u>21,235</u>
<b><u>Election Assistance Commission</u></b>			
Passed through Texas Secretary of State:			
HAVA- General Compliance	90.401	78577	35,398
Total Passed through Texas Secretary of State			<u>35,398</u>
Total Election Assistance Commission			<u>35,398</u>
<b><u>U. S. Department of Health and Human Services</u></b>			
Passed through Texas Department of Family and Protective Services:			
Title IV-E Legal Services	93.669	23379904	10,971
Total Passed through Texas Department of Family and Protective Services			<u>10,971</u>
Total U. S. Department of Health and Human Services			<u>10,971</u>

(continued)

**HARRISON COUNTY, TEXAS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)  
YEAR ENDED SEPTEMBER 30, 2011**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grantor's Pass-through Number	Federal Expenditures
<b><u>U. S. Department of Energy</u></b>			
Passed through the State Energy Conservation Office:			
Energy Efficiency and Conservation Block Grant - ARRA	97.073	2009-SS-T9-0064	\$ 115,153
Total Passed through the State Energy Conservation Office			<u>115,153</u>
Total U. S. Department of Energy			<u>115,153</u>
<b><u>U. S. Department of Homeland Security</u></b>			
Passed through Texas Department of Public Safety:			
Homeland Security Grant Program	97.073	2008-GE-T8-0034	27,577
Homeland Security Grant Program	97.073	2009-SS-T9-0064	3,302
Homeland Security Grant Program	97.073	2009-SS-T9-0064	<u>5,094</u>
Total Passed through Texas Department of Public Safety			<u>35,973</u>
Total U. S. Department of Homeland Security			<u>35,973</u>
Total Federal Expenditures			\$ <u>751,914</u>

**HARRISON COUNTY, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**Summary of Auditors' Results**

Financial Statements:

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Item 2011-1
Noncompliance material to financial statements noted?	No

Federal Awards:

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

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

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

Dollar threshold used to distinguish between Type A and Type B federal programs:	\$300,000
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Auditee qualified as low-risk auditee under OMB Circular A-133?	No
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**(continued)**

**HARRISON COUNTY, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTION COST**  
**(Continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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

**Item 2011-1**

<u>Condition:</u>	During the audit, we noted instances where revenues and expenses were being netted together.
<u>Effect:</u>	Without recording revenues and expenses in the proper accounts, revenues and expenditures may be incorrectly stated on the financial statements.
<u>Cause:</u>	The County booked revenues and expenses in several expense accounts for various fees and charges for services.
<u>Recommendation:</u>	The County should ensure that all revenues and expenditures that occur for the county should be recorded properly.
<u>Management's Response:</u>	The County will set up a new revenue accounts for money received for fees and charges for services collected and begin allocating revenue and expenditures properly to their respective line items.
<u>Contact Person Responsible for Corrective Action:</u>	Dawn Jones, County Auditor
<u>Anticipated Completion Date:</u>	Corrections to netted revenue and expenditures will be corrected on or before October 1, 2012.

**Findings and Questioned Costs for Federal Awards**

None

**HARRISON COUNTY, TEXAS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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

**Item 2010-1**

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

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

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

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

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

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

Current Status: This matter has been resolved.

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harrison County, Texas for the year ended September 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 22, 2012. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

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

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Harrison County, Texas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended September 30, 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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

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

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

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

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

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

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

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

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated June 22, 2012.

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

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

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

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

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. These items do not affect our report dated June 22, 2012, on the financial statements of Harrison County, Texas. We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various County personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Segregation of Duties:

Based on our audit of payroll it was noted that the processes to conduct payroll is managed separately by two individuals in the County. Though the functions are separated externally, each individual has the capability of completing the entire process from start to finish. Such processes such as creating new employees and paying employees should restrict access to certain functions of the payroll module for the Human Resource department and Payroll Department.

Fines Collections:

During our review of the processes and procedures over the fine collection departments such as the justice of the peace courts and County clerks we noticed several instances where internal controls could be improved. Such instances noted were signature stamps of Judges kept by clerks at all time, verification of changes made to violation fees were not being monitored, clerks verifying their own cash tills, and multiple clerks sharing the same drawer and at times not locking drawers when leaving the premises. These instances are minimal to correct and when resolved will increase the security of the County's assets.

Verification:

Based on our audit of the Justice of the Peace offices, it was noted that tickets written by the Sheriff's department are not being verified by the Sheriff's office to ensure tickets are being entered accurately and that all tickets are accounted for. Department of Public Safety tickets are routinely audited to ensure completeness and we suggest the same procedures should be performed for tickets written by the Sheriff's department. The added step will ensure that the County is able to detect any mistakes on a timely basis.

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

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

June 22, 2012