

HARTLEY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

**FOR YEAR ENDED
SEPTEMBER 30, 2013**

HARTLEY COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR YEAR ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

	Page
PART I – INTRODUCTORY SECTION	
LIST OF PRINCIPAL COUNTY OFFICIALS.....	i
PART II – FINANCIAL SECTION	
INDEPENDENT AUDITORS’ REPORT	1
BASIC FINANCIAL STATEMENTS	
<u>Government-wide Financial Statements</u>	
Statement of Net Position	3
Statement of Activities	4
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	5
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	6
Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	9
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Road and Bridge Fund	10
Statement of Fiduciary Net Position – Agency Funds	11
<u>Notes to Basic Financial Statements</u>	12

HARTLEY COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR YEAR ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

	Page
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress for the Retirement Plan for the Employees of Hartley County, Texas.....	27
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet – Non-major Governmental Funds.....	28
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Funds	29
Combining Statement of Fiduciary Net Position – Agency Funds	30
PART III – COMPLIANCE	
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	31
Schedule of Findings.....	33

PART I

INTRODUCTORY SECTION

HARTLEY COUNTY, TEXAS
PRINCIPAL COUNTY OFFICIALS
SEPTEMBER 30, 2013

Ronnie Gordon	County Judge
David Vincent	Commissioner, Precinct #1
Jim Hill	Commissioner, Precinct #2
Chad Hicks	Commissioner, Precinct #3
Butch Owens	Commissioner, Precinct #4
Ron Enns	Judge, 69 th Judicial District
David Green	District Attorney
Robert Elliott	County Attorney
Melissa Mead	District/County Clerk
Franky Scott	County Tax Assessor/Collector
Dinkie Parman	County Treasurer
Franky Scott	County Sheriff
Edwynna Womble	Justice of the Peace

PART II
FINANCIAL SECTION



To The Honorable County Judge and
Commissioners Comprising the
Commissioners' Court of
Hartley County, Texas

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and its respective budgetary comparison schedule, and the aggregate remaining fund information of Hartley County, Texas as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund with its respective budgetary comparison schedule, and the aggregate remaining fund information of Hartley County, Texas, as of September 30, 2013, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of funding progress for the retirement plan for the employees of Hartley, Texas on page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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.

The County has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. The MD&A, 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. The independent auditors' opinion is not affected by the omission of the MD&A.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hartley County, Texas' financial statements as a whole. The combining non-major and agency fund financial statements listed under other supplementary information in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The combining non-major and agency fund financial statements listed under other supplementary information in the accompanying table of contents 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013, on our consideration of Hartley County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hartley County, Texas' internal control over financial reporting and compliance.

DOSHIER, PICKENS & FRANCIS, L.L.C.

DPOSHIER, PICKENS & FRANCIS, LLC
October 31, 2013

BASIC FINANCIAL STATEMENTS

HARTLEY COUNTY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 506,670
Investments	400,000
Accounts receivable, net	265,743
Delinquent taxes receivable, net	9,468
Prepaid expenses	21,529
Restricted assets:	
Cash	30,625
Capital assets, net of accumulated depreciation	<u>2,134,940</u>
Total assets	<u>3,368,975</u>
LIABILITIES	
Accounts payable	207,766
Due to other governmental entities	106,545
Accrued expenses	29,162
Deposits held in trust	30,097
Noncurrent liabilities:	
Due within one year	384,364
Due in more than one year	<u>17,051</u>
Total liabilities	<u>774,985</u>
NET POSITION	
Net investment in capital assets	1,750,576
Restricted by enabling legislation for:	
Special projects	109,265
Unrestricted	<u>734,149</u>
Total net position	<u><u>\$ 2,593,990</u></u>

The notes to the financial statements are an integral part of this statement.

**HARTLEY COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Net Position</u>
					<u>Primary</u>
					<u>Government</u>
					<u>Governmental</u>
					<u>Activities</u>
Primary government					
Governmental Activities:					
Administrative	\$ 673,429	\$ 280,895	\$ 15,000	\$ -	\$ (377,534)
Judicial	419,855	358,078	32,855	-	(28,922)
Public facilities	171,763	-	-	-	(171,763)
Public safety	959,712	26,829	3,534	-	(929,349)
Road and bridge	669,827	369,844	15,694	-	(284,289)
Public service	140,654	-	-	-	(140,654)
Interest on long-term debt	18,698	-	-	-	(18,698)
Total	\$ 3,053,938	\$ 1,035,646	\$ 67,083	\$ -	(1,951,209)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					1,989,297
Property taxes, levied for debt service					182,179
Mixed beverage taxes					1,362
Investment earnings					3,943
Miscellaneous					35,375
Gain from disposal of asset					23,400
Total general revenues					2,235,556
Change in net position					284,347
Net position - beginning					2,309,643
Net position - ending					\$ 2,593,990

The notes to the financial statements are an integral part of this statement.

HARTLEY COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	General Fund	Road and Bridge Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 488,547	\$ -	\$ 48,748	\$ 537,295
Investments	400,000	-	-	400,000
Accounts receivable, net	265,743	-	-	265,743
Taxes receivable, net	9,468	-	-	9,468
Due from other funds	-	62,071	108,725	170,796
Prepaid expenses	21,529	-	-	21,529
	<u>1,185,287</u>	<u>62,071</u>	<u>157,473</u>	<u>1,404,831</u>
Total assets	<u>\$ 1,185,287</u>	<u>\$ 62,071</u>	<u>\$ 157,473</u>	<u>\$ 1,404,831</u>
LIABILITIES				
Liabilities:				
Accounts payable	\$ 207,766	\$ -	\$ -	\$ 207,766
Due to other funds	170,159	-	637	170,796
Due to other governmental entities	106,545	-	-	106,545
Accrued expenses	29,162	-	-	29,162
Deposits held in trust	30,097	-	-	30,097
	<u>543,729</u>	<u>-</u>	<u>637</u>	<u>544,366</u>
Total liabilities	<u>543,729</u>	<u>-</u>	<u>637</u>	<u>544,366</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	7,258	-	-	7,258
Unavailable revenue - other receivables	215,224	-	-	215,224
	<u>222,482</u>	<u>-</u>	<u>-</u>	<u>222,482</u>
Total deferred inflows of resources	<u>222,482</u>	<u>-</u>	<u>-</u>	<u>222,482</u>
FUND BALANCES				
Unspendable:				
Prepaid expenses	21,529	-	-	21,529
Restricted:				
By enabling legislation for special projects	-	-	109,265	109,265
Committed for:				
Capital projects	-	-	47,571	47,571
Special revenues	-	62,071	-	62,071
Unassigned	397,547	-	-	397,547
	<u>419,076</u>	<u>62,071</u>	<u>156,836</u>	<u>637,983</u>
Total fund balances	<u>419,076</u>	<u>62,071</u>	<u>156,836</u>	<u>637,983</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,185,287</u>	<u>\$ 62,071</u>	<u>\$ 157,473</u>	<u>\$ 1,404,831</u>

The notes to the financial statements are an integral part of this statement.

HARTLEY COUNTY, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

Total fund balances - governmental funds	\$	637,983
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.</p>		2,134,940
<p>Long-term assets are not available to pay for current-period expenditures and, therefore, are shown as unavailable revenue in the fund financial statements.</p>		222,482
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements:</p>		
Notes payable		(384,364)
Accrued compensated absences		(17,051)
		(384,364)
		(17,051)
Net position - governmental activities	\$	2,593,990

The notes to the financial statements are an integral part of this statement.

HARTLEY COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 1,985,114	\$ -	\$ 182,179	\$ 2,167,293
Other taxes	1,362	-	-	1,362
Licenses and fees	214,767	369,844	44,953	629,564
Fines and forfeitures	312,013	-	9,422	321,435
Intergovernmental	51,389	15,694	-	67,083
Investment earnings	2,067	895	981	3,943
Miscellaneous	32,917	1,695	762	35,374
	<u>2,599,629</u>	<u>388,128</u>	<u>238,297</u>	<u>3,226,054</u>
Total revenues				
EXPENDITURES				
Current:				
Administrative	646,097	-	19,705	665,802
Judicial	402,686	-	17,180	419,866
Public facilities	155,743	-	-	155,743
Public safety	866,645	-	10,016	876,661
Road and bridge	-	553,213	-	553,213
Public service	140,654	-	-	140,654
Debt service:				
Principal	-	-	163,826	163,826
Interest	-	-	18,698	18,698
Capital outlay	39,620	89,545	75,177	204,342
	<u>2,251,445</u>	<u>642,758</u>	<u>304,602</u>	<u>3,198,805</u>
Total expenditures				
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>348,184</u>	<u>(254,630)</u>	<u>(66,305)</u>	<u>27,249</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt, net	-	-	50,000	50,000
Proceeds from sale of assets	12,500	10,900	-	23,400
Transfers in	-	300,000	30,000	330,000
Transfers out	(330,000)	-	-	(330,000)
	<u>(317,500)</u>	<u>310,900</u>	<u>80,000</u>	<u>73,400</u>
Total other financing sources (uses)				
NET CHANGE IN FUND BALANCES	30,684	56,270	13,695	100,649
FUND BALANCES - BEGINNING	<u>388,392</u>	<u>5,801</u>	<u>143,141</u>	<u>537,334</u>
FUND BALANCES - ENDING	<u>\$ 419,076</u>	<u>\$ 62,071</u>	<u>\$ 156,836</u>	<u>\$ 637,983</u>

The notes to the financial statements are an integral part of this statement.

**HARTLEY COUNTY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Net change in fund balances - total governmental funds: \$ 100,649

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlays, \$204,342, was exceeded by depreciation, \$222,117, in the current period. (17,775)

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. This amount represents the change in unavailable revenue. 88,833

In the Statement of Net Assets, incurring debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayments of principal is an expenditure in the governmental funds, but reduces the liability in the Statement of Net Assets.

Debt issued or incurred: (50,000)
Note payable
Principal repayments:
Note payable 163,826

Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:
Compensated absences, net change (1,186)

Change in net position - governmental activities \$ 284,347

The notes to the financial statements are an integral part of this statement.

HARTLEY COUNTY, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 1,999,137	\$ 1,999,137	\$ 1,985,114	\$ (14,023)
Other taxes	1,000	1,000	1,362	362
Licenses and fees	142,400	172,400	214,767	42,367
Fines and forfeitures	262,000	273,975	312,013	38,038
Intergovernmental	44,233	44,233	51,389	7,156
Investment earnings	1,000	1,000	2,067	1,067
Miscellaneous	36,226	36,226	32,917	(3,309)
	<u>2,485,996</u>	<u>2,527,971</u>	<u>2,599,629</u>	<u>71,658</u>
EXPENDITURES				
Current:				
Administrative	657,751	677,751	646,097	31,654
Judicial	425,395	425,895	402,686	23,209
Public facilities	166,631	166,631	155,743	10,888
Public safety	900,721	945,721	866,645	79,076
Public service	141,353	140,753	140,654	99
Capital outlay	60,000	42,500	39,620	2,880
	<u>2,351,851</u>	<u>2,399,251</u>	<u>2,251,445</u>	<u>147,806</u>
EXCESS / (DEFICIENCY) OF REVENUES				
OVER / (UNDER) EXPENDITURES	<u>134,145</u>	<u>128,720</u>	<u>348,184</u>	<u>219,464</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	12,500	12,500	-
Transfers out	(330,000)	(330,000)	(330,000)	-
	<u>(330,000)</u>	<u>(317,500)</u>	<u>(317,500)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(195,855)	(188,780)	30,684	219,464
FUND BALANCE - BEGINNING	<u>388,392</u>	<u>388,392</u>	<u>388,392</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 192,537</u>	<u>\$ 199,612</u>	<u>\$ 419,076</u>	<u>\$ 219,464</u>

The notes to the financial statements are an integral part of this statement.

HARTLEY COUNTY, TEXAS
ROAD AND BRIDGE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Licenses and fees	\$ 347,500	\$ 357,500	\$ 369,844	\$ 12,344
Intergovernmental	15,000	15,000	15,694	694
Investment earnings	1,000	1,000	895	(105)
Miscellaneous	6,000	6,000	1,695	(4,305)
	<u>369,500</u>	<u>379,500</u>	<u>388,128</u>	<u>8,628</u>
EXPENDITURES				
Current:				
Road and bridge	620,232	630,232	553,213	77,019
Capital outlay	100,000	100,000	89,545	10,455
	<u>720,232</u>	<u>730,232</u>	<u>642,758</u>	<u>87,474</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(350,732)</u>	<u>(350,732)</u>	<u>(254,630)</u>	<u>96,102</u>
OTHER FINANCING SOURCES				
Proceeds from sale of assets	5,000	5,000	10,900	5,900
Transfers in	300,000	300,000	300,000	-
	<u>305,000</u>	<u>305,000</u>	<u>310,900</u>	<u>5,900</u>
NET CHANGE IN FUND BALANCE				
	(45,732)	(45,732)	56,270	102,002
FUND BALANCE - BEGINNING				
	<u>5,801</u>	<u>5,801</u>	<u>5,801</u>	<u>-</u>
FUND BALANCE (DEFICIT) - ENDING				
	<u>\$ (39,931)</u>	<u>\$ (39,931)</u>	<u>\$ 62,071</u>	<u>\$ 102,002</u>

The notes to the financial statements are an integral part of this statement.

HARTLEY COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
SEPTEMBER 30, 2013

ASSETS		
Cash and cash equivalents		\$ 164,417
		<hr/>
Total assets		\$ 164,417
		<hr/> <hr/>
LIABILITIES		
Accounts payable		\$ 171
Deposits		164,246
		<hr/>
Total liabilities		\$ 164,417
		<hr/> <hr/>

The notes to the financial statements are an integral part of this statement.

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hartley County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

The most significant accounting and reporting policies of the County are described in the following notes to the financial statements.

A. Financial Reporting Entity

The County, incorporated in 1891, is a public corporation and political subdivision of the State of Texas. The Commissioners Court, which is made up of four commissioners and the county judge, is the general governing body of the County in accordance with Article 5, Paragraph 18 of the Texas Constitution. The County provides the following services as authorized by the statutes of the State of Texas: administrative (e.g., tax collection), judicial (courts, juries, district attorney, etc.), public safety (sheriff, jail, etc.), road and bridge, public facilities, and public services (e.g. juvenile services and assistance to indigents).

The accompanying basic financial statements present the government defined according to criteria in GASB Statement No. 14, *The Financial Reporting Entity*. These financial statements do not include the operations of any other organization, because none of the criteria for inclusion as set forth in GASB Statement No. 14 have been met. Component units are legally separate organizations for which the County is financially accountable. The County has no component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Statements

The **government-wide financial statements** include the statement of net position and the statement of activities. Government-wide statements report, except for County fiduciary activity, information on all of the activities of the County. The effect of inter-fund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

The statement of activities reflects the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers 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 or segment. Taxes and other items not properly included in program revenues are reported as general revenues.

Fund-Level Statements

Separate **fund financial statements** are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. The General Fund and the Road and Bridge Fund meet criteria as **major governmental funds**. Each major fund is reported in separate columns in the fund financial statements. Non-major funds include the other Special Revenue funds and the Capital Projects Fund. The combined amounts for these funds are reflected in a single column in the fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Major revenue types which have been accrued are district clerk and county clerk fees, justice of the peace fees, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Revenues are classified as *program revenues* and *general revenues*. Program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, investment earnings, and other miscellaneous revenues.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund level financial statements are reported using 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 available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as unavailable revenue.

Revenues susceptible to accrual include property taxes, fines, forfeitures, licenses, interest income, and charges for service and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the County.

Interfund eliminations have not been made in the fund financial statements.

Expenditures generally are recorded when a fund liability is incurred; however, expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

The County reports the following major governmental funds:

The **General Fund** is the general operating fund of the County. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, charges for services, intergovernmental revenues and investment of idle funds. Primary expenditures are for administrative, judicial, public facilities, public safety, public services, and capital acquisition.

The **Road and Bridge Fund** is a special revenue fund used to account for the revenues derived from property taxes and license fees levied for purposes of road and bridge expenditures.

Fiduciary fund level financial statements include fiduciary funds which are classified into private purpose trust and agency funds. The County has only agency funds which are used to account for assets held by the County as an agent for individuals, private organizations, other governments and other funds. Agency funds do not involve a formal trust agreement. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

D. Use of Restricted Assets

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

E. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The County's cash and cash equivalents are considered to be cash on hand, demand deposits and deposits within public fund investment pools as well as investments in certificates of deposits with an original maturity of 90 days or less. Statutes authorize the County to keep funds in demand deposits, time deposits, or securities of the United States. The County's custodial banks are required to pledge for the purpose of securing County funds, securities of the following kind, in an amount equal to the amount of such County funds: bonds and notes of the United States, securities of indebtedness of the United States, bonds of the State of Texas, or of any county, city, or independent school district, and various other bonds as described in Texas Statutes. TexPool and Texas LOGIC are duly chartered and administered by the Texas Treasury Safekeeping Trust Company and the portfolio normally consists of U.S. T-Bills or T-Notes, collateralized certificates of deposit, and repurchase agreements. The carrying value (cost) and market value are equal for these deposits.

The County is required by Government Code Chapter 2256, the Public Funds Investment Act ("Act"), to adopt, and publicize an investment policy. That policy must be written, primarily emphasize safety of principal and liquidity, address investment diversification, yield, and maturity and the quality and capability of investment management, and include a list of the types of authorized investments in which the investing entity's funds may be invested, and the maximum allowable stated maturity of any individual investment owned by the entity.

The Act requires an annual audit of investment policies. Audit procedures in this area, conducted as a part of the audit of the basic financial statements, disclosed that in areas of investment practices, management reports and establish appropriate policies. The County adheres to the requirements of the Act. Additionally, investment practices of the County are in accordance with local policies.

2. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the County. Program grants are recorded as receivables revenues at the time all eligibility requirements established by the provider have been met.

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. Assets, Liabilities, and Net Position or Equity – Continuation

2. Receivables and Payables – Continuation

Reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as unavailable revenue in the fund statements. Receivables are shown net of an allowance for uncollectible accounts of \$674,037.

Payables consist of vendor obligations for goods and services as well as funds payable to others when the criteria for their release have been met.

3. Property Tax Calendar and Revenues

Property taxes are based on taxable value at January 1 and become due October 1 and past due after January 31 of the following year unless the half payment option is elected in which one-half the tax is due November 30, and the balance the following June 30. Tax collections after February 1 are treated as late payments and are subject to penalty and interest. Uncollected taxes from the current tax roll become delinquent on July 1 and are subject to additional penalties and interest. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior years' levies are shown net of an allowance for uncollectible accounts of \$1,170.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital Assets

Capital assets, which include land, buildings and improvements, and equipment, are reported in the government-wide financial statements. The County has opted to not retroactively report infrastructure assets. According to the County's capitalization policy, capital assets, such as equipment, are defined as individual assets (or systems of assets) having a cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

When capital assets are purchased, they are capitalized and depreciated in the government-wide financial statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated lives:

Buildings and improvements	25-40 years
Vehicles and equipment	3-10 years

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. Assets, Liabilities, and Net Position or Equity – Continuation

6. Compensated Absences

A liability for unused vacation and comp time for all full-time employees is calculated and reported in the government-wide financial statements. For financial reporting, the following criteria must be met to be considered as compensated absences:

- leave or compensation is attributable to services already rendered
- leave or compensation is not contingent on a specific event (such as illness).

Per GASB Interpretation No. 6, liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e. are due for payment). Compensated absences are accrued in the government-wide statements.

Regular full-time employees are entitled to vacation of up to twelve days per year as earned. Vacation time earned, but not taken, is paid upon termination, but cannot be accumulated beyond one calendar year. Accrued vacation leave benefits are accrued in the government-wide financial statements in the amount of \$17,051 at September 30, 2013.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

In the fund financial statements, the face amount of debt issued is reported as other financing sources.

8. Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable forms, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted Fund Balance – includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of the resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of the County’s highest level of decision-making authority, the Commissioners’ Court. Commitments may be changed or lifted only by the County taking the same formal action that imposed the constraint originally (for example: resolution or ordinance).

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. Assets, Liabilities, and Net Position or Equity – Continuation

8. Fund Balances – Continuation

Assigned Fund Balance – includes amounts intended to be used by the County for specific purposes that are neither restricted nor committed. Intent is expressed by (a) Commissioners’ Court or (b) a body (budget, finance committee, or County Official) to which the assigned amounts are to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted or committed.

Unassigned Fund Balance – this classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

9. Net Position

In the government-wide financial statements, equity is classified as net position and displayed in three categories.

Net Investment in Capital Assets – This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments, enabling legislation, constitutional provisions.

Unrestricted Net Position – This amount includes all net position that does not meet the definition of “net investment in capital assets” or “restricted net position.”

10. Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The County follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the proposed budget is submitted to the Commissioners' Court.
2. The Commissioners' Court provides for a public hearing on the County budget subsequent to August 15, and prior to the levy of taxes by the Commissioners' Court.

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – Continuation

A. Budgetary Information – Continuation

3. Prior to October 1, the budget is legally adopted by order of the Commissioners' Court for the General Fund and the Road and Bridge Special Revenue Fund.
4. The budget is prepared by fund and department with the legal level of control at the department level. Administrative control is maintained through the establishment of more detailed account or object class budgets within the departments. Emergency expenditures to meet unusual and unforeseen conditions which could not, by reasonable diligent thought and attention, have been included in the original budget, whereby total expenditures of a department have been increased must be authorized by the Court as emergency amendments to the original budget. Management may not amend the budget at any level without approval of the Commissioners' Court. The Court has the authority to make such changes in the budget, in its judgment of facts, the law warrant, and the interest of the taxpayers demand, provided the amounts budgeted for the current expenditures from the various funds for the County do not exceed appropriations, including fund balances from the prior fiscal periods. Amounts shown in the financial statements represent the original budget amounts and all supplemental appropriations. Supplemental appropriations to the original adopted budget are in the Final Budget Amounts column of the Budgetary Comparison Schedule for both the General Fund and the Road and Bridge Special Revenue Fund.
5. Budgets for the General Fund and Road and Bridge Special Revenue Fund are adopted on a basis consistent with GAAP on the modified accrual basis of accounting on an annual basis.
6. Formal budgetary integration on an annual basis is employed as a management control device during the year for the General Fund and the Road and Bridge Special Revenue Fund.
7. All appropriations, except those in grant funds, lapse at the end of the County's fiscal year and may be re-budgeted the next year.

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 3 – DEPOSITS AND INVESTMENTS

Following is a reconciliation of the County’s cash and deposit balances as of September 30, 2013:

Cash and deposit balances consist of:

Petty cash funds	\$	800
Bank deposits		338,702
Texas LOGIC (interest rate - 0.1125%)		183,204
TexPool (interest rate - 0.0394%)		179,006
		179,006
Total	\$	701,712

Cash and deposit balances are reported in the basic financial statements as follows:

Government-wide Statement of Net Position:

Unrestricted	\$	506,670
Restricted		30,625

Statement of Fiduciary Net Position: Agency Funds

	\$	164,417
Total	\$	701,712

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

Investment Type	Fair Value	Weighted Average Maturity (Days)
Governmental activities		
Certificates of deposit (interest rates at .60%)	\$ 400,000	365
Total fair value	\$ 400,000	
Portfolio weighted average maturity		365

Custodial credit risk – deposits. As of September 30, 2013, the carrying amount of the County's deposits with financial institutions was \$738,702 and the bank's balance was \$728,742. Of the bank balance, \$446,034 was insured through the Federal Depository Insurance Corporation (FDIC) and \$282,708 was collateralized with securities held by the pledging institution’s agent in the County’s name.

As of September 30, 2013, the County had \$183,204 and \$179,006, respectively invested with the Texas LOGIC and Texas Treasury Safekeeping Trust Company (TexPool). Both Texas LOGIC and TexPool are public funds investment pools created pursuant to the Interlocal Cooperation Act of the State of Texas. The State Comptroller of Public Accounts exercises oversight responsibility over both funds. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally the State Comptroller has established an advisory board composed of both participants of the pools and other persons who do not have a business relationship with either pool. The advisory board members review the investment policy and management fee structure.

Both investment pools operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. Both pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in the pools is the same as the value of the shares.

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 3 – DEPOSITS AND INVESTMENTS – Continuation

Interest rate risk is the risk that adverse changes in interest rates will result in an adverse effect on the fair value of an investment. The County manages its exposure to interest rate risk by maintaining its cash in interest-bearing demand accounts, or in certificates of deposit with weighted average maturities of one year or less.

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. State law and County policy limit investments in local government pools to those rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single insurer. As of September 30, 2013, 33% of the County's carrying value of cash was invested in pooled investment accounts. All other cash was deposited with the County's depository bank and was adequately secured as described above.

NOTE 4 – PROPERTY TAX

The State of Texas Constitutional tax rate limit for both operations and debt service is \$.80 on each \$100 of assessed valuation. The tax rate on the 2012 tax roll was \$.345922 per \$100, which means that the County has a tax margin of \$.454078 per \$100 and could raise up to \$2,737,068 additional revenue from the 2012 assessed valuation of \$602,774,920 before the limit is reached.

Real and personal property values are assessed for the period January 1 to December 31, as of January 1 at which date property taxes attach as an enforceable lien on property. Taxes are levied by October 1 of the current year and are collected from October 1 to June 30 of the following year. Payments received after February 1 are considered late and are subject to penalty and interest. Taxes become delinquent on July 1 of the following year.

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 5 – CAPITAL ASSETS

Capital assets are recorded at cost or, if donated, at fair market value at the date of receipt. In accordance with GASB Statement No. 34, depreciation policies were adopted to include useful lives and classification by function. As stated earlier, the County has not opted to report its infrastructure retroactively.

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 22,129	\$ -	\$ -	\$ 22,129
Total capital assets, not being depreciated	22,129	-	-	22,129
Capital assets, being depreciated:				
Buildings and improvements	1,994,866	75,177	-	2,070,043
Equipment	1,716,754	129,165	(52,041)	1,793,878
Total capital assets, being depreciated	3,711,620	204,342	(52,041)	3,863,921
Less accumulated depreciation for:				
Buildings and improvements	(527,924)	(59,760)	-	(587,684)
Equipment	(1,053,110)	(162,357)	52,041	(1,163,426)
Total accumulated depreciation	(1,581,034)	(222,117)	52,041	(1,751,110)
Total capital assets, being depreciated, net	2,130,586	(17,775)	-	2,112,811
Governmental activities capital assets, net	\$ 2,152,715	\$ (17,775)	\$ -	\$ 2,134,940

Depreciation expense for the year ended September 30, 2013 was charged to the functions/programs of the primary government as follows:

Governmental activities	
Administrative	\$ 8,903
Public facilities	16,020
Public safety	81,716
Road and bridge	115,478
Total Depreciation Expense	\$ 222,117

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 6 – RETIREMENT PLAN

Plan Description

Hartley County provides retirement and death benefits for all of its employees, except temporary employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 641 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the County (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 vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the County.

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 County within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Hartley County, Texas participates in a cost-sharing multiple-employer defined-benefit group-term life insurance plan operated by the Texas County & District Retirement System (TCDRS). This plan is referred to as the Group Term Life Fund (GLTF). This optional plan provides group term life insurance coverage to current eligible employees.

The GLTF is a separate trust administered by the TCDRS board of trustees. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the GLTF. This report is available at www.tcdrs.org. TCDRS' CAFR may also be obtained by writing to the Texas County & District System, P.O. Box 2034, Austin, TX 78768-2034, or by calling 800-823-7782.

Funding Policy

The County 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 County based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the County is actuarially determined annually.

The County contributed using the actuarially determined rate of 9.92% for the months of the accounting year in 2012 and 11.81% for the months of the accounting year in 2013. The contribution rate payable by the employee members is 7.0% for fiscal year 2013 as adopted by the governing body of the County. The employee contribution rate and the employer contribution rate may be changed by the governing body of the County within the options available in the TCDRS Act.

Each participating employer contributes to the GLTF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is determined using the unit credit method for providing one-year term life insurance. Hartley County, Texas contributions to the GLTF for the year ended September 30, 2013, 2012 and 2011, were \$2,832, \$2,681, and \$2,584, respectively, which equaled the contractually required contributions each year.

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 6 – RETIREMENT PLAN – Continuation

Annual Pension Cost

For 2013, the County’s annual pension cost of \$99,988 was equal to the County’s required and actual contributions.

**TREND INFORMATION FOR THE RETIREMENT PLAN FOR THE EMPLOYEES OF
HARTLEY COUNTY, TEXAS**

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2011	\$ 94,717	100%	\$ -
September 30, 2012	99,988	100	-
September 30, 2013	115,568	100	-

The required contribution was determined as part of the December 31, 2012 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2012 included (a) 8.0% investment rate of return (net of administrative expenses), and (b) projected salary increases of 5.4%. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of the assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten year period. The unfunded actuarial accrued liability is being amortized over a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2012 was 20 years.

Funded Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the plan was 86.33% funded. The actuarial accrued liability for benefits was \$3,346,655, and the actuarial value of assets was \$2,889,106, resulting in an unfunded actuarial accrued liability (UAAL) of \$457,549. The covered payroll (annual payroll of active employees covered by the plan) was \$1,016,392, and the ratio of UAAL to the covered payroll was 45.02%.

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

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Individual Fund Interfund Receivables and Payables

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ -	\$ 170,159
Special Revenue Funds:		
Road and Bridge	62,071	-
Records Management	21,075	-
Records Preservation	4,903	-
Records Archive	27,639	-
Seized Property	11,093	-
Courthouse Security	13,402	-
Justice Court Technology	15,945	-
Justice Building Security	12,121	-
District Clerk Technology	2,547	-
Capital Project Fund	-	637
	<u>\$ 170,796</u>	<u>\$ 170,796</u>

The primary purpose of interfund receivables and payables is the reimbursement of the Special Revenue funds for day to day operations as all County funds are pooled in the General Fund.

Individual Interfund Transfers

Fund	Interfund Transfers In	Interfund Transfers Out
General Fund	\$ -	\$ 330,000
Special Revenue Funds:		
Road and Bridge	300,000	-
Capital Project Fund	30,000	-
	<u>\$ 330,000</u>	<u>\$ 330,000</u>

The primary purpose for interfund transfers was for the General Fund to supplement the Road and Bridge and Capital Projects Funds revenue in the current year.

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 8 – LONG-TERM LIABILITIES

In 2005 the County participated in the joint financing of the construction of the Dallam-Hartley Counties Jail facility. In 2013 the County added to the principal balance of this note with a \$50,000 advance. This advance was for foundation and other general repairs to the Courthouse. The original principal amount of Hartley County’s portion of this financing was \$1,498,863 with a fixed interest rate of 3.75%.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
2005 Note Payable	\$ 498,190	\$ 50,000	\$ (163,826)	\$ 384,364	\$ 384,364
Compensated absences	15,865	17,192	(16,006)	17,051	-
Governmental activity long-term liabilities	<u>\$ 514,055</u>	<u>\$ 67,192</u>	<u>\$ (179,832)</u>	<u>\$ 401,415</u>	<u>\$ 384,364</u>

The County incurred interest expense of \$18,698 during the fiscal year ended September 30, 2013.

The annual debt service requirement on long-term liabilities outstanding as of September 30, 2013 is as follows:

Fiscal Year	Total	Interest	Principal
2014	<u>\$ 385,415</u>	<u>\$ 1,051</u>	<u>\$ 384,364</u>
	<u>\$ 385,415</u>	<u>\$ 1,051</u>	<u>\$ 384,364</u>

NOTE 9 – RISK MANAGEMENT

The County’s major areas of risk management are: public officials’, law enforcement, and automobile liability, general comprehensive liability and property damage, workers’ compensation, and employee health insurance. The County has obtained insurance with an insurance company and a public entity risk pool in which all risk is transferred to those entities for all the above areas. The County pays a deductible per incident except on the employee health insurance in which the deductible is the responsibility of the employee. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded insurance coverage for the current year or the previous three years.

NOTE 10 – PROBATION DEPARMENTS

Juvenile Probation Department

The Dallam, Hartley and Sherman Counties Juvenile Probation Department (Department) is a joint venture between the Counties. Each County makes a contribution to the Department based on a predetermined percentage of budgeted expenditures. The Department is governed by the Juvenile Probation Board whose members are the District Judge, the three County Judges and one citizen member appointed by the Board.

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 10 – PROBATION DEPARMENTS – Continuation

Juvenile Probation Department – Continuation

The Department operates on a fiscal year ending August 31 and issues a statement of revenues, expenditures and changes in fund balance – budget and actual. This financial statement is issued on a regulatory basis of accounting as mandated by the Texas Juvenile Justice Division. This report is solely the TJJD special revenue grant funds and not the Department as a whole.

Summarized information of the Dallam, Hartley and Sherman Counties Juvenile Probation Department for the year ended August 31, 2013 is as follows:

Department revenues:	
TJJD grant revenues - audited	\$ 168,983
Local funding - unaudited	83,000
Other revenues - unaudited	<u>7,484</u>
 Total revenues	 <u>259,467</u>
 Department expenditures:	
Grant expenditures - audited	168,983
Grant and local expenditures - unaudited	<u>74,440</u>
 Total expenditures	 <u>243,423</u>
 Excess of Revenues over Expenditures	 <u>\$ 16,044</u>
 Total assets - unaudited	 <u>\$ 81,495</u>
 Fund balance - unaudited	 <u>\$ 81,495</u>

Community Supervision and Corrections (Adult Probation)

The 69th District CSCD is a joint venture between Dallam, Hartley, Sherman and Moore Counties. The County’s local funding to this department for the year ended September 30, 2013 was \$4,307. This funding was not audited after it was sent to the CSCD by the County.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

HARTLEY COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREMENT PLAN
FOR THE EMPLOYEES OF HARTLEY COUNTY, TEXAS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll*	Annual Covered Payroll ((b-a)/c)
12/31/10	\$ 2,652,127	\$ 2,936,331	\$ 284,204	90.32%	\$ 986,313	28.81%
12/31/11	2,829,447	3,237,086	407,639	87.41	981,550	41.53
12/31/12	2,889,106	3,346,655	457,549	86.33	1,016,392	45.02

OTHER SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds account for the proceeds of specific sources that are legally restricted to expenditures for specified purposes.

Records Management – The Records Management Fund accounts for revenue from fees collected by the County and District Clerk on court cases. The fees are dedicated by law to be used for specific records management projects of the office.

Records Preservation – The Records Preservation Fund accounts for revenue from fees collected by the County and District Clerk on court cases. The fees are dedicated by law to be used for specific records preservation projects of the office.

Records Archives – The Records Archives Fund accounts for revenue from fees collected by the County and District Clerk on court cases. The fees are dedicated by law to be used for specific records archiving projects of the office.

Seized Property – The Seized Property Fund accounts for proceeds from asset forfeitures and seizures collected by the County Sheriff to statutorily supplement the cost of the Sheriff's office.

Courthouse Security – The Courthouse Security Fund accounts for statutory filing fees collected by the District and County Clerks which are dedicated by law to maintain the security of the courthouse.

Justice Court Technology – The Justice Court Technology Fund accounts for money charged to a defendant convicted of a misdemeanor in a justice court. It is designated for the purpose of financing the purchase of technological enhancements for a justice court.

Hot Check – The Hot Check Fund is used to account for revenues derived from the fees assessed on the collection and processing of dishonored and forged checks. The funds are designated to be used at the discretion of the County Attorney to defray the salaries and expenses of the prosecutor's office.

Justice Building Security – The Justice Building Security Fund accounts for statutory filing fees collected by the District and County Clerks which are dedicated by law to maintain the security of a justice court.

District Clerk Technology – The District Clerk Technology Fund accounts for money charged to a defendant convicted of a misdemeanor in a justice court. It is designated for the purpose of financing the purchase of technological enhancements for the district clerk's office.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for resources accumulated to fund future capital acquisitions or construction. The fund also accounts for property taxes levied for debt service requirements of the note used to finance the Dallam-Hartley Counties Jail Facility.

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

Special Revenue Funds

	Records Management	Records Preservation	Records Archives	Seized Property	Courthouse Security	Justice Court Technology	Hot Check	Justice Building Security	District Clerk Technology	Total Special Revenue Funds	Capital Projects	Total Nonmajor Governmental Funds
ASSETS												
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 540	\$ -	\$ -	\$ 540	\$ 48,208	\$ 48,748
Due from other funds	21,075	4,903	27,639	11,093	13,402	15,945	-	12,121	2,547	108,725	-	108,725
Total assets	<u>\$ 21,075</u>	<u>\$ 4,903</u>	<u>\$ 27,639</u>	<u>\$ 11,093</u>	<u>\$ 13,402</u>	<u>\$ 15,945</u>	<u>\$ 540</u>	<u>\$ 12,121</u>	<u>\$ 2,547</u>	<u>\$ 109,265</u>	<u>\$ 48,208</u>	<u>\$ 157,473</u>
LIABILITIES AND FUND BALANCES												
Liabilities:												
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 637	\$ 637
Total liabilities	-	-	-	-	-	-	-	-	-	-	637	637
Fund balances:												
Restricted:												
By enabling legislation for special projects	\$ 21,075	\$ 4,903	\$ 27,639	\$ 11,093	\$ 13,402	\$ 15,945	\$ 540	\$ 12,121	\$ 2,547	\$ 109,265	\$ -	\$ 109,265
Committed for:												
Capital projects	-	-	-	-	-	-	-	-	-	-	47,571	47,571
Total fund balances	<u>21,075</u>	<u>4,903</u>	<u>27,639</u>	<u>11,093</u>	<u>13,402</u>	<u>15,945</u>	<u>540</u>	<u>12,121</u>	<u>2,547</u>	<u>109,265</u>	<u>47,571</u>	<u>156,836</u>
Total liabilities and fund balances	<u>\$ 21,075</u>	<u>\$ 4,903</u>	<u>\$ 27,639</u>	<u>\$ 11,093</u>	<u>\$ 13,402</u>	<u>\$ 15,945</u>	<u>\$ 540</u>	<u>\$ 12,121</u>	<u>\$ 2,547</u>	<u>\$ 109,265</u>	<u>\$ 48,208</u>	<u>\$ 157,473</u>

HARTLEY COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Special Revenue Funds										Total Nonmajor Governmental Funds	
	Records Management	Records Preservation	Records Archives	Seized Property	Courthouse Security	Justice Court Technology	Hot Check	Justice Building Security	District Clerk Technology	Total Special Revenue Funds	Capital Projects	
REVENUES												
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 182,179	\$ 182,179
Licenses and fees	9,590	4,500	9,583	-	9,424	8,093	752	2,181	830	44,953	-	44,953
Fines and forfeitures	-	-	-	9,422	-	-	-	-	-	9,422	-	9,422
Interest	130	34	181	98	74	144	-	83	15	759	222	981
Miscellaneous	-	-	-	-	-	-	-	-	-	-	762	762
Total revenues	9,720	4,534	9,764	9,520	9,498	8,237	752	2,264	845	55,134	183,163	238,297
EXPENDITURES												
Current:												
Administrative	3,957	3,634	3,505	-	-	-	-	-	-	11,096	8,609	19,705
Judicial	-	-	-	-	4,889	9,291	3,000	-	-	17,180	-	17,180
Public safety	-	-	-	10,016	-	-	-	-	-	10,016	-	10,016
Debt service:												
Principal	-	-	-	-	-	-	-	-	-	-	163,826	163,826
Interest	-	-	-	-	-	-	-	-	-	-	18,698	18,698
Capital outlay	-	-	-	-	-	-	-	-	-	-	75,177	75,177
Total expenditures	3,957	3,634	3,505	10,016	4,889	9,291	3,000	-	-	38,292	266,310	304,602
EXCESS / (DEFICIENCY) OF REVENUES OVER / (UNDER) EXPENDITURES	5,763	900	6,259	(496)	4,609	(1,054)	(2,248)	2,264	845	16,842	(83,147)	(66,305)
OTHER FINANCING SOURCES												
Proceeds from long-term debt, net	-	-	-	-	-	-	-	-	-	-	50,000	50,000
Transfers in	-	-	-	-	-	-	-	-	-	-	30,000	30,000
Total other financing sources	-	-	-	-	-	-	-	-	-	-	80,000	80,000
NET CHANGE IN FUND BALANCES	5,763	900	6,259	(496)	4,609	(1,054)	(2,248)	2,264	845	16,842	(3,147)	13,695
FUND BALANCES - BEGINNING	15,312	4,003	21,380	11,589	8,793	16,999	2,788	9,857	1,702	92,423	50,718	143,141
FUND BALANCES - ENDING	\$ 21,075	\$ 4,903	\$ 27,639	\$ 11,093	\$ 13,402	\$ 15,945	\$ 540	\$ 12,121	\$ 2,547	\$ 109,265	\$ 47,571	\$ 156,836

FIDUCIARY FUNDS

AGENCY FUNDS

The Agency Funds account for assets received in the capacity of trustee or agent for the County, other governmental entity or individual.

County and District Clerk – The County and District Clerk’s Fund accounts for registry funds held by the County and District Clerk.

County Attorney – The County Attorney’s Fund accounts for the restitution payments collected by his office to be repaid to the victims of hot checks.

HARTLEY COUNTY, TEXAS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
SEPTEMBER 30, 2013

	County and District Clerk	County Attorney	Total Agency Funds
ASSETS			
Cash and cash equivalents	\$ 164,246	\$ 171	\$ 164,417
Total assets	\$ 164,246	\$ 171	\$ 164,417
LIABILITIES			
Accounts payable	\$ -	\$ 171	\$ 171
Deposits	164,246	-	164,246
Total liabilities	\$ 164,246	\$ 171	\$ 164,417

PART III
COMPLIANCE

To The Honorable County Judge and
Commissioners Comprising the
Commissioners' Court of
Hartley County, Texas

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*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and its respective budgetary comparison, and the aggregate remaining fund information of Hartley County, Texas as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise Hartley County, Texas' basic financial statements and have issued our report thereon dated October 31, 2013.

Internal Control Over Financial Reporting

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

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

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

- Finding 2013-1

Compliance and Other Matters

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

Purpose of this Report

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

DOSHIER, PICKENS & FRANCIS, L.L.C.

DOSHIER, PICKENS & FRANCIS, LLC
October 31, 2013

HARTLEY COUNTY, TEXAS
SCHEDULE OF FINDINGS
SEPTEMBER 30, 2013

Finding 2013-1

INTERNAL CONTROL OVER FINANCIAL REPORTING:

Finding: Inadequate segregation of duties within a significant account or accounting process is considered to be a deficiency in your financial reporting controls. The officials of the County, because of the small number of employees in the offices, have not been able to adequately segregate the processes of cash receipts and deposits, cash disbursements and checks, and reconciling the bank accounts. Because of this lack of segregation of duties within these processes of handling cash, there is a risk that a material misstatement could be present in the financial statements or that fraud could occur and would not be detected by management timely. Though the various offices may not be able to adequately segregate these processes within the office, the official should implement compensating controls over these processes such as having the bank reconciliations reviewed by another official of the County outside of their office.