ARMSTRONG COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FOR YEAR ENDED
DECEMBER 31, 2012

ARMSTRONG COUNTY, TEXAS

ANNUAL FINANCIAL REPORT
FOR YEAR ENDED DECEMBER 31, 2012

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ARMSTRONG COUNTY, TEXAS

ANNUAL FINANCIAL REPORT
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PART I

INTRODUCTORY SECTION

ARMSTRONG COUNTY, TEXAS

PRINCIPAL COUNTY OFFICIALS

DECEMBER 31, 2012

Hugh Reed	County Judge
John Britten	Commissioner, Precinct #1
Michael E. Baker	Commissioner, Precinct #2
Tom Ferris	Commissioner, Precinct #3
C.M. Bryant	Commissioner, Precinct #4
Dan Schaap	Judge, 47^{th} Judicial District
Randall Sims	District Attorney
Patricia Sherrill	District/County Clerk
Joe D. Reck	County Tax Assessor/Collector
Sara Messer	County Treasurer
James R. Walker	County Sheriff
Beatrice Sturkie	Justice of the Peace

PART II

FINANCIAL SECTION

DOSHIER, PICKENS & FRANCIS, LLC
CERTIFIED PUBLIC ACCOUNTANTS
301 S. Polk, Suite 800 P.O. Box 9938
Amarillo, TX 79105-5938 806.373.3011
Fax: 806.376.8126 www.dpfcpa.com

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund and its respective budgetary comparison, and the aggregate remaining fund information of Armstrong County, Texas as of and for the year ended December 31, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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 and its respective budgetary comparison, and the aggregate remaining fund information of Armstrong County, Texas, as of December 31, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

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 Armstrong County, Texas on page 28 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 Armstrong 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.

DOSHIER, PICKENS & FRANCIS, LLC
May 7, 2013

BASIC FINANCIAL STATEMENTS

ARMSTRONG COUNTY, TEXAS
STATEMENT OF NET POSITION
DECEMBER 31, 2012

		Governmental Activities
ASSETS		
Cash and cash equivalents	$	1,081,379
Investments		205,148
Accounts receivable, net		136,340
Taxes receivable, net		238,427
Restricted assets:		
Cash		93,755
Capital assets, net of accumulated depreciation		1,586,015
Total assets		3,341,064
LIABILITIES		
Accounts payable		15,129
Due to other governmental entities		79,844
Accrued interest		1,406
Noncurrent liabilities:		
Due within one year		24,447
Due in more than one year		16,125
Total liabilities		136,951
NET POSITION		
Invested in capital assets, net of related debt		1,561,569
Restricted:		
By enabling legislation		93,983
Capital projects		8,180
Unrestricted		1,540,381
Total net position	$	3,204,113

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

ARMSTRONG COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

		Program Revenue			Net (Expense) Revenue and Changes in Net Assets
					Primary Government
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**
Primary government					
Governmental Activities:					
Administrative	$ 122,177	$ -	$ 12,555	$ -	$ (109,622)
Judicial	232,391	474,223	45,515	-	287,347
Elections	13,577	-	-	-	(13,577)
Financial administration	177,667	142,975	60,109	-	25,417
Public facilities	75,452	2,790	-	921,775	849,113
Corrections and rehabilitation	194,452	134	-	-	(194,318)
Public safety	327,192	15,045	18,156	-	(293,991)
Road and bridge	277,491	25,363	39,966	-	(212,162)
Community and economic development	54,184	-	-	-	(54,184)
Public service	5,366	-	-	-	(5,366)
Interest on long-term debt	1,406	-	-	-	(1,406)
Total	$ 1,481,355	$ 660,530	$ 176,301	$ 921,775	277,251
	General revenues:				
	Taxes:				
	Property taxes				752,233
	Investment earnings				4,207
	Miscellaneous				12,789
	Total general revenues				769,229
	Change in net position				1,046,480
	Net position - beginning				2,157,633
	Net position - ending				$ 3,204,113

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

ARMSTRONG COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General Fund	Road and Bridge	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 800,934	$ 272,265	$ 101,935	$ 1,175,134
Investments	205,148	-	-	205,148
Accounts receivable, net	136,101	-	239	136,340
Taxes receivable, net	156,341	82,086	-	238,427
Total assets	$ 1,298,524	$ 354,351	$ 102,174	$ 1,755,049
LIABILITIES				
Liabilities:				
Accounts payable	$ 10,345	$ 4,773	$ 11	$ 15,129
Due to other governmental entities	79,844	-	-	79,844
Total liabilities	90,189	4,773	11	94,973
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	73,866	38,410	-	112,276
Unavailable revenue - other receivables	66,785	-	-	66,785
Total deferred inflows of resources	140,651	38,410	-	179,061
FUND BALANCES				
Restricted:				
By enabling legislation for special projects	-	-	93,983	93,983
Committed for:				
Capital projects	-	-	8,180	8,180
Special projects	-	311,168	-	311,168
Unassigned	1,067,684	-	-	1,067,684
Total fund balances	1,067,684	311,168	102,163	1,481,015
Total liabilities, deferred inflows of resources, and fund balances	$ 1,298,524	$ 354,351	$ 102,174	$ 1,755,049

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

ARMSTRONG COUNTY, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2012

Total fund balance - governmental funds	$	1,481,015
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
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.		1,586,015
Long-term assets are not available to pay for current-period expenditures and, therefore, are shown as deferred inflows of resources in the fund financial statements.		179,061
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements:		
Accrued interest payable		(1,406)
Capital lease payable		(24,447)
Landfill closure and post-closure costs		(14,000)
Accrued compensated absences		(2,125)
Net position - governmental activities	$	3,204,113

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

ARMSTRONG COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General Fund	Road and Bridge	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	$ 460,490	$ 244,059	$ -	$ 704,549
Licenses and fees	240,157	25,363	36,051	301,571
Fines and forfeitures	335,083	-	-	335,083
Intergovernmental	189,116	39,966	-	229,082
Investment earnings	4,037	167	3	4,207
Miscellaneous	9,950	2,613	226	12,789
Total revenues	1,238,833	312,168	36,280	1,587,281
EXPENDITURES				
Current:				
Administrative	96,507	-	9,197	105,704
Judicial	219,757	-	9,145	228,902
Elections	13,577	-	-	13,577
Financial administration	174,520	-	-	174,520
Public facilities	35,410	-	-	35,410
Corrections and rehabilitation	194,452	-	-	194,452
Public safety	303,829	-	2,888	306,717
Road and bridge	-	253,620	-	253,620
Community and economic development	54,184	-	-	54,184
Public service	4,366	-	-	4,366
Debt service:				
Principal	23,118	-	-	23,118
Interest	2,735	-	-	2,735
Capital outlay	6,022	-	-	6,022
Total expenditures	1,128,477	253,620	21,230	1,403,327
EXCESS OF REVENUES OVER EXPENDITURES	110,356	58,548	15,050	183,954
OTHER FINANCING SOURCES (USES)				
Transfers in	7,053	-	-	7,053
Transfers out	-	(5,545)	(1,508)	(7,053)
Total other financing sources (uses)	7,053	(5,545)	(1,508)	-
NET CHANGE IN FUND BALANCES	117,409	53,003	13,542	183,954
FUND BALANCES - BEGINNING	950,275	258,165	88,621	1,297,061
FUND BALANCES - ENDING	$ 1,067,684	$ 311,168	$ 102,163	$ 1,481,015

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

ARMSTRONG 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 DECEMBER 31, 2012

Net change in fund balances - total governmental funds:	$	183,954
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, $6,022, were exceeded by depreciation, $112,934, in the current period.		(106,912)
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.		868,994
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.		71,557
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:		
Landfill closure and post-closure costs		(1,000)
Principal repayments:		
Capital lease payable		23,118
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:		
Accrued interest on debt, net change		1,328
Compensated absences, net change		5,441
Change in net position - governmental activities	$	1,046,480

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

ARMSTRONG COUNTY, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance With Final Budget
REVENUES				
Property taxes	$ 438,707	$ 438,707	$ 460,490	$ 21,783
Licenses and fees	232,099	232,099	240,157	8,058
Fines and forfeitures	300,000	318,872	335,083	16,211
Intergovernmental	174,966	233,579	189,116	(44,463)
Investment earnings	4,420	4,420	4,037	(383)
Miscellaneous	500	500	9,950	9,450
Total revenues	1,150,692	1,228,177	1,238,833	10,656
EXPENDITURES				
Current:				
Administrative	102,925	100,003	96,507	3,496
Judicial	201,486	224,336	219,757	4,579
Elections	13,000	13,000	13,577	(577)
Financial administration	182,428	186,847	174,520	12,327
Public facilities	64,467	42,202	35,410	6,792
Corrections and rehabilitation	198,241	198,941	194,452	4,489
Public safety	240,125	318,377	303,829	14,548
Community and economic development	67,104	60,604	54,184	6,420
Public service	57,258	54,358	4,366	49,992
Debt service:				
Principal	23,118	23,118	23,118	-
Interest	2,735	2,735	2,735	-
Capital outlay	-	6,022	6,022	-
Total expenditures	1,152,887	1,230,543	1,128,477	102,066
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,195)	(2,366)	110,356	112,722
OTHER FINANCING SOURCES / (USES)				
Transfers in	7,053	7,053	7,053	-
Transfers out	(2,805)	(2,805)	-	2,805
Total other financing sources / (uses)	4,248	4,248	7,053	2,805
NET CHANGE IN FUND BALANCE	2,053	1,882	117,409	115,527
FUND BALANCE - BEGINNING	950,275	950,275	950,275	-
FUND BALANCE - ENDING	$ 952,328	$ 952,157	$ 1,067,684	$ 115,527

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

ARMSTRONG COUNTY, TEXAS
ROAD AND BRIDGE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts			
	Original	**Final**	**Actual Amounts**	**Variance With Final Budget**
REVENUES				
Property taxes	$ 231,138	$ 231,138	$ 244,059	$ 12,921
Licenses and fees	23,400	23,400	25,363	1,963
Intergovernmental	29,000	29,000	39,966	10,966
Investment earnings	8	8	167	159
Miscellaneous	-	-	2,613	2,613
Total revenues	283,546	283,546	312,168	28,622
EXPENDITURES				
Current:				
Road and bridge	281,254	282,554	253,620	28,934
Capital outlay	5,099	5,099	-	5,099
Total expenditures	286,353	287,653	253,620	34,033
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,807)	(4,107)	58,548	62,655
OTHER FINANCING SOURCES (USES)				
Transfers in	2,805	2,805	-	(2,805)
Transfers out	-	-	(5,545)	(5,545)
Total other financing sources (uses)	2,805	2,805	(5,545)	(8,350)
NET CHANGE IN FUND BALANCE	(2)	(1,302)	53,003	54,305
FUND BALANCE - BEGINNING	258,165	258,165	258,165	-
FUND BALANCE - ENDING	$ 258,163	$ 256,863	$ 311,168	$ 54,305

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

ARMSTRONG COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2012

ASSETS		
Cash and cash equivalents	$	262,545
Total assets	$	262,545
LIABILITIES		
Accounts payable	$	8,237
Due to other governments		201,784
Deposits		52,524
Total liabilities	$	262,545

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Armstrong 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 1890, 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 Special Revenue 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 Project Funds. 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

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 fines and 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 service, 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

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. 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.

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 the 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.

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 $1,143,111.

Continued

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. <u>Assets, Liabilities, and Net Assets or Equity</u> – Continuation

2. Receivables and Payables – Continuation

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. Tax collections during the months of October through December are entitled to discounts offered by the County. 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 are shown net of an allowance for uncollectible accounts of $15,219.

4. Capital Assets

Capital assets, which include land, buildings and improvements, and equipment, are reported in the government-wide financial statements. The County has opted not to retroactively report infrastructure assets (assets acquired prior to January 1, 2004). 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	20-50 years
Equipment and vehicles	5-10 years

5. 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).

Continued

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. <u>Assets, Liabilities, and Net Assets or Equity</u> – Continuation

5. Compensated Absences – Continuation

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.

The County's permanent, full-time employees are entitled to vacations of up to a maximum of twenty-one days per year based on years of employment. Vacation time earned, but not taken, is paid at termination, but employees cannot accumulate more than seven days beyond one calendar year. Sick leave accrues at one day per month with a maximum of 120 working days, but compensation is paid only for an illness-related absence. Unused sick leave is non-vesting and will not be paid on termination.

Accrued vacation leave and comp time are accrued in the government-wide financial statements in the amount of $2,125 at December 31, 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:

<u>Nonspendable Fund Balance</u> – 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.

<u>Restricted Fund Balance</u> – 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.

<u>Committed Fund Balance</u> – 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

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, or 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.

10. New Accounting Pronouncements

During the year 2012, the County adopted the provisions of GASB Statement No. 63 "Reporting Deferred Outflows, Deferred Inflows, and Net Position." It provides guidance for reporting the financial statement elements of deferred outflows of resources and deferred inflows of resources. Deferred outflows represent the consumption of the government's net assets that is applicable to a future reporting period. A deferred inflow represents the acquisition of net assets that is applicable to a future reporting period. GASB 63 provides guidance on how these elements should be reported, and GASB 63 applies to all fund type and activities.

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.

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 and Road and Bridge Special Revenue Funds 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.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2012, expenditures exceeded appropriations in the Election Administration Department of the General Fund by $577. The excess of expenditures in the General Fund were financed by revenues in excess of the budget. The County did budget for total expenditures to be in excess of revenues. Actual total expenditures were less than budget by $102,066.

NOTE 3 – DEPOSITS AND INVESTMENTS

Following is a reconciliation of the County's cash and deposit balances as of December 31, 2012:

Cash and deposit balances consist of:		
Petty cash funds	$	190
Bank deposits		851,548
Temporary investments - TexPool (interest rate .1533%)		585,942
Total	$	1,437,680
Cash and deposit balances are reported in the basic financial statements as follows:		
Government-wide Statement of Net Assets:		
Unrestricted	$	1,081,379
Restricted		93,755
Fiduciary Funds Statement of Net Assets		262,545
Total	$	1,437,679

As of December 31, 2012, the County had the following investments:

Investment Type		Fair Value	Weighted Average Maturity (Days)
Governmental activities			
Certificate of deposit (interest rate at .80%)	$	205,148	
Total fair value	$	205,148	
Portfolio weighted average maturity			360

Custodial credit risk – deposits. As of December 31, 2012, the carrying amount of the County's deposits with financial institutions was $851,548 and the bank's balance was $964,494. Of the bank balance, $575,428 was insured through the Federal Depository Insurance Corporation (FDIC) and $389,066 was collateralized with securities held by the pledging institution's agent in the County's name.

As of December 31, 2012, the County had $585,942 invested with Texas Treasury Safekeeping Trust Company (TexPool). TexPool is a public funds investment pool created pursuant to the Interlocal Cooperation Act of the State of Texas. The State Comptroller of Public Accounts exercises oversight responsibility over the 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 pool and other persons who do not have a business relationship with the pool. The advisory board members review the investment policy and management fee structure.

The investment pool operates 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

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, readily available TexPool shares, 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 December 31, 2012, 41% 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 $.347005 per $100, which means that the County has a tax margin of $.452995 per $100 and could raise up to $657,500 additional revenue from the 2012 assessed valuation of $145,145,010 before the limit is reached.

The State of Texas Constitutional tax rate limit for the maintenance of farm-to-market roads is $.30 on each $100 of assessed valuation. The tax rate on the 2012 tax roll was $.185322 per $100, which means that the County has a tax margin of $.114678 per $100 and could raise up to $165,242 additional revenue from the 2012 assessed valuation of $144,092,430 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 in October through December are entitled to discounts offered by the County. 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.

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 opted not to report its infrastructure retroactively.

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and land improvements	$ 41,108	$ -	$ -	$ 41,108
Total capital assets, not being depreciated	41,108	-	-	41,108
Capital assets, being depreciated:				
Buildings and improvements	912,652	868,994	-	1,781,646
Equipment	1,155,440	6,022	-	1,161,462
Total capital assets, being depreciated	2,068,092	875,016	-	2,943,108
Less accumulated depreciation for:				
Buildings and improvements	(380,842)	(52,610)	-	(433,452)
Equipment	(904,424)	(60,324)	-	(964,748)
Total accumulated depreciation	(1,285,266)	(112,934)	-	(1,398,200)
Total capital assets, being depreciated, net	782,826	762,082	-	1,544,908
Governmental activities capital assets, net	$ 823,934	$ 762,082	$ -	$ 1,586,016

Continued

NOTE 5 – CAPITAL ASSETS – Continuation

Depreciation expense for the year ended December 31, 2012 was charged to the functions/programs of the primary government as follows:

Governmental activities		
Administrative	$	21,812
Financial adminstration		301
Judicial		2,547
Public facilities		40,235
Public safety		22,874
Road and bridge		25,165
Total Depreciation Expense	$	112,934

NOTE 6 – RETIREMENT PLAN

Plan Description

Armstrong County provides retirement, disability, 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 80 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.

Armstrong 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 GTLF 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 GTLF. 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.

Continued

NOTE 6 – RETIREMENT PLAN – Continuation

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 5.04% for the year 2011 and 5.51% for the year 2012. The contribution rate payable by the employee members is 7.0% for the 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.

Each participating employer contributes to the GTLF 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. Armstrong County, Texas contributions to the GTLF for the years ended December 31, 2012, 2011 and 2010, were $4,007, $4,032, and $4,421, respectively, which equaled the contractually required contributions each year.

Annual Pension Cost

For 2012, the County's annual pension cost of $33,451 was equal to the County's required and actual contributions.

TREND INFORMATION FOR THE RETIREMENT PLAN FOR THE EMPLOYEES OF ARMSTRONG. COUNTY, TEXAS

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2010	$ 31,007	100%	$ -
December 31, 2011	30,824	100	-
December 31, 2012	33,451	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 an open basis. The remaining amortization period at December 31, 2011 was 30 years.

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 102.46% funded. The actuarial accrued liability for benefits was $1,539,366, and the actuarial value of assets was $1,577,217, resulting in an overfunded actuarial accrued liability (OAAL) of $37,851. The covered payroll (annual payroll of active employees covered by the plan) was $611,590, and the ratio of OAAL to the covered payroll was 6.19%.

Continued

NOTE 6 – RETIREMENT PLAN – Continuation

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.

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Individual Interfund Transfers

Fund	Interfund Transfers In	Interfund Transfers Out
General Fund	$ 7,053	$ -
Special Revenue Fund:		
Road and Bridge	-	5,545
Capital Projects Fund:		
Capital Outlay Fund	-	1,508
	$ 7,053	$ 7,053

The primary purpose for interfund transfers is to correct the misposting of restricted funds.

NOTE 8 – CONCENTRATION OF TAXPAYERS

As of December 31, 2012, the following taxpayers accounted for a significant portion of the County's total tax levy.

Taxpayer	Industry	Tax Amount	Percent of Total Levy
Taxpayer A	Railroad	$ 119,572	15.51 %
Taxpayer B	Construction	37,230	4.83

NOTE 9 – LONG-TERM LIABILITIES

In 2011 the County financed capital purchases of vehicles with a capital lease payable to a financial institution. The principal payments will be due in three equal payments. The interest rate on this financing is 5.75%.

The annual debt service requirement on long-term liabilities outstanding as of December 31, 2012 is as follows:

		Capital Lease	
Fiscal Year	Total	Interest	Principal
2013	$ 25,853	$ 1,406	$ 24,447
	$ 25,853	$ 1,406	$ 24,447

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital lease	$ 47,565	$ -	$ (23,118)	$ 24,447	$ 24,447
Landfill closure costs	13,000	1,000	-	14,000	-
Compensated absences	7,566	15,225	(20,666)	2,125	-
Governmental activity long-term liabilities	$ 68,131	$ 16,225	$ (43,784)	$ 40,572	$ 24,447

The County incurred interest expense of $1,406 during the year ended December 31, 2012.

NOTE 10 – LEASES

Capital Leases

The County has entered into a capital lease for the purchase of vehicles. The future minimum lease payments under capital leases and the net present value of the future minimum lease payments are as follows:

For Year Ended:	
2013	$ 25,853
.	
Total Future Lease Payments	25,853
Less amount representing interest	1,406
Present value of future minimum lease payments	$ 24,447
Interest rate	5.75%

Equipment and related accumulated amortization are as follows:

Equipment	$ 73,418
Less accumulated amortization	(29,367)
Net value	$ 44,051

Amortization of leased equipment under capital leases is included with depreciation expense.

NOTE 11 – LANDFILL CLOSURE AND POST-CLOSURE CARE COST

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $14,000 reported as landfill closure and post-closure care liability at December 31, 2012, represents the cumulative amount reported to date based on the use of 68% of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and post-closure care of $6,000 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2012. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by the Texas Commission on Environmental Quality to satisfy certain requirements of financial assurance for closure and post-closure cost by meeting certain financial tests. In the opinion of County management, all financial assurance requirements have been met at December 31, 2012. The County has the option of securing a surety bond in an amount that approximates the current closure and post-closure care costs in lieu of the financial assurance tests. Armstrong County has secured such a surety bond, in the amount of $20,000, in addition to meeting the financial assurance requirements required by the Texas Commission of Environmental Quality.

NOTE 12 – 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, with the exception of the County not insuring road equipment for property coverage. 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.

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

ARMSTRONG COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREMENT PLAN
FOR THE EMPLOYEES OF ARMSTRONG COUNTY, TEXAS
FOR THE YEAR ENDED DECEMBER 31, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded AAL (OAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	OAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/09	$ 1,330,327	$ 1,227,296	$ 103,031	108.39%	$ 573,066	17.98 %
12/31/10	1,451,912	1,386,615	65,297	104.71	597,432	10.93
12/31/11	1,577,217	1,539,366	37,851	102.46	611,590	6.19

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 fees collected by the County Clerk after the filing and recording of a document in the records office of the Clerk. The fees are dedicated by law to be used for specific records management and preservation purposes of the County.

District Records Management – The District Records Management Fund accounts for fees collected by the District Clerk after the filing of a suit. The fees are dedicated by law to be used for specific records management and preservation purposes.

Archive – The Archive Fund accounts for fees collected by the County Clerk for the recording or filing of public documents. The fees are dedicated by law to be expended only for the preservation and restoration of the County Clerk's record archive.

Courthouse Security – The Courthouse Security Fund accounts for fees collected by the County and District Clerks from all defendants convicted of an offense. The fees are dedicated by law to be used to fund and support security systems and personnel within the District, County or Justice Courts.

Justice Court Technology – The Justice Court Technology Fund accounts for fees collected by the County Clerk from all defendants convicted of a misdemeanor offense in a Justice Court. The fees are dedicated by law to be expended only for the costs of continuing education for justice court judges and clerks regarding technological enhancements for justice courts and the costs of those enhancements.

Sheriff Commissary – The Sheriff Commissary Fund accounts for the proceeds received by the Sheriff's office from incarcerated persons on the sale of commissary items. The funds are restricted by law to be used to maintain the commissary and for the benefit of the Sheriff's Department.

CAPITAL PROJECTS FUNDS

The Capital Projects Funds account for financial resources designated for acquisition of fixed assets and construction projects.

Jail Restoration – The Jail Restoration Fund was created to account for the grants received, as well as expenditures for the purpose of restoring and renovating the County Jail.

Capital Outlay – The Capital Outlay Fund was created to account for funds committed for the purpose of future purchases of capital assets.

ARMSTRONG COUNTY, TEXAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	Special Revenue		
	Records Management	**District Records Management**	**Archive**
ASSETS			
Cash and cash equivalents	$ 12,802	$ 482	$ 4,709
Other receivables	130	25	50
Total assets	$ 12,932	$ 507	$ 4,759
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 10	$ -	$ -
Total liabilities	10	-	-
Fund balances:			
Restricted:			
By enabling legislation for special projects	$ 12,922	$ 507	$ 4,759
Committed for:			
Capital projects	-	-	-
Total fund balances	12,922	507	4,759
Total liabilities and fund balances	$ 12,932	$ 507	$ 4,759

Special Revenue				Capital Projects	
Courthouse Security	Justice Court Technology	Sheriff Commissary	Total	Jail Restoration	Capital Outlay
$ 19,604	$ 55,526	$ 632	$ 93,755	$ 33	$ 8,147
34	-	-	239	-	-
$ 19,638	$ 55,526	$ 632	$ 93,994	$ 33	$ 8,147
$ 1	$ -	$ -	$ 11	$ -	$ -
1	-	-	11	-	-
$ 19,637	$ 55,526	$ 632	$ 93,983	$ -	$ -
-	-	-	-	33	8,147
19,637	55,526	632	93,983	33	8,147
$ 19,638	$ 55,526	$ 632	$ 93,994	$ 33	$ 8,147

Continued

ARMSTRONG COUNTY, TEXAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012

Continuation	Capital Projects Total	Total Non-Major Governmental Funds
ASSETS		
Cash and cash equivalents	$ 8,180	$ 101,935
Other receivables	-	239
Total assets	$ 8,180	$ 102,174
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	$ -	$ 11
Total liabilities	-	11
Fund balances:		
Restricted:		
By enabling legislation for special projects	$ -	$ 93,983
Committed for:	-	
Capital projects	8,180	8,180
Total fund balances	8,180	102,163
Total liabilities and fund balances	$ 8,180	$ 102,174

ARMSTRONG COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Special Revenue		
	Records Management	District Records Management	Archive
REVENUES			
Licenses and fees	$ 6,952	$ 505	$ 2,602
Interest	-	-	-
Miscellaneous	-	-	-
Total revenues	6,952	505	2,602
EXPENDITURES			
Current:			
Administrative	5,888	-	3,309
Judicial	-	3,028	-
Public safety	-	-	-
Total expenditures	5,888	3,028	3,309
EXCESS / (DEFICIENCY) OF REVENUES OVER / (UNDER) EXPENDITURES	1,064	(2,523)	(707)
OTHER FINANCING SOURCES / (USES)			
Transfers out	-	-	-
TOTAL OTHER FINANCING SOUCES / (USES)	-	-	-
NET CHANGE IN FUND BALANCES	1,064	(2,523)	(707)
FUND BALANCES - BEGINNING	11,858	3,030	5,466
FUND BALANCES - ENDING	$ 12,922	$ 507	$ 4,759

Special Revenue				Capital Projects	
Courthouse Security	Justice Court Technology	Sheriff Commissary	Total	Jail Restoration	Capital Outlay
$ 11,919	$ 14,073	$ -	$ 36,051	$ -	$ -
-	-	3	3	-	-
-	-	226	226	-	-
11,919	14,073	229	36,280	-	-
-	-	-	9,197	-	-
417	5,700	-	9,145	-	-
-	-	272	272	2,616	-
417	5,700	272	18,614	2,616	-
11,502	8,373	(43)	17,666	(2,616)	-
-	-	-	-	-	(1,508)
-	-	-	-	-	(1,508)
11,502	8,373	(43)	17,666	(2,616)	(1,508)
8,135	47,153	675	76,317	2,649	9,655
$ 19,637	$ 55,526	$ 632	$ 93,983	$ 33	$ 8,147

Continued

ARMSTRONG COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Continuation	Capital Projects Total	Total Non-Major Governmental Funds
REVENUES		
Licenses and fees	$ -	$ 36,051
Interest	-	3
Miscellaneous	-	226
Total revenues	-	36,280
EXPENDITURES		
Current:		
Administrative	-	9,197
Judicial	-	9,145
Public safety	2,616	2,888
Total expenditures	2,616	21,230
EXCESS / (DEFICIENCY) OF REVENUES OVER / (UNDER) EXPENDITURES	(2,616)	15,050
OTHER FINANCING SOURCES / (USES)		
Transfers out	(1,508)	(1,508)
TOTAL OTHER FINANCING SOUCES / (USES)	(1,508)	(1,508)
NET CHANGE IN FUND BALANCES	(4,124)	13,542
FUND BALANCES - BEGINNING	12,304	88,621
FUND BALANCES - ENDING	$ 8,180	$ 102,163

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 Fund accounts for registry funds held by the County and District Clerk.

Tax Assessor Collector – The Tax Assessor Collector Fund accounts for money collected by the Tax Assessor Collector and remitted to various taxing jurisdictions.

Inmate Trust – The Sheriff Inmate Trust Fund accounts for the money of inmates held in the Armstrong County Jail.

ARMSTRONG COUNTY, TEXAS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2012

	County and District Clerk	Tax Assessor Collector	Inmate Trust	Total Agency Funds
ASSETS				
Cash and cash equivalents	$ 52,349	$ 210,021	$ 175	$ 262,545
Total assets	$ 52,349	$ 210,021	$ 175	$ 262,545
LIABILITIES				
Accounts payable	$ -	$ 8,237	$ -	$ 8,237
Due to other governments	-	201,784	-	201,784
Deposits	52,349	-	175	52,524
Total liabilities	$ 52,349	$ 210,021	$ 175	$ 262,545

PART III

COMPLIANCE

DP&F DOSHIER, PICKENS & FRANCIS, LLC
CERTIFIED PUBLIC ACCOUNTANTS
301 S. Polk, Suite 800 P.O. Box 9938
Amarillo, TX 79105-5938 806.373.3011
Fax: 806.376.8126 www.dpfcpa.com

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

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

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 the aggregate remaining fund information of Armstrong County, Texas as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Armstrong County, Texas' basic financial statements and have issued our report thereon dated May 7, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Armstrong 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 Armstrong County, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of Armstrong County, Texas' internal control.

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

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

- Finding 2012-1

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies.

- Finding 2012-2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Armstrong 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Armstrong County, Texas' Response to Findings

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

Purpose of this Report

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

Doshier, Pickens & Francis, L.L.C.

DOSHIER, PICKENS & FRANCIS, LLC
May 7, 2013

ARMSTRONG CONUNTY, TEXAS
SCHEDULE OF FINDINGS
DECEMBER 31, 2012

Finding 2012-1

KNOWLEDGE AND APPLICATION OF GENERALLY ACCEPTED ACCOUNTING PRINICPLES:

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.

During the course of our audit we noted that the County's management was able to prepare the majority of information necessary to prepare the County's financial statements in accordance with accounting principles generally accepted in the United States. However, several material adjustments were still needed to prepare the County's financial statements on a basis of accounting accepted by accounting principles generally accepted in the United States of America. 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 Treasurer these adjustments, financial statements and disclosures to help her have an understanding of this financial information so that she can assume this responsibility for the accuracy and completeness of the financial statements.

Finding 2012-2

DEFICIENCIES IN THE DESIGN OF CONTROLS:

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.