

HARTLEY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

**FOR YEAR ENDED
SEPTEMBER 30, 2012**

HARTLEY COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR YEAR ENDED SEPTEMBER 30, 2012

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 Assets | 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 Assets | 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 Assets – Agency Funds | 11 |
| <u>Notes to Basic Financial Statements</u> | 12 |

HARTLEY COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR YEAR ENDED SEPTEMBER 30, 2012

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 Assets – 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, 2012

| | |
|----------------|---|
| Ronnie Gordon | County Judge |
| David Vincent | Commissioner, Precinct #1 |
| Jim Hill | Commissioner, Precinct #2 |
| Carl Kuper | Commissioner, Precinct #3 |
| Butch Owens | Commissioner, Precinct #4 |
| Ron Enns | Judge, 69 th Judicial District |
| David Green | District Attorney |
| Shane Turner | County Attorney |
| Diane Thompson | 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

We have audited the accompanying financial statements of the governmental activities, each major fund and their respective budgetary comparisons, and the aggregate remaining fund information of Hartley County, Texas as of and for the year ended September 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hartley 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 of America. 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 their respective budgetary comparisons, and the aggregate remaining fund information of Hartley County, Texas, as of September 30, 2012, and the respective changes in financial position 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 December 4, 2012, on our consideration of Hartley County, Texas' internal control over financial reporting and 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 the 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 schedule of funding progress for the retirement plan for the employees of Hartley County, 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.

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.

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

DPOSHIER, PICKENS & FRANCIS, LLC
December 4, 2012

BASIC FINANCIAL STATEMENTS

**HARTLEY COUNTY, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 352,063 |
| Investments | 400,000 |
| Accounts receivable, net | 187,525 |
| Delinquent taxes receivable, net | 5,187 |
| Prepaid expenses | 21,682 |
| Restricted assets: | |
| Cash | 2,788 |
| Capital assets, net of accumulated depreciation | <u>2,152,715</u> |
| Total assets | <u>3,121,960</u> |
| LIABILITIES | |
| Accounts payable | 196,341 |
| Due to other governmental entities | 76,422 |
| Accrued expenses | 25,499 |
| Noncurrent liabilities: | |
| Due within one year | 179,303 |
| Due in more than one year | <u>334,752</u> |
| Total liabilities | <u>812,317</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 1,654,525 |
| Restricted by enabling legislation for: | |
| Special projects | 92,423 |
| Unrestricted | <u>562,695</u> |
| Total net assets | <u><u>\$ 2,309,643</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, 2012

| <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 Assets</u> |
| | | | | | <u>Primary</u> |
| | | | | | <u>Government</u> |
| | | | | | <u>Governmental</u> |
| | | | | | <u>Activities</u> |
| Primary government | | | | | |
| Governmental Activities: | | | | | |
| Administrative | \$ 636,747 | \$ 134,834 | \$ 15,000 | \$ - | \$ (486,913) |
| Judicial | 406,820 | 263,896 | 28,947 | - | (113,977) |
| Public facilities | 197,570 | - | - | - | (197,570) |
| Public safety | 988,485 | 27,621 | - | 69,196 | (891,668) |
| Road and bridge | 740,851 | 368,363 | 15,622 | - | (356,866) |
| Public service | 127,803 | - | - | - | (127,803) |
| Interest on long-term debt | 24,775 | - | - | - | (24,775) |
| Total | \$ 3,123,051 | \$ 794,714 | \$ 59,569 | \$ 69,196 | (2,199,572) |
| General revenues: | | | | | |
| Taxes: | | | | | |
| Property taxes, levied for general purposes | | | | | 1,860,341 |
| Property taxes, levied for debt service | | | | | 182,649 |
| Mixed beverage taxes | | | | | 1,728 |
| Investment earnings | | | | | 5,775 |
| Miscellaneous | | | | | 61,127 |
| | | | | | <u>2,111,620</u> |
| | | | | | |
| | | | | | Change in net assets (87,952) |
| | | | | | |
| | | | | | Net assets - beginning 2,374,023 |
| | | | | | Prior period restatement <u>23,572</u> |
| | | | | | |
| | | | | | Net assets - beginning, as restated <u>2,397,595</u> |
| | | | | | |
| | | | | | Net assets - ending <u>\$ 2,309,643</u> |

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

**HARTLEY COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

| ASSETS | <u>General Fund</u> | <u>Road and Bridge Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---------------------------------|---|---|
| Cash and cash equivalents | \$ 302,054 | \$ - | \$ 52,797 | \$ 354,851 |
| Investments | 400,000 | - | - | 400,000 |
| Accounts receivable, net | 187,525 | - | - | 187,525 |
| Taxes receivable, net | 5,187 | - | - | 5,187 |
| Due from other funds | - | 5,801 | 90,344 | 96,145 |
| Prepaid expenses | 21,682 | - | - | 21,682 |
| | <u>916,448</u> | <u>5,801</u> | <u>143,141</u> | <u>1,065,390</u> |
| Total assets | <u>\$ 916,448</u> | <u>\$ 5,801</u> | <u>\$ 143,141</u> | <u>\$ 1,065,390</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 196,341 | \$ - | \$ - | \$ 196,341 |
| Due to other funds | 96,145 | - | - | 96,145 |
| Due to other governmental entities | 76,422 | - | - | 76,422 |
| Deferred revenue | 133,649 | - | - | 133,649 |
| Accrued expenses | 25,499 | - | - | 25,499 |
| | <u>528,056</u> | <u>-</u> | <u>-</u> | <u>528,056</u> |
| Total liabilities | <u>528,056</u> | <u>-</u> | <u>-</u> | <u>528,056</u> |
| Fund balances: | | | | |
| Unspendable: | | | | |
| Prepaid expenses | 21,682 | - | - | 21,682 |
| Restricted: | | | | |
| By enabling legislation for special projects | - | - | 92,423 | 92,423 |
| Committed for: | | | | |
| Capital projects | - | - | 50,718 | 50,718 |
| Special revenues | - | 5,801 | - | 5,801 |
| Unassigned | 366,710 | - | - | 366,710 |
| | <u>388,392</u> | <u>5,801</u> | <u>143,141</u> | <u>537,334</u> |
| Total fund balances | <u>388,392</u> | <u>5,801</u> | <u>143,141</u> | <u>537,334</u> |
| Total liabilities and fund balances | <u>\$ 916,448</u> | <u>\$ 5,801</u> | <u>\$ 143,141</u> | <u>\$ 1,065,390</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 ASSETS
SEPTEMBER 30, 2012

| | | |
|--|----|-----------|
| Total fund balance - governmental funds | \$ | 537,334 |
| <p>Amounts reported for governmental activities in the Statement of Net Assets 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 Assets.</p> | | 2,152,715 |
| <p>Long-term assets are not available to pay for current-period expenditures and, therefore, are shown as deferred revenue in the fund financial statements.</p> | | 133,649 |
| <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 | | (498,190) |
| Accrued compensated absences | | (15,865) |
| | | (614,055) |
| Net assets - governmental activities | \$ | 2,309,643 |

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, 2012

| | <u>General Fund</u> | <u>Road and Bridge Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---------------------------------|---|---|
| REVENUES | | | | |
| Property taxes | \$ 1,862,338 | \$ - | \$ 182,649 | \$ 2,044,987 |
| Other taxes | 1,728 | - | - | 1,728 |
| Licenses and fees | 178,705 | 368,363 | 45,580 | 592,648 |
| Fines and forfeitures | 307,500 | - | 10,916 | 318,416 |
| Intergovernmental | 43,947 | 15,622 | - | 59,569 |
| Investment earnings | 2,987 | 1,689 | 1,099 | 5,775 |
| Miscellaneous | 54,147 | 6,148 | 832 | 61,127 |
| | <u>2,451,352</u> | <u>391,822</u> | <u>241,076</u> | <u>3,084,250</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Administrative | 618,459 | - | 8,015 | 626,474 |
| Judicial | 380,244 | - | 26,079 | 406,323 |
| Public facilities | 186,983 | - | - | 186,983 |
| Public safety | 906,773 | - | 4,682 | 911,455 |
| Road and bridge | - | 614,271 | - | 614,271 |
| Public service | 127,803 | - | - | 127,803 |
| Debt service: | | | | |
| Principal | - | - | 163,797 | 163,797 |
| Interest | - | - | 24,775 | 24,775 |
| Capital outlay | 29,083 | - | - | 29,083 |
| | <u>2,249,345</u> | <u>614,271</u> | <u>227,348</u> | <u>3,090,964</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>202,007</u> | <u>(222,449)</u> | <u>13,728</u> | <u>(6,714)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | 260,000 | - | 260,000 |
| Transfers out | (260,000) | - | - | (260,000) |
| | <u>(260,000)</u> | <u>260,000</u> | <u>-</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | <u>(57,993)</u> | <u>37,551</u> | <u>13,728</u> | <u>(6,714)</u> |
| FUND BALANCES - BEGINNING | 422,813 | (31,750) | 129,413 | 520,476 |
| PRIOR PERIOD RESTATEMENT | <u>23,572</u> | <u>-</u> | <u>-</u> | <u>23,572</u> |
| FUND BALANCES AT BEGINNING OF YEAR, AS RESTATED | <u>446,385</u> | <u>(31,750)</u> | <u>129,413</u> | <u>544,048</u> |
| FUND BALANCES - ENDING | <u>\$ 388,392</u> | <u>\$ 5,801</u> | <u>\$ 143,141</u> | <u>\$ 537,334</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, 2012**

Net change in fund balances - total governmental funds: \$ (6,714)

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, \$29,083, was exceeded by depreciation, \$223,442, in the current period. (194,359)

Donations of capital assets increase net assets in the Statement of Activities, but do not appear in the governmental funds because they are not financial resources. 69,196

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 deferred revenue. (118,347)

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.

Principal repayments:
Note payable 163,797

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 (1,525)

Change in net assets - governmental activities \$ (87,952)

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, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual</u> <u>Amounts</u> | <u>Variance With</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u> |
|---|-------------------------|-------------------|---------------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Property taxes | \$ 1,870,000 | \$ 1,870,000 | \$ 1,862,338 | \$ (7,662) |
| Other taxes | 1,000 | 1,000 | 1,728 | 728 |
| Licenses and fees | 134,400 | 181,775 | 178,705 | (3,070) |
| Fines and forfeitures | 251,000 | 307,500 | 307,500 | - |
| Intergovernmental | 84,536 | 84,536 | 43,947 | (40,589) |
| Investment earnings | 2,000 | 2,000 | 2,987 | 987 |
| Miscellaneous | 32,226 | 52,226 | 54,147 | 1,921 |
| | <u>2,375,162</u> | <u>2,499,037</u> | <u>2,451,352</u> | <u>(47,685)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Administrative | 627,154 | 653,154 | 618,459 | 34,695 |
| Judicial | 416,330 | 417,205 | 380,244 | 36,961 |
| Public facilities | 266,452 | 266,452 | 186,983 | 79,469 |
| Public safety | 838,022 | 935,022 | 906,773 | 28,249 |
| Public service | 138,162 | 138,162 | 127,803 | 10,359 |
| Capital outlay | 90,000 | 90,000 | 29,083 | 60,917 |
| | <u>2,376,120</u> | <u>2,499,995</u> | <u>2,249,345</u> | <u>250,650</u> |
| EXCESS / (DEFICIENCY) OF REVENUES | | | | |
| OVER / (UNDER) EXPENDITURES | <u>(958)</u> | <u>(958)</u> | <u>202,007</u> | <u>202,965</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | <u>(200,000)</u> | <u>(260,000)</u> | <u>(260,000)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>(200,000)</u> | <u>(260,000)</u> | <u>(260,000)</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCE | <u>(200,958)</u> | <u>(260,958)</u> | <u>(57,993)</u> | <u>202,965</u> |
| FUND BALANCE - BEGINNING | 422,813 | 422,813 | 422,813 | - |
| PRIOR PERIOD RESTATEMENT | <u>-</u> | <u>-</u> | <u>23,572</u> | <u>23,572</u> |
| FUND BALANCE AT BEGINNING OF YEAR, AS RESTATED | <u>422,813</u> | <u>422,813</u> | <u>446,385</u> | <u>23,572</u> |
| FUND BALANCE - ENDING | <u>\$ 221,855</u> | <u>\$ 161,855</u> | <u>\$ 388,392</u> | <u>\$ 226,537</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, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual</u> <u>Amounts</u> | <u>Variance With</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u> |
|--|-------------------------|--------------|---------------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Licenses and fees | \$ 343,775 | \$ 343,775 | \$ 368,363 | \$ 24,588 |
| Intergovernmental | 15,000 | 15,000 | 15,622 | 622 |
| Investment earnings | 500 | 500 | 1,689 | 1,189 |
| Miscellaneous | 6,000 | 6,000 | 6,148 | 148 |
| | <hr/> | | <hr/> | |
| Total revenues | 365,275 | 365,275 | 391,822 | 26,547 |
| <hr/> | | | | |
| EXPENDITURES | | | | |
| Current: | | | | |
| Road and bridge | 636,609 | 661,809 | 614,271 | 47,538 |
| Capital outlay | 80,000 | 54,800 | - | 54,800 |
| | <hr/> | | <hr/> | |
| Total expenditures | 716,609 | 716,609 | 614,271 | 102,338 |
| <hr/> | | | | |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (351,334) | (351,334) | (222,449) | 128,885 |
| <hr/> | | | | |
| OTHER FINANCING SOURCES | | | | |
| Proceeds from sale of assets | 5,000 | 5,000 | - | (5,000) |
| Transfers in | 200,000 | 260,000 | 260,000 | - |
| | <hr/> | | <hr/> | |
| Total other financing sources | 205,000 | 265,000 | 260,000 | (5,000) |
| <hr/> | | | | |
| NET CHANGE IN FUND BALANCE | (146,334) | (86,334) | 37,551 | 123,885 |
| <hr/> | | | | |
| FUND BALANCE - BEGINNING | (31,750) | (31,750) | (31,750) | - |
| <hr/> | | | | |
| FUND BALANCE - ENDING | \$ (178,084) | \$ (118,084) | \$ 5,801 | \$ 123,885 |
| <hr/> | | | | |

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

HARTLEY COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
SEPTEMBER 30, 2012

| ASSETS | | |
|---------------------------|--|-------------------|
| Cash and cash equivalents | | \$ 141,090 |
| | | <u>141,090</u> |
| Total assets | | <u>\$ 141,090</u> |
| LIABILITIES | | |
| Accounts payable | | \$ 987 |
| Deposits | | 140,103 |
| | | <u>140,103</u> |
| Total liabilities | | <u>\$ 141,090</u> |

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

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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 assets 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, 2012

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 deferred 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, 2012

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 Assets 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 are 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, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. Assets, Liabilities, and Net Assets 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 deferred revenue in the fund statements. Receivables are shown net of an allowance for uncollectible accounts of \$632,468.

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 \$1,918.

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, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. Assets, Liabilities, and Net Assets 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 \$15,865 at September 30, 2012.

6. 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 assets.

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

7. 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, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

7. 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.

8. Net Assets

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

Invested in Capital Assets, Net of Related Debt – 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 Assets – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments, enabling legislation, constitutional provisions.

Unrestricted Net Assets – This amount includes all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

9. 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, 2012

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, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS

Following is a reconciliation of the County’s cash and deposit balances as of September 30, 2012:

Cash and deposit balances consist of:

| | | |
|---------------------------------------|----|---------|
| Petty cash funds | \$ | 800 |
| Bank deposits | | 201,350 |
| Texas LOGIC (interest rate - 0.0161%) | | 140,050 |
| TexPool (interest rate - 0.0129%) | | 153,741 |
| | | 153,741 |
| Total | \$ | 495,941 |

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

Government-wide Statement of Net Assets:

| | | |
|---|----|---------|
| Unrestricted | \$ | 352,063 |
| Restricted | | 2,788 |
| Fiduciary Funds Statement of Net Assets | | 141,090 |
| | | 141,090 |
| Total | \$ | 495,941 |

As of September 30, 2012, the County had the following investments:

| Investment Type | Fair Value | Weighted Average Maturity (Days) |
|---|-------------------|---|
| Governmental activities | | |
| Certificates of deposit (interest rates at .90 - 1.20%) | \$ 400,000 | 365 |
| Total fair value | \$ 400,000 | |
| Portfolio weighted average maturity | | 365 |

Custodial credit risk – deposits. As of September 30, 2012, the carrying amount of the County's deposits with financial institutions was \$601,350 and the bank's balance was \$626,670. Of the bank balance, \$395,959 was insured through the Federal Depository Insurance Corporation (FDIC) and \$230,711 was collateralized with securities held by the pledging institution’s agent in the County’s name.

As of September 30, 2012, the County had \$140,050 and \$153,741, 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, 2012

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, 2012, 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 2011 tax roll was \$.345896 per \$100, which means that the County has a tax margin of \$.454104 per \$100 and could raise up to \$2,639,780 additional revenue from the 2011 assessed valuation of \$581,316,278 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, 2012

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, 2012 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land and land improvements | \$ 22,129 | \$ - | \$ - | \$ 22,129 |
| Total capital assets, not being depreciated | <u>22,129</u> | <u>-</u> | <u>-</u> | <u>22,129</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 1,994,866 | - | - | 1,994,866 |
| Equipment | 1,618,475 | 98,279 | - | 1,716,754 |
| Total capital assets, being depreciated | <u>3,613,341</u> | <u>98,279</u> | <u>-</u> | <u>3,711,620</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (475,681) | (52,243) | - | (527,924) |
| Equipment | (881,911) | (171,199) | - | (1,053,110) |
| Total accumulated depreciation | <u>(1,357,592)</u> | <u>(223,442)</u> | <u>-</u> | <u>(1,581,034)</u> |
| Total capital assets, being depreciated, net | <u>2,255,749</u> | <u>(125,163)</u> | <u>-</u> | <u>2,130,586</u> |
| Governmental activities capital assets, net | <u>\$ 2,277,878</u> | <u>\$ (125,163)</u> | <u>\$ -</u> | <u>\$ 2,152,715</u> |

Depreciation expense for the year ended September 30, 2012 was charged to the functions/programs of the primary government as follows:

| | |
|----------------------------|-------------------|
| Governmental activities | |
| Administrative | \$ 8,903 |
| Public facilities | 10,587 |
| Public safety | 76,024 |
| Road and bridge | <u>127,928</u> |
| Total Depreciation Expense | <u>\$ 223,442</u> |

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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 624 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.

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 9.76% for the months of the accounting year in 2011 and 9.92% for the months of the accounting year in 2012. The contribution rate payable by the employee members is 7.0% for fiscal year 2012 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.

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 6 – RETIREMENT PLAN – Continuation

Annual Pension Cost

For 2012, 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, 2010 | \$ 93,356 | 100% | \$ - |
| September 30, 2011 | 94,717 | 100 | - |
| September 30, 2012 | 99,988 | 100 | - |

The required contribution was determined as part of the December 31, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2011 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, 2011 was 20 years.

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 89.87% funded. The actuarial accrued liability for benefits was \$3,148,205, and the actuarial value of assets was \$2,829,447, resulting in an unfunded actuarial accrued liability (UAAL) of \$318,758. The covered payroll (annual payroll of active employees covered by the plan) was \$981,550, and the ratio of UAAL to the covered payroll was 32.48%.

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.

The County also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TCDRS known as the Supplemental Death Benefits Fund (SDBF). The county elected, by ordinance, to provide group-term life insurance coverage to current employees. The county may terminate coverage under and discontinue participation in SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The death benefit provides beneficiaries of active employees a lump-sum payment equal to the employee’s final annual salary if the employee passes away before retirement.

The County contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy of the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year.

The County’s contribution to the TCDRS SDBF for the years ended 2011 and 2010 were \$2,681 and \$2,584, respectively, which equaled the required contributions each year.

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Individual Fund Interfund Receivables and Payables

| Fund | Interfund Receivables | Interfund Payables |
|--------------------------|--------------------------|-----------------------|
| General Fund | \$ - | \$ 96,145 |
| Special Revenue Funds: | | |
| Road and Bridge | 5,801 | - |
| Records Management | 15,312 | - |
| Records Preservation | 4,003 | - |
| Records Archive | 21,380 | - |
| Seized Property | 11,589 | - |
| Courthouse Security | 18,650 | - |
| Justice Court Technology | 18,701 | - |
| Capital Project Fund | 709 | - |
| | <u>\$ 96,145</u> | <u>\$ 96,145</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 | \$ - | \$ 260,000 |
| Special Revenue Funds: | | |
| Road and Bridge | 260,000 | - |
| | <u>\$ 260,000</u> | <u>\$ 260,000</u> |

The primary purpose for interfund transfers was for the General Fund to supplement the Road and Bridge Fund revenues in the current year.

NOTE 8 – LONG-TERM LIABILITIES

In 2005 the County participated in the joint financing of the construction of the Dallam-Hartley Counties Jail facility. The original principal amount of Hartley County’s portion of this financing was \$1,498,863 with a fixed interest rate of 3.75%.

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 8 – LONG-TERM LIABILITIES – Continuation

In 2010 the County financed a capital purchase of equipment through the Justice Court Technology Fund, to be used in the Sheriff’s office, with a note payable to a financial institution. The principal of the loan is to be paid off in two equal annual payments, beginning in the year ended September 30, 2011.

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|------------------|---------------------|-------------------|------------------------|
| Governmental activities: | | | | | |
| 2005 Note Payable | \$ 655,980 | \$ - | \$ (157,790) | \$ 498,190 | \$ 163,438 |
| 2010 Note Payable | 6,007 | - | (6,007) | - | - |
| Compensated absences | 14,340 | 30,085 | (28,560) | 15,865 | 15,865 |
| | | | | | |
| Governmental activity long-term liabilities | <u>\$ 676,327</u> | <u>\$ 30,085</u> | <u>\$ (192,357)</u> | <u>\$ 514,055</u> | <u>\$ 179,303</u> |

The County incurred interest expense of \$24,775 during the fiscal year ended September 30, 2012.

The annual debt service requirement on long-term liabilities outstanding as of September 30, 2012 is as follows:

| Fiscal Year | Total | 2005 Note Payable | |
|-------------|-------------------|-------------------|-------------------|
| | | Interest | Principal |
| 2013 | \$ 182,523 | \$ 19,085 | \$ 163,438 |
| 2014 | 182,524 | 12,956 | 169,568 |
| 2015 | 171,781 | 6,597 | 165,184 |
| | <u>\$ 536,828</u> | <u>\$ 38,638</u> | <u>\$ 498,190</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 – PRIOR PERIOD RESTATEMENT

Beginning fund balance and net assets have been restated to reflect the prior year overstatement of expenditures and understatement of assets related to prepaid property and liability insurance premiums. The addition of these prepaid expenditures increased fund balance and net assets by \$23,572.

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 11 – 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.

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, 2011 is as follows:

| | |
|--|-------------------------|
| Department revenues: | |
| TJJD grant revenues - audited | \$ 161,056 |
| Local funding - unaudited | 83,000 |
| Other revenues - unaudited | <u>4,481</u> |
| Total revenues | <u>248,537</u> |
| | |
| Department expenditures: | |
| Grant expenditures - audited | 161,056 |
| Grant and local expenditures - unaudited | <u>38,345</u> |
| Total expenditures | <u>199,401</u> |
| Excess of Revenues over Expenditures | <u><u>\$ 49,136</u></u> |
| Total assets - unaudited | <u><u>\$ 64,768</u></u> |
| Fund balance - unaudited | <u><u>\$ 64,768</u></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, 2012 was \$3,696. 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, 2012**

| 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 (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|-------------------------------|-------------------------------------|--|
| 12/31/09 | \$ 2,437,303 | \$ 2,698,399 | \$ 261,096 | 90.32% | \$ 921,104 | \$ 921,104 | 28.35% |
| 12/31/10 | 2,652,127 | 2,936,331 | 284,204 | 90.32 | 986,313 | 986,313 | 28.81 |
| 12/31/11 | 2,829,447 | 3,148,205 | 318,758 | 89.87 | 981,550 | 981,550 | 32.48 |

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.

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, 2012**

Special Revenue Funds

| | <u>Records Management</u> | <u>Records Preservation</u> | <u>Records Archives</u> | <u>Seized Property</u> |
|--|-------------------------------|---------------------------------|-----------------------------|----------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - | \$ - |
| Due from other funds | 15,312 | 4,003 | 21,380 | 11,589 |
| | <u>15,312</u> | <u>4,003</u> | <u>21,380</u> | <u>11,589</u> |
| Total assets | <u>\$ 15,312</u> | <u>\$ 4,003</u> | <u>\$ 21,380</u> | <u>\$ 11,589</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Fund balances: | | | | |
| Restricted: | | | | |
| By enabling legislation for special projects | \$ 15,312 | \$ 4,003 | \$ 21,380 | \$ 11,589 |
| Committed for: | | | | |
| Capital projects | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total fund balances | <u>15,312</u> | <u>4,003</u> | <u>21,380</u> | <u>11,589</u> |
| Total liabilities and fund balances | <u>\$ 15,312</u> | <u>\$ 4,003</u> | <u>\$ 21,380</u> | <u>\$ 11,589</u> |

Special Revenue Funds

| Courthouse Security | Justice Court Technology | Hot Check | Total Special Revenue Funds | Capital Projects | Total Nonmajor Governmental Funds |
|----------------------------|---------------------------------|------------------|------------------------------------|-------------------------|--|
| \$ - | \$ - | \$ 2,788 | \$ 2,788 | \$ 50,009 | \$ 52,797 |
| 18,650 | 18,701 | - | 89,635 | 709 | 90,344 |
| <u>\$ 18,650</u> | <u>\$ 18,701</u> | <u>\$ 2,788</u> | <u>\$ 92,423</u> | <u>\$ 50,718</u> | <u>\$ 143,141</u> |
| \$ 18,650 | \$ 18,701 | \$ 2,788 | \$ 92,423 | \$ - | \$ 92,423 |
| - | - | - | - | 50,718 | 50,718 |
| <u>18,650</u> | <u>18,701</u> | <u>2,788</u> | <u>92,423</u> | <u>50,718</u> | <u>143,141</u> |
| <u>\$ 18,650</u> | <u>\$ 18,701</u> | <u>\$ 2,788</u> | <u>\$ 92,423</u> | <u>\$ 50,718</u> | <u>\$ 143,141</u> |

HARTLEY COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Special Revenue Funds

| | Records Management | Records Preservation | Records Archives | Seized Property |
|--|-------------------------------|---------------------------------|-----------------------------|----------------------------|
| REVENUES | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Licenses and fees | 9,650 | 4,771 | 9,978 | - |
| Fines and forfeitures | - | - | - | 10,916 |
| Interest | 56 | 46 | 121 | 52 |
| Miscellaneous | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total revenues | 9,706 | 4,817 | 10,099 | 10,968 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Administrative | - | 5,355 | 794 | - |
| Judicial | - | - | - | - |
| Public safety | - | - | - | 4,682 |
| Debt service: | | | | |
| Principal | - | - | - | - |
| Interest | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenditures | - | 5,355 | 794 | 4,682 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| EXCESS / (DEFICIENCY) OF REVENUES OVER / (UNDER) EXPENDITURES | 9,706 | (538) | 9,305 | 6,286 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| FUND BALANCES - BEGINNING | 5,606 | 4,541 | 12,075 | 5,303 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| FUND BALANCES - ENDING | \$ 15,312 | \$ 4,003 | \$ 21,380 | \$ 11,589 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Special Revenue Funds

| Courthouse Security | Justice Court Technology | Hot Check | Total Special Revenue Funds | Capital Projects | Total Nonmajor Governmental Funds |
|----------------------------|---------------------------------|------------------|------------------------------------|-------------------------|--|
| \$ - | \$ - | \$ - | \$ - | \$ 182,649 | \$ 182,649 |
| 11,547 | 6,846 | 2,788 | 45,580 | - | 45,580 |
| - | - | - | 10,916 | - | 10,916 |
| 284 | 224 | - | 783 | 316 | 1,099 |
| - | - | - | - | 832 | 832 |
| <u>11,831</u> | <u>7,070</u> | <u>2,788</u> | <u>57,279</u> | <u>183,797</u> | <u>241,076</u> |
| - | - | - | 6,149 | 1,866 | 8,015 |
| 21,501 | 4,578 | - | 26,079 | - | 26,079 |
| - | - | - | 4,682 | - | 4,682 |
| - | 6,007 | - | 6,007 | 157,790 | 163,797 |
| - | 41 | - | 41 | 24,734 | 24,775 |
| <u>21,501</u> | <u>10,626</u> | <u>-</u> | <u>42,958</u> | <u>184,390</u> | <u>227,348</u> |
| <u>(9,670)</u> | <u>(3,556)</u> | <u>2,788</u> | <u>14,321</u> | <u>(593)</u> | <u>13,728</u> |
| <u>28,320</u> | <u>22,257</u> | <u>-</u> | <u>78,102</u> | <u>51,311</u> | <u>129,413</u> |
| <u>\$ 18,650</u> | <u>\$ 18,701</u> | <u>\$ 2,788</u> | <u>\$ 92,423</u> | <u>\$ 50,718</u> | <u>\$ 143,141</u> |

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 ASSETS
AGENCY FUNDS
SEPTEMBER 30, 2012

| | County and District Clerk | County Attorney | Total Agency Funds |
|---------------------------|--------------------------------------|----------------------------|-------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 140,222 | \$ 868 | \$ 141,090 |
| Total assets | \$ 140,222 | \$ 868 | \$ 141,090 |
| LIABILITIES | | | |
| Accounts payable | \$ 119 | \$ 868 | \$ 987 |
| Deposits | 140,103 | - | 140,103 |
| Total liabilities | \$ 140,222 | \$ 868 | \$ 141,090 |

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 the financial statements of the governmental activities, each major fund and their respective budgetary comparisons, and the aggregate remaining fund information of Hartley County, Texas as of and for the year ended September 30, 2012, which collectively comprise Hartley County, Texas' basic financial statements and have issued our report thereon dated December 4, 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

In planning and performing our audit, we considered Hartley County, Texas' 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 Hartley County, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hartley County, Texas' 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 certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting. 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 Hartley County, Texas' 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings.

This report is intended for the information of the Commissioners' Court and County Officials and is not intended to be and should not be used by anyone other than those specified parties.

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

DOSHIER, PICKENS & FRANCIS, LLC
December 4, 2012

HARTLEY COUNTY, TEXAS
SCHEDULE OF FINDINGS
SEPTEMBER 30, 2012

INTERNAL CONTROL OVER FINANCIAL REPORTING:

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 size of 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.

Preparing financial statements in accordance with generally accepted accounting principles requires specialized skills and knowledge of a technical nature. Responsibility for ensuring that the County's financial statements are prepared in accordance with generally accepted accounting principles lies with the County's management. As a result, the County's management is responsible for designing and implementing internal controls to ensure the accuracy of the County's financial statements in accordance with generally accepted accounting principles. This includes ensuring that those responsible for the accounting and reporting function possesses the skills and knowledge to apply generally accepted accounting principles in recording the County's financial transactions or preparing its financial statements.

We noted that the County's management was able to prepare the information necessary to prepare the governmental fund financial statements in accordance with accounting principles generally accepted in the United States. However, the adjustments needed to convert the governmental fund statements to the government-wide financial statements per GASB Statement 34, *Basis Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, were still necessary. These adjustments were needed to convert the County's financial statements from a modified-accrual method of accounting to an accrual basis as required by GASB Statement 34. We are required to notify the County's management that the County does not have an individual who possesses these specialized skills and knowledge to prepare these adjustments and the related financial statements and disclosures.

We have reviewed with the County Judge and Treasurer these adjustments, financial statements and disclosures to help management have an understanding of this financial information so that they can assume this responsibility for the accuracy and completeness of the financial statements.