

ARMSTRONG COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

**FOR YEAR ENDED
DECEMBER 31, 2013**

ARMSTRONG COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR YEAR ENDED DECEMBER 31, 2013

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PART I

INTRODUCTORY SECTION

ARMSTRONG COUNTY, TEXAS
PRINCIPAL COUNTY OFFICIALS
DECEMBER 31, 2013

Hugh Reed	County Judge
John Britten	Commissioner, Precinct #1
Parker Stewart	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
Dianne Samaniego	Justice of the Peace

PART II
FINANCIAL SECTION

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

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and its respective budgetary comparison schedule, and the aggregate remaining fund information of Armstrong County, Texas as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund with its respective budgetary comparison schedule, and the aggregate remaining fund information of Armstrong County, Texas, as of December 31, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

The County has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. The MD&A, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The independent auditors' opinion is not affected by the omission of the MD&A.

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014, on our consideration of Armstrong County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Armstrong County, Texas' internal control over financial reporting and compliance.

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

DOSHIER, PICKENS & FRANCIS, LLC
March 20, 2014

BASIC FINANCIAL STATEMENTS

ARMSTRONG COUNTY, TEXAS
STATEMENT OF NET POSITION
DECEMBER 31, 2013

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,183,939
Investments	205,955
Accounts receivable, net	121,926
Taxes receivable, net	286,193
Restricted assets:	
Cash	113,145
Capital assets, net of accumulated depreciation	<u>1,808,227</u>
Total assets	<u>3,719,385</u>
LIABILITIES	
Accounts payable	18,606
Due to other governmental entities	55,519
Accrued interest	6,480
Noncurrent liabilities:	
Due within one year	78,212
Due in more than one year	<u>275,879</u>
Total liabilities	<u>434,696</u>
NET POSITION	
Net investment in capital assets	1,470,764
Restricted:	
By enabling legislation	113,383
Capital projects	31,007
Unrestricted	<u>1,669,535</u>
Total net position	<u><u>\$ 3,284,689</u></u>

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, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Primary Government Governmental Activities
Primary government					
Governmental Activities:					
Administrative	\$ 107,460	\$ -	\$ 14,841	\$ -	\$ (92,619)
Judicial	258,335	398,430	532	-	140,627
Elections	10,719	-	-	-	(10,719)
Financial administration	232,952	152,999	99,838	-	19,885
Public facilities	130,973	2,747	-	98,748	(29,478)
Corrections and rehabilitation	209,618	133	-	-	(209,485)
Public safety	357,523	21,767	2,212	-	(333,544)
Road and bridge	329,946	23,705	45,293	-	(260,948)
Community and economic development	40,381	-	-	-	(40,381)
Public service	3,833	-	-	-	(3,833)
Interest on long-term debt	6,647	-	-	-	(6,647)
Total	<u>\$ 1,688,387</u>	<u>\$ 599,781</u>	<u>\$ 162,716</u>	<u>\$ 98,748</u>	<u>(827,142)</u>
General revenues:					
Taxes:					
Property taxes					818,630
Investment earnings					2,368
Miscellaneous					34,544
Gain on disposal of assets					52,176
Total general revenues					907,718
Change in net position					80,576
Net position - beginning					3,204,113
Net position - ending					\$ 3,284,689

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

**ARMSTRONG COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	<u>General Fund</u>	<u>Road and Bridge</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 827,460	\$ 325,242	\$ 144,382	\$ 1,297,084
Investments	205,955	-	-	205,955
Accounts receivable, net	121,687	-	239	121,926
Taxes receivable, net	186,699	99,494	-	286,193
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,341,801</u>	<u>\$ 424,736</u>	<u>\$ 144,621</u>	<u>\$ 1,911,158</u>
LIABILITIES				
Liabilities:				
Accounts payable	\$ 13,076	\$ 5,233	\$ 297	\$ 18,606
Due to other governmental entities	55,519	-	-	55,519
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>68,595</u>	<u>5,233</u>	<u>297</u>	<u>74,125</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	105,087	56,270	-	161,357
Unavailable revenue - other receivables	51,996	-	-	51,996
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total deferred inflows of resources	<u>157,083</u>	<u>56,270</u>	<u>-</u>	<u>213,353</u>
FUND BALANCES				
Restricted:				
By enabling legislation for special projects	-	-	113,383	113,383
Committed for:				
Capital projects	-	-	31,007	31,007
Special projects	-	363,233	-	363,233
Unassigned (deficit)	1,116,123	-	(66)	1,116,057
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>1,116,123</u>	<u>363,233</u>	<u>144,324</u>	<u>1,623,680</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,341,801</u>	<u>\$ 424,736</u>	<u>\$ 144,621</u>	<u>\$ 1,911,158</u>

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, 2013

Total fund balance - governmental funds	\$ 1,623,680
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Amounts reported for governmental activities in the Statement of Net Position 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 Position.	1,808,227
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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.	213,353
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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	(6,480)
Notes payable	(337,462)
Landfill closure and post-closure costs	(14,000)
Accrued compensated absences	(2,629)
	<hr/>

Net position - governmental activities	<u><u>\$ 3,284,689</u></u>
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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, 2013

	<u>General Fund</u>	<u>Road and Bridge</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 501,171	\$ 268,378	\$ -	\$ 769,549
Licenses and fees	255,835	23,705	32,698	312,238
Fines and forfeitures	296,000	-	-	296,000
Intergovernmental	213,972	45,293	8,531	267,796
Investment earnings	2,244	122	2	2,368
Miscellaneous	20,634	5,203	8,707	34,544
Total revenues	<u>1,289,856</u>	<u>342,701</u>	<u>49,938</u>	<u>1,682,495</u>
EXPENDITURES				
Current:				
Administrative	90,578	-	5,055	95,633
Judicial	238,892	-	14,623	253,515
Elections	10,719	-	-	10,719
Financial administration	231,748	-	-	231,748
Public facilities	65,400	-	-	65,400
Corrections and rehabilitation	209,618	-	-	209,618
Public safety	331,449	-	2,449	333,898
Road and bridge	-	283,136	-	283,136
Community and economic development	40,381	-	-	40,381
Public service	3,833	-	-	3,833
Debt service:				
Principal	24,447	-	-	24,447
Interest	1,572	-	-	1,572
Capital outlay	91,506	253,456	-	344,962
Total expenditures	<u>1,340,143</u>	<u>536,592</u>	<u>22,127</u>	<u>1,898,862</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(50,287)</u>	<u>(193,891)</u>	<u>27,811</u>	<u>(216,367)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	91,506	245,956	-	337,462
Proceeds from sale of assets	-	-	21,570	21,570
Transfers in	7,220	-	-	7,220
Transfers out	-	-	(7,220)	(7,220)
Total other financing sources (uses)	<u>98,726</u>	<u>245,956</u>	<u>14,350</u>	<u>359,032</u>
NET CHANGE IN FUND BALANCES	<u>48,439</u>	<u>52,065</u>	<u>42,161</u>	<u>142,665</u>
FUND BALANCES - BEGINNING	<u>1,067,684</u>	<u>311,168</u>	<u>102,163</u>	<u>1,481,015</u>
FUND BALANCES - ENDING	<u>\$ 1,116,123</u>	<u>\$ 363,233</u>	<u>\$ 144,324</u>	<u>\$ 1,623,680</u>

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, 2013**

Net change in fund balances - total governmental funds:	\$	142,665
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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, \$344,962, exceeded depreciation, \$153,357, in the current period.		191,605
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In the Statement of Activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the capital asset sold.		(20,394)
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The Statement of Activities reports gains arising from the trade-in of existing capital assets to acquire new capital assets. Conversely, governmental funds do not report any gain or loss on a trade-in of capital assets.		51,000
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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.		34,292
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In the Statement of Net Position, 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 Position.

Debt issued or incurred:		
Note payable financing		(337,462)
Principal repayments:		
Capital lease payable		24,447

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		(5,073)
Compensated absences, net change		(504)

Change in net position - governmental activities	\$	80,576
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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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
REVENUES				
Property taxes	\$ 479,603	\$ 479,603	\$ 501,171	\$ 21,568
Licenses and fees	226,864	226,864	255,835	28,971
Fines and forfeitures	318,000	318,000	296,000	(22,000)
Intergovernmental	162,658	221,658	213,972	(7,686)
Investment earnings	3,150	3,150	2,244	(906)
Miscellaneous	1,071	1,071	20,634	19,563
Total revenues	<u>1,191,346</u>	<u>1,250,346</u>	<u>1,289,856</u>	<u>39,510</u>
EXPENDITURES				
Current:				
Administrative	106,184	95,214	90,578	4,636
Judicial	226,838	253,657	238,892	14,765
Elections	8,000	10,700	10,719	(19)
Financial administration	236,830	241,530	231,748	9,782
Public facilities	64,549	77,257	65,400	11,857
Corrections and rehabilitation	212,739	216,676	209,618	7,058
Public safety	248,312	332,169	331,449	720
Community and economic development	54,112	52,612	40,381	12,231
Public service	60,756	11,255	3,833	7,422
Debt service:				
Principal	-	24,447	24,447	-
Interest	-	1,572	1,572	-
Capital outlay	18,800	91,506	91,506	-
Total expenditures	<u>1,237,120</u>	<u>1,408,595</u>	<u>1,340,143</u>	<u>68,452</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(45,774)</u>	<u>(158,249)</u>	<u>(50,287)</u>	<u>107,962</u>
OTHER FINANCING SOURCES / (USES)				
Proceeds from capital leases	-	91,506	91,506	-
Transfers in	10,000	17,220	7,220	(10,000)
Total other financing sources / (uses)	<u>10,000</u>	<u>108,726</u>	<u>98,726</u>	<u>(10,000)</u>
NET CHANGE IN FUND BALANCE	<u>(35,774)</u>	<u>(49,523)</u>	<u>48,439</u>	<u>97,962</u>
FUND BALANCE - BEGINNING	<u>1,067,684</u>	<u>1,067,684</u>	<u>1,067,684</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 1,031,910</u>	<u>\$ 1,018,161</u>	<u>\$ 1,116,123</u>	<u>\$ 97,962</u>

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 253,629	\$ 253,629	\$ 268,378	\$ 14,749
Licenses and fees	22,500	22,500	23,705	1,205
Intergovernmental	31,000	31,000	45,293	14,293
Investment earnings	50	50	122	72
Miscellaneous	-	-	5,203	5,203
Total revenues	<u>307,179</u>	<u>307,179</u>	<u>342,701</u>	<u>35,522</u>
EXPENDITURES				
Current:				
Road and bridge	293,167	301,178	283,136	18,042
Capital outlay	<u>14,011</u>	<u>253,456</u>	<u>253,456</u>	<u>-</u>
Total expenditures	<u>307,178</u>	<u>554,634</u>	<u>536,592</u>	<u>18,042</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1</u>	<u>(247,455)</u>	<u>(193,891)</u>	<u>53,564</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	<u>-</u>	<u>245,956</u>	<u>245,956</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>245,956</u>	<u>245,956</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>1</u>	<u>(1,499)</u>	<u>52,065</u>	<u>53,564</u>
FUND BALANCE - BEGINNING	<u>311,168</u>	<u>311,168</u>	<u>311,168</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 311,169</u>	<u>\$ 309,669</u>	<u>\$ 363,233</u>	<u>\$ 53,564</u>

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

ARMSTRONG COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2013

ASSETS

Cash and cash equivalents	\$ 295,620
	<u> </u>
Total assets	<u>\$ 295,620</u>

LIABILITIES

Due to other governments	\$ 217,207
Deposits	<u>78,413</u>
	<u> </u>
Total liabilities	<u>\$ 295,620</u>

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

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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).

B. Government-Wide and Fund Financial Statements

Government-Wide Statements

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

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

Fund-Level Statements

Separate **fund financial statements** are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. The General Fund and the Road and Bridge 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

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Major revenue types which have been accrued are district clerk and county clerk fees, justice of the peace 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 unavailable revenues.

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

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

D. Use of Restricted Assets

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

E. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Equity

1. Deposits and Investments

The County's cash and cash equivalents are considered to be cash on hand, demand deposits and deposits within public fund investment pools. 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 area of investment practices, management has established and reports 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 \$1,161,754.

Continued

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Equity – 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 \$8,851.

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

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Equity – 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 \$2,629 at December 31, 2013.

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 position.

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

7. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

8. Fund Balances

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

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

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

Continued

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Equity – Continuation

8. Fund Balances – Continuation

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).

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

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

9. Net Position

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

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

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

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

10. Use of Estimates

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

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

1. Prior to September 1, the proposed budget is submitted to the Commissioners' Court.

Continued

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – Continuation

A. Budgetary Information – Continuation

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, 2013, expenditures exceeded appropriations in the Election Administration Department of the General Fund by \$19. 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 \$68,452.

C. Deficit Fund Balance

At December 31, 2013, the Jail Restoration Fund has a deficit fund balance of \$66. The deficit fund balance will be corrected by interfund transfers from the General Fund in the subsequent year.

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 3 – DEPOSITS AND INVESTMENTS

Following is a reconciliation of the County's cash and deposit balances as of December 31, 2013:

Cash and deposit balances consist of:

Petty cash funds	\$ 50
Bank deposits	753,201
Temporary investments - TexPool (interest rate .21%)	<u>839,453</u>
Total	<u><u>\$ 1,592,704</u></u>

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

Government-wide Statement of Net Assets:

Unrestricted	\$ 1,183,939
Restricted	113,145
Fiduciary Funds Statement of Net Assets	<u>295,620</u>
Total	<u><u>\$ 1,592,704</u></u>

As of December 31, 2013, the County had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Governmental activities		
Certificate of deposit (interest rate at .55%)	<u>\$ 205,955</u>	
Total fair value	<u><u>\$ 205,955</u></u>	
Portfolio weighted average maturity		<u><u>365</u></u>

Custodial credit risk – deposits. As of December 31, 2013, the carrying amount of the County's deposits with financial institutions was \$958,448 and the bank's balance was \$883,883. Of the bank balance, \$817,186 was insured through the Federal Depository Insurance Corporation (FDIC) and \$66,697 was collateralized with securities held by the pledging institution's agent in the County's name.

As of December 31, 2013, the County had \$839,453 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

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 3 – DEPOSITS AND INVESTMENTS – Continuation

Interest rate risk is the risk that adverse changes in interest rates will result in an adverse effect on the fair value of an investment. The County manages its exposure to interest rate risk by maintaining its cash in interest-bearing demand accounts, 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, 2013, 53% 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 2013 tax roll was \$.324081 per \$100, which means that the County has a tax margin of \$.475919 per \$100 and could raise up to \$791,416 additional revenue from the 2013 assessed valuation of \$166,292,210 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 2013 tax roll was \$.175408 per \$100, which means that the County has a tax margin of \$.124592 per \$100 and could raise up to \$205,937 additional revenue from the 2013 assessed valuation of \$165,289,450 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.

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 5 – CAPITAL ASSETS

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

Capital asset activity for the year ended December 31, 2013 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	1,781,646	-	-	1,781,646
Equipment	1,161,462	395,962	(48,946)	1,508,478
Total capital assets, being depreciated	2,943,108	395,962	(48,946)	3,290,124
Less accumulated depreciation for:				
Buildings and improvements	(433,452)	(77,950)	-	(511,402)
Equipment	(964,748)	(75,407)	28,552	(1,011,603)
Total accumulated depreciation	(1,398,200)	(153,357)	28,552	(1,523,005)
Total capital assets, being depreciated, net	1,544,908	242,605	(20,394)	1,767,119
Governmental activities capital assets, net	\$ 1,586,016	\$ 242,605	\$ (20,394)	\$ 1,808,227

Continued

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 5 – CAPITAL ASSETS – Continuation

Depreciation expense for the year ended December 31, 2013 was charged to the functions/programs of the primary government as follows:

Governmental activities	
Administrative	\$ 13,705
Financial administration	1,204
Judicial	2,547
Public facilities	65,575
Public safety	23,345
Road and bridge	<u>46,981</u>
 Total Depreciation Expense	 <u><u>\$ 153,357</u></u>

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 641 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the County (employer), within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 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

**ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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 5.51% for the year 2012 and 5.92% for the year 2013. The contribution rate payable by the employee members is 7.0% for the year 2013 as adopted by the governing body of the County. The employee contribution rate and the employer contribution rate may be changed by the governing body of the County within the options available in the TCDRS Act.

Each participating employer contributes to the 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, 2013, 2012 and 2011, were \$4,343, \$4,007, and \$4,032, respectively, which equaled the contractually required contributions each year.

Annual Pension Cost

For 2013, the County's annual pension cost of \$36,732 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, 2011	\$ 30,824	100%	\$ -
December 31, 2012	33,451	100	-
December 31, 2013	36,732	100	-

The required contribution was determined as part of the December 31, 2012 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2012 included (a) 8.0% investment rate of return (net of administrative expenses), and (b) projected salary increases of 5.4%. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of the assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten year period. The unfunded actuarial accrued liability is being amortized over a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2012 was 30 years.

Funded Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the plan was 101.42% funded. The actuarial accrued liability for benefits was \$1,657,325, and the actuarial value of assets was \$1,680,879, resulting in an overfunded actuarial accrued liability (OAAL) of \$23,554. The covered payroll (annual payroll of active employees covered by the plan) was \$607,011, and the ratio of OAAL to the covered payroll was 3.88%.

Continued

**ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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	\$ 7,220	\$ -
Capital Projects Fund:		
Capital Outlay Fund	-	7,220
	<u>\$ 7,220</u>	<u>\$ 7,220</u>

The primary purpose for interfund transfers is to move funds for debt service payments to the fund where the payments are made.

NOTE 8 – CONCENTRATION OF TAXPAYERS

As of December 31, 2013, 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	\$ 122,241	14.75 %
Taxpayer B	Public Electric Utility	65,105	7.85

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 9 – LONG-TERM LIABILITIES

In 2013 the County financed capital purchases of heavy equipment with the financial institution, Caterpillar Financial. Principal and interest payments are to be made annually. The interest rate is 3.20% and the debt is collateralized by the purchased equipment

In 2013 the County financed capital purchases of vehicles with Public Property Finance Contract #6336. Principal and interest payments are to be made annually on February 15. The interest rate is 4.90% and the debt is collateralized by the purchased equipment.

In 2013 the County financed capital purchases of vehicles with Public Property Finance Contract #6460. Principal and interest payments are to be made annually on February 15. The interest rate is 5.20% and the debt is collateralized by the purchased equipment.

The annual debt service requirement on long-term liabilities outstanding as of December 31, 2013 is as follows:

Fiscal Year	Total	Notes Payable					
		Caterpillar Financial		Public Property Finance Contract # 6336		Public Property Finance Contract # 6460	
		Interest	Principal	Interest	Principal	Interest	Principal
2014	\$ 86,851	\$ 6,546	\$ 38,441	\$ 1,210	\$ 8,161	\$ 1,146	\$ 31,347
2015	86,851	5,316	39,671	1,657	7,714	3,191	29,302
2016	86,851	4,046	40,940	1,273	8,099	1,636	30,857
2017	54,357	2,736	42,250	869	8,502	-	-
2018	54,357	1,735	43,252	444	8,926	-	-
	<u>\$ 369,267</u>	<u>\$ 20,379</u>	<u>\$ 204,554</u>	<u>\$ 5,453</u>	<u>\$ 41,402</u>	<u>\$ 5,973</u>	<u>\$ 91,506</u>

Continued

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 9 – LONG-TERM LIABILITIES – Continuation

Long-term liability activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital lease	\$ 24,447	\$ -	\$ (24,447)	\$ -	\$ -
Notes payable:					
Caterpillar Financial	-	204,554	-	204,554	38,441
Public Property					
Finance Contract #6336	-	41,402	-	41,402	8,161
Public Property					
Finance Contract #6460	-	91,506	-	91,506	31,347
Landfill closure costs	14,000	-	-	14,000	-
Compensated absences	2,125	13,100	(12,596)	2,629	263
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activity					
long-term liabilities	<u>\$ 40,572</u>	<u>\$ 350,562</u>	<u>\$ (37,043)</u>	<u>\$ 354,091</u>	<u>\$ 78,212</u>

The County incurred interest expense of \$6,647 during the year ended December 31, 2013.

NOTE 10 – 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, 2013, represents the cumulative amount reported to date based on the use of 69% 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 2013. 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, 2013. 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.

ARMSTRONG COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 11 – 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, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded AAL (OAAL) (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	OAAL as a Percentage of Covered Payroll ((a-b)/c)
12/31/10	\$ 1,451,912	\$ 1,386,615	\$ 65,297	104.71 %	\$ 597,432	10.93 %
12/31/11	1,577,217	1,539,638	37,579	102.44	611,590	6.14
12/31/12	1,680,879	1,657,325	23,554	101.42	607,011	3.88

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.

Task Force Indigent Defense – The Task Force Indigent Defense Fund accounts for fees collected by the County Clerk on all cases heard by a Justice of the Peace. The fees are dedicated by law to aid the defense of an indigent person.

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, 2013

	Special Revenue					
	Records Management	District Records Management	Archive	Courthouse Security	Justice Court Technology	Task Force Indigent Defense
ASSETS						
Cash and cash equivalents	\$ 14,628	\$ 1,639	\$ 7,958	\$ 30,196	\$ 51,712	\$ 6,331
Accounts receivable, net	130	25	50	34	-	-
Total assets	\$ 14,758	\$ 1,664	\$ 8,008	\$ 30,230	\$ 51,712	\$ 6,331
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ -
Total liabilities	-	-	-	1	-	-
Fund balances:						
Restricted:						
By enabling legislation for special projects	14,758	1,664	8,008	30,229	51,712	6,331
Committed for:						
Capital projects	-	-	-	-	-	-
Unassigned (deficit)	-	-	-	-	-	-
Total fund balances	14,758	1,664	8,008	30,229	51,712	6,331
Total liabilities and fund balances	\$ 14,758	\$ 1,664	\$ 8,008	\$ 30,230	\$ 51,712	\$ 6,331

Continued

ARMSTRONG COUNTY, TEXAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2013

Continuation	Special Revenue		Capital Projects			Total Non-Major Governmental Funds
	Sheriff Commissary	Total	Jail Restoration	Capital Outlay	Total	
ASSETS						
Cash and cash equivalents	\$ 681	\$ 113,145	\$ 230	\$ 31,007	\$ 31,237	\$ 144,382
Accounts receivable, net	-	239	-	-	-	239
Total assets	\$ 681	\$ 113,384	\$ 230	\$ 31,007	\$ 31,237	\$ 144,621
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ -	\$ 1	\$ 296	\$ -	\$ 296	\$ 297
Total liabilities	-	1	296	-	296	297
Fund balances:						
Restricted:						
By enabling legislation for special projects	681	113,383	-	-	-	113,383
Committed for:						
Capital projects	-	-	-	31,007	31,007	31,007
Unassigned (deficit)	-	-	(66)	-	(66)	(66)
Total fund balances	681	113,383	(66)	31,007	30,941	144,324
Total liabilities and fund balances	\$ 681	\$ 113,384	\$ 230	\$ 31,007	\$ 31,237	\$ 144,621

ARMSTRONG COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Special Revenue					
	Records Management	District Records Management	Archive	Courthouse Security	Justice Court Technology	Task Force Indigent Defense
REVENUES						
Licenses and fees	\$ 6,891	\$ 1,157	\$ 3,249	\$ 10,919	\$ 10,482	\$ -
Intergovernmental	-	-	-	-	-	6,331
Investment earnings	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total revenues	6,891	1,157	3,249	10,919	10,482	6,331
EXPENDITURES						
Current:						
Administrative	5,055	-	-	-	-	-
Judicial	-	-	-	327	14,296	-
Public safety	-	-	-	-	-	-
Total expenditures	5,055	-	-	327	14,296	-
EXCESS / (DEFICIENCY) OF REVENUES OVER / (UNDER) EXPENDITURES	1,836	1,157	3,249	10,592	(3,814)	6,331
OTHER FINANCING SOURCES / (USES)						
Proceeds from sale of equipment	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES / (USES)	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES	1,836	1,157	3,249	10,592	(3,814)	6,331
FUND BALANCES - BEGINNING	12,922	507	4,759	19,637	55,526	-
FUND BALANCES - ENDING (DEFICIT)	\$ 14,758	\$ 1,664	\$ 8,008	\$ 30,229	\$ 51,712	\$ 6,331

Continued

ARMSTRONG COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

Continuation	Special Revenue		Capital Projects			Total Non-Major Governmental Funds
	Sheriff Commissary	Total	Jail Restoration	Capital Outlay	Total	
REVENUES						
Licenses and fees	\$ -	\$ 32,698	\$ -	\$ -	\$ -	\$ 32,698
Intergovernmental	-	6,331	2,200	-	2,200	8,531
Investment earnings	2	2	-	-	-	2
Miscellaneous	197	197	-	8,510	8,510	8,707
Total revenues	199	39,228	2,200	8,510	10,710	49,938
EXPENDITURES						
Current:						
Administrative	-	5,055	-	-	-	5,055
Judicial	-	14,623	-	-	-	14,623
Public safety	150	150	2,299	-	2,299	2,449
Total expenditures	150	19,828	2,299	-	2,299	22,127
EXCESS / (DEFICIENCY) OF REVENUES OVER / (UNDER) EXPENDITURES	49	19,400	(99)	8,510	8,411	27,811
OTHER FINANCING SOURCES / (USES)						
Proceeds from sale of equipment	-	-	-	21,570	21,570	21,570
Transfers out	-	-	-	(7,220)	(7,220)	(7,220)
TOTAL OTHER FINANCING SOURCES / (USES)	-	-	-	14,350	14,350	14,350
NET CHANGE IN FUND BALANCES	49	19,400	(99)	22,860	22,761	42,161
FUND BALANCES - BEGINNING	632	93,983	33	8,147	8,180	102,163
FUND BALANCES - ENDING (DEFICIT)	\$ 681	\$ 113,383	\$ (66)	\$ 31,007	\$ 30,941	\$ 144,324

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 POSITION
AGENCY FUNDS
DECEMBER 31, 2013

	<u>County and District Clerk</u>	<u>Tax Assessor Collector</u>	<u>Inmate Trust</u>	<u>Total Agency Funds</u>
ASSETS				
Cash and cash equivalents	\$ 70,099	\$ 224,884	\$ 637	\$ 295,620
Total assets	<u>\$ 70,099</u>	<u>\$ 224,884</u>	<u>\$ 637</u>	<u>\$ 295,620</u>
LIABILITIES				
Due to other governments	\$ -	\$ 217,207	\$ -	\$ 217,207
Deposits	<u>70,099</u>	<u>7,677</u>	<u>637</u>	<u>78,413</u>
Total liabilities	<u>\$ 70,099</u>	<u>\$ 224,884</u>	<u>\$ 637</u>	<u>\$ 295,620</u>

PART III
COMPLIANCE

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 its respective budgetary comparison schedule, and the aggregate remaining fund information of Armstrong County, Texas as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Armstrong County, Texas' basic financial statements and have issued our report thereon dated March 20, 2014.

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.

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

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

- 2013-1

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*.

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
March 20, 2014

ARMSTRONG CONUNTY, TEXAS
SCHEDULE OF FINDINGS
DECEMBER 31, 2012

Finding 2013-1

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.