

**COUNTY OF STEPHENS, TEXAS**

*ANNUAL FINANCIAL REPORT*

*FOR THE YEAR ENDED DECEMBER 31, 2012*

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**COUNTY OF STEPHENS, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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**Independent Auditor's Report**

UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS  
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER  
INFORMATION - STATE OR LOCAL GOVERNMENTAL ENTITY

County Commission  
County of Stephens, Texas  
200 W. Walker  
Breckenridge, Texas 76424

**Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for County of Stephens, Texas (the "County") as of and for the year ended December 31, 2012, 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**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I 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. 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

**Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of County of Stephens, Texas as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with account principles generally accepted in the United States of America.

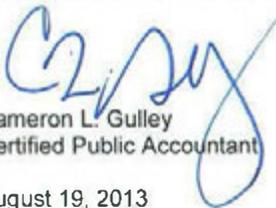
**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules for the general and road and bridge funds as listed in the table of contents 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. I have applied certain limited procedure 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated August 19, 2013, on my consideration of the County's internal control over financial reporting and on my 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 my 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 the County's internal control over financial reporting and compliance.



Cameron L. Gulley  
Certified Public Accountant

August 19, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of County of Stephens, Texas, discuss and analyze the County's financial performance for the fiscal year ended December 31, 2012. Please read it in conjunction with the independent auditor's report on page 1 and the County's Basic Financial Statements which begin on page 10.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 - 11). These provide information about the activities of the County as a whole and present a longer-term view of the County's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the County were sold to external customers and how the sales revenues covered the expenses of the goods or services.

The notes to the financial statements (starting on page 16) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

### Reporting the County as a Whole

#### *The Statement of Net Position and the Statement of Activities*

The analysis of the County's overall financial condition and operations begins on page 4. Its primary purpose is to show whether the County is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the County's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the County's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The County's revenues are divided into those provided by outside parties who share the costs of some programs, such as revenue sharing programs from other governments received and fees charged for utility services (program revenues), and revenues provided by the taxpayers or by the State of Texas (general revenues). All the County's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the County's net position and changes in them. The County's net position (the difference between assets and liabilities) provide one measure of the County's financial health, or financial position. Over time, increases or decreases in the County's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the County, however, you should consider nonfinancial factors as well, such as changes in the County's property tax base and the condition of the County's facilities.

In the Statement of Net Position and the Statement of Activities, the County has one activity:

Governmental activities - Most of the County's basic services are reported here, including public safety, maintenance of County roads, community services, and general administration. Property taxes, fines and other fees, and state and federal grants finance most of these services.

## **Reporting the County's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements begin on page 12 and provide detailed information about the most significant funds - not the County as a whole. Laws and contracts require the County to establish some funds, such as a debt service fund used to provide sources of revenues to service the County's general obligation bonds. The County's administration establishes many other funds to help it control and manage money for particular purposes. The County's one kind of fund - governmental - uses the following accounting approach.

Governmental funds - Most of the County's basic services are reported in governmental funds. These use the modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the County's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Total net position of the County's governmental activities increased from \$19,774,584 to \$19,961,466. The primary reason for the decrease is due mainly to a sharp increase in property tax revenues. Current assets increased by over \$634,000 (consisting primarily of increases in property taxes receivable). Capital assets decreased by approximately \$1,009,000 due to depreciation expense in excess of asset additions for the year. Long-term liabilities decreased by \$542,535 due to the liquidation of outstanding long-term notes payable. Other liabilities decreased by \$18,999 due to decreases in ending accounts payable.

Table I  
County of Stephens, Texas  
Net Position

	Governmental Activities 2012	Governmental Activities 2011	Variance Increase/ (Decrease)
Current and other assets	\$ 7,142,437	\$ 6,508,110	\$ 634,324
Capital assets	20,634,124	21,643,103	(1,008,979)
Total assets	27,776,561	28,151,213	(374,652)
Long-term liabilities	7,470,000	8,012,535	(542,535)
Other liabilities	345,095	364,094	(18,999)
Total liabilities	7,815,095	8,376,629	(561,534)
Net position:			
Invested in capital assets net of related debt	13,048,590	13,577,542	(528,952)
Restricted for debt service	447,841	664,683	(216,842)
Unrestricted	6,465,035	5,532,359	932,676
Total net position	\$ 19,961,466	\$ 19,774,584	\$ 186,882

Table II  
County of Stephens, Texas  
Changes in Net Position

	Governmental Activities 2012	Governmental Activities 2011	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 1,065,765	\$ 1,057,429	\$ 8,336
Operating grants and contributions	459,735	490,427	(30,692)
General Revenues:			
Property taxes	6,443,810	5,532,351	911,459
Other taxes	13,948	12,558	1,390
Miscellaneous income	328,125	303,527	24,598
Investment earnings	157,219	153,268	3,951
Total Revenues	8,468,602	7,549,560	919,042
Expenses:			
Judicial	501,840	397,188	(104,652)
Public transportation	1,907,866	1,854,042	(53,824)
General government	1,966,800	2,482,087	515,287
Public facilities	199,320	184,788	(14,532)
Health and welfare	868,104	799,258	(68,846)
Public safety	2,423,347	2,195,160	(228,187)
Recreation and culture	32,436	27,168	(5,268)
Debt service	311,549	345,246	33,697
Total Expenses	8,211,262	8,284,937	73,675
Increase in Net Position	257,340	(735,377)	992,717
Net Position - beginning of year	19,774,584	20,509,961	(735,377)
Prior period adjustment	(70,458)	0	(70,458)
Net Position - end of year	\$ 19,961,466	\$ 19,774,584	\$ 186,882

Total revenues of the County were up \$919,042 from the previous year. Property taxes made up the most significant revenue increase due to a tax rate increase for the year. Other operating revenues for the year were relatively consistent with what they were last year.

Total expenses of the County were down by \$73,675 from the previous year. Increases in public transportation and safety were for higher payroll costs associated with staffing of the county jail, plus higher inmate medical expenses and a reallocation of employee benefits from general government across all functional categories this year. Judicial expenses were higher due to increased public defender representation expenses. Health and welfare expenses were up due to an increase in the hospital subsidy from last year.

A prior period adjustment was necessary due to a new Governmental Accounting Standards Board pronouncement which resulted in the write-off of previously capitalized issuance costs associated with long-term certificates of obligation issued in 2008. Prior to the pronouncement change, those costs were being amortized over the life of the loan. The new GASB 65 pronouncement requires that those costs be expensed in the period incurred. Therefore, a beginning net position adjustment of \$72,458 was necessary to write-off those unamortized costs in the current year.

**THE COUNTY'S FUNDS**

As the County completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$2,832,277, a decrease of \$120,820 in the County's governmental funds from last year's fund balance of \$2,953,097. This differs substantially from the increase in net position reported above. Those differences are disclosed on the exhibits on pages 13 and 15 (primarily consisting of capitalized asset costs and depreciation expense).

The County's General Fund balance of \$2,096,412 reported on pages 12 and 14 differs from the projected budgetary fund balance of \$1,445,496 on page 26 due to revenues being significantly more than budgeted (particularly property taxes and grant revenues).

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2012, the County had \$45,713,958 invested in a broad range of capital assets including infrastructure, county government facilities and road and maintenance equipment. This amount represents an increase of \$277,643 from last fiscal year. This year's major additions included:

Technology software	\$ 72,000
Pup trailer	27,026
2012 Ford pickup	28,601
Storage tank	6,318
Emergency radio equipment	55,818
Video camera equipment for patrol cars	11,192
2013 ambulance (county cost-share)	76,688
Total	\$ 277,643

**Debt**

At December 31, 2012, the County had one outstanding debt obligation in the form of notes payable. Payments on the one loans matured in 2012 and the remaining outstanding obligation will mature in 2023. The County retired \$542,535 in principal on the loans for an ending balance of \$7,470,000. Future annual payments will approximate \$850,000 until fully retired in 2023.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The County should maintain its financial health during the 2013 fiscal year. Budgeted expenditures for next fiscal year are approximately the same as they were for the 2012 fiscal year. Taxable values for the County have remained consistent with previous years and should generate similar revenues as in previous years. Total expenditures of the County were budgeted to be nearly the same as was budgeted in 2012. Total fund balances of the County's general fund are projected to approximate \$2,100,000 at the end of the next fiscal year.

**CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the County's finances and to show the County's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the County Treasurer's office at: County of Stephens, Texas, 200 W. Walker, Breckenridge, Texas 76424.

*BASIC FINANCIAL STATEMENTS*

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

	Primary Govt Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,415,827
Current investments	0
Property taxes receivable	4,335,373
Allowance for uncollectible taxes	(254,774)
Accounts receivable	646,011
Capital assets:	
Land	301,285
Infrastructure, net	8,482,014
Buildings and improvements, net	10,501,527
Furniture and equipment, net	1,349,298
<b>Total assets</b>	<b>27,776,561</b>
<b>LIABILITIES</b>	
Accounts payable	147,853
Accrued liabilities	81,708
Accrued interest payable	115,534
Noncurrent liabilities:	
Due within one year	550,000
Due in more than one year	6,920,000
<b>Total liabilities</b>	<b>7,815,095</b>
<b>NET POSITION</b>	
Net investment in capital assets	13,048,590
Restricted for debt service	447,841
Unrestricted net position	6,465,035
<b>Total net position</b>	<b>\$ 19,961,466</b>

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

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

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>PRIMARY GOVERNMENT:</b>				
Governmental activities:				
Judicial	\$ 501,840	\$ 5,044	\$	\$ (496,796)
Public transportation	1,907,866	463,306	65,873	(1,378,687)
General government	1,966,800	324,249	258,283	(1,384,268)
Public facilities	199,320			(199,320)
Health and welfare	868,104		10,207	(857,897)
Public safety	2,423,347	273,166	125,372	(2,024,809)
Recreation and culture	32,436			(32,436)
Debt service	311,549			(311,549)
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 8,211,262</b>	<b>\$ 1,065,765</b>	<b>\$ 459,735</b>	<b>(6,685,762)</b>

General revenues:

Taxes:

Property taxes, levied for general purposes	6,443,810
Other taxes	13,948
Investment and royalty earnings	157,219
Miscellaneous	328,125
Total general revenues	6,943,102

Change in net position	257,340
Net position - beginning of year	19,774,584
Prior period adjustment	(70,458)
Net position - ending	\$ 19,961,466

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

COUNTY OF STEPHENS, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012

	General Fund	Road & Bridge Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,711,904	\$ 563,203	\$ 140,720	\$ 2,415,827
Investments - current	0	0		0
Property taxes	4,335,373			4,335,373
Allowance for uncollectible taxes (credit)	(254,774)			(254,774)
Accounts receivable	557,798	74,616	13,597	646,011
<b>Total Assets</b>	<b>\$ 6,350,301</b>	<b>\$ 637,819</b>	<b>\$ 154,317</b>	<b>\$ 7,142,437</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 112,924	\$ 8,584	\$ 26,345	\$ 147,853
Accrued payroll	60,366	21,342		81,708
<b>Total Liabilities</b>	<b>173,290</b>	<b>29,926</b>	<b>26,345</b>	<b>229,561</b>
<b>DEFERRED INFLOW OF RESOURCES</b>				
Unavailable revenue - property taxes	4,080,599			4,080,599
<b>Total Deferred Inflow of Resources</b>	<b>4,080,599</b>	<b>0</b>	<b>0</b>	<b>4,080,599</b>
<b>FUND BALANCES</b>				
Restricted for:				
Retirement of long-term debt	447,841			447,841
Committed for:				
Other purposes			127,972	127,972
Unassigned	1,648,571	607,893		2,256,464
<b>Total Fund Balances</b>	<b>2,096,412</b>	<b>607,893</b>	<b>127,972</b>	<b>2,832,277</b>
<b>Total Liabilities, Deferred Inflows &amp; Fund Balances</b>	<b>\$ 6,350,301</b>	<b>\$ 637,819</b>	<b>\$ 154,317</b>	<b>\$ 7,142,437</b>

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

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

Total fund balances - governmental funds	\$ 2,832,277
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$45,436,315 and the accumulated depreciation was \$23,793,212. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.	13,577,542
2 Prior year property tax levies which are considered collectible are recognized as revenue in the accounting period in which levied. However, they are reported as a deferred resource in the fund level financial statements until received. Additionally, billed but uncollected receivables related to fines and fees are not recognizable as revenue until received in the fund level financial statements. The net effect of including the beginning balances for deferred revenues related to delinquent taxes receivable and fines and fees receivable in the governmental activities is to increase net position.	3,243,945
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2012 capital outlays and debt principal payments is to increase (decrease) net position.	820,178
4 The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(1,286,622)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	774,146
Net position of governmental activities	\$ <u>19,961,466</u>

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

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

	General Fund	Road & Bridge Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
Property taxes	\$ 4,960,889	\$ 646,267	\$	\$ 5,607,156
Licenses and fees	436,618	447,597	181,550	1,065,765
Other taxes	13,948			13,948
State and federal grants and contracts	444,877	14,858		459,735
Investment earnings	14,908			14,908
Royalties	142,311			142,311
Miscellaneous revenues	277,417	50,708		328,125
Total revenues	<u>6,290,968</u>	<u>1,159,430</u>	<u>181,550</u>	<u>7,631,948</u>
<b>EXPENDITURES:</b>				
Judicial	477,102		24,738	501,840
Public transportation	48,926	1,081,330		1,130,256
General government	2,025,094		24,944	2,050,038
Public facilities	199,320			199,320
Health and welfare	752,770			752,770
Public safety	2,115,867		108,207	2,224,074
Recreation and culture	32,436			32,436
Debt service	848,990	13,044		862,034
Total expenditures	<u>6,500,505</u>	<u>1,094,374</u>	<u>157,889</u>	<u>7,752,768</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(209,537)</u>	<u>65,056</u>	<u>23,661</u>	<u>(120,820)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (out)	10,000	(21,000)	11,000	0
Proceeds from long-term notes payable				0
Total other financing sources (uses)	<u>10,000</u>	<u>(21,000)</u>	<u>11,000</u>	<u>0</u>
Net change in fund balances	(199,537)	44,056	34,661	(120,820)
Fund balance - beginning	2,295,949	563,837	93,311	2,953,097
Adjustments to beginning fund balances				0
Fund balance - ending	<u>\$ 2,096,412</u>	<u>\$ 607,893</u>	<u>\$ 127,972</u>	<u>\$ 2,832,277</u>

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

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

Total net change in fund balances - governmental funds	\$ (120,820)
1 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2012 capital outlays and debt principal payments is to increase (decrease) net position.	820,178
2 Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(1,286,622)
3 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	844,604
Change in net position of governmental activities	\$ <u>257,340</u>

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

**COUNTY OF STEPHENS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT AND FOR THE YEAR ENDED DECEMBER 31, 2012**

I. Summary of significant accounting policies

County of Stephens, Texas (the "County") was incorporated in 1883, under provisions of the State of Texas. The County is governed by a Commissioners' Court consisting of a County Judge and four Commissioners. The financial statements of the County are prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). The County's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements. Proprietary funds (if applicable) apply only those Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

A. Reporting entity

The County was created in accordance with, and continues to operate under, the statutes and regulations of the State of Texas. The County operates under the direction of the Commissioners' Court which is made up of four elected commissioners, one from each precinct within the county, and the County Judge who presides over the Court. The county departments are headed by elected officials who hire and maintain their staff within the restraints of the official county budget.

For financial reporting purposes, management does not consider Stephens Memorial Hospital a component unit of the County. The hospital is treated as a separate entity since it is audited as such.

B. Government-wide and fund financial statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the County nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, franchise fees, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the County operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the County. Examples include fees charged for auto licenses, county clerk fees, fines, etc. The "grants and contributions" column includes amounts paid by organizations outside the County to help meet the operational or capital requirements of a given function. Examples include grants under the U.S. Department of Agriculture Rural Development Program. If a revenue is not a program revenue, it is a general revenue used to support all of the County's functions. Taxes are always general revenues.

Interfund activities between governmental appear as due to/due from on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for County operations, they are not included in the government-wide statements. The County considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

### C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements use 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 the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The County considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the County to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The County applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

### D. Fund accounting

The County reports the following major governmental funds:

1. **The General Fund** – The general fund is the County's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Road & Bridge Special Revenue Fund** - The County's activities for which revenues and assessments relative to vehicle licenses, permits and an allocated portion of property tax revenues for the purposes of supporting and maintaining the County's public transportation system are accounted for in these special revenue funds.

The County reports the following nonmajor fiduciary funds:

3. **Special Revenue Funds** - The County's activities for which revenues and assessments relative to specific revenue sources and uses can be used to support those specific programs are accounted for in these special revenue funds.

E. Other accounting policies

1. For purposes of the statement of cash flows for proprietary and similar fund-types, the County considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The County reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

4. The County's policy does permits employees to accumulate unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.
5. Capital assets, which include land, buildings, furniture and equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the County are depreciated using the straight line method over the following estimated useful lives:

<u>Asset:</u>	<u>Years</u>
Buildings	10-40
Building Improvements	10-40
Infrastrucure	40
Vehicles	5
Equipment	10
Technology Equipment	5

6. Governmental fund balances are classified into the following categories:

*Non-spendable* fund balances include amounts that are not in spendable form (i.e. inventory or prepaid items) or amounts that are required to be maintained intact legally or contractually (i.e. principal in an endowment fund)

*Restricted* fund balances include amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

*Committed* fund balances include amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

*Assigned* fund balances are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

*Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

County policies concerning fund balances are as follows:

The County's Unassigned General Fund Balance will be maintained to provide the County with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees.

Fund Balance of the County may be committed for a specific source by formal action of the County Commission. Amendments or modifications of the committed fund balance must also be approved by formal action of the County Commission.

When it is appropriate for fund balance to be assigned, only the County Commission has the authority to assign fund balance by formal action by the commissioners.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

At December 31, 2012, the County's general fund balances were committed or assigned as follows:

Restricted for debt service	\$ 447,841.
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7. When the County incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.

## II. Stewardship, compliance, and accountability

### A. Budgetary data

The County Treasurer submits an annual budget to the County Commission in accordance with the County Charter. In September, the County Commission adopts annual fiscal year budgets for specified County funds. Budgets for the general fund are adopted on a basis consistent with U.S. generally accepted accounting principles. The budget is properly amended throughout the year.

### B. Excess of expenditures over appropriations

Judicial -	over budget by \$66,451.
Health and welfare -	over budget by \$189,011.
Public safety -	over budget by \$75,944.
Recreation and culture -	over budget by \$4,164.

### C. Deficit fund equity

None.

III. Detailed notes on all funds

A. Deposits and investments

County Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the County complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk - The County limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not investing in any foreign currency.

County Policies and Legal and Contractual Provisions Governing Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the County to adopt, implement, and publicize an investment policy. Statutes authorize the County to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

As of December 31, 2012, the County had no investments..

Additional policies and contractual provisions governing deposits and investments for the County are specified below:

Credit Risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the County limits investments in certificates of deposit or publicly funded investment pools to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of December 31, 2012, the County's investments in certificates of deposit and investment pools were rated A1 by Standard and Poor's.

Custodial Credit Risk for Investments - To limit the risk that, in the even of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the County requires counterparties to register the securities in the name of the County and hand them over to the County or its designated agent. This included securities in securities lending transactions. All of the securities are in the County's name and held by the County or its agent.

Concentration of Credit Risk - To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the County limits investments to less than 5% of its total investments. The County further limits investments in a single issuer when they would cause investment risk to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the County requires at least half of the investment portfolio to have maturities of less than one year on a weighted average maturity basis.

Foreign Currency Risk for Investments - The County limits the risk that changes in exchange rates will adversely affect the fair value of an investment by limiting all investments denominated in a foreign currency to zero.

B. Property taxes

The County's property tax is levied each October 1, on the assessed value listed as of the prior January 1, for all real and certain personal property located in the County. The appraisal of property within the County is the responsibility of the Stephens County Appraisal District as required by legislation passed by the Texas Legislature. The Appraisal District is required under such legislation to assess all property within the

Appraisal District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The assessed value upon which the fiscal 2012 levy was based was approximately \$828,483,288. The value of property within the Appraisal District must be reviewed every five years; however, the County may, at its own expense, require annual review of appraised values. The County may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action.

General property taxes are limited by the Texas Constitution to \$2.50 per \$100 of assessed valuation. The combined tax rate to finance general governmental service for the year ended December 31, 2012, was \$0.7717 per \$100 of assessed valuation.

Property taxes attach as an enforceable lien on property as of January 1, following the levy date. Taxes are due by January 31, following the levy date. Current tax collections for the year were 37.55% and total tax collections were 86.73% of the tax levy.

C. Delinquent taxes receivable

Delinquent taxes are prorated between maintenance and special revenue funds based on rates adopted for the year of the levy. Allowances for uncollectible taxes receivable within the General and Road and Bridge Special Revenue Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically written off, but the County is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. Interfund balances and transfers

	Transfer In	Transfer Out	Purpose
General fund	\$ 10,000		Operating activities
Road & bridge fund		\$ 21,000	Operating activities
Special revenue fund	11,000		Operating activities
	<u>\$ 21,000</u>	<u>\$ 21,000</u>	

E. Disaggregation of receivables and payables

Receivables at December 31, 2012 were as follows:

	Accounts	Taxes	Total Receivables
<b>Governmental Activities:</b>			
General Fund	\$557,798	\$4,335,373	\$4,893,171
Road & Bridge Fund	74,616		74,616
Special Revenue Funds	13,597		13,597
Total Governmental Activities	<u>\$646,011</u>	<u>\$4,335,373</u>	<u>\$4,981,384</u>

Payables at December 31, 2012 were as follows:

	Accounts	Accrued Payroll	Total Payables
<b>Governmental Activities:</b>			
General Fund	\$112,924	\$60,366	\$173,290
Road & Bridge Fund	8,584	21,342	29,926
Special Revenue Funds	26,345		26,345
Total Governmental Activities	<u>\$147,853</u>	<u>\$81,708</u>	<u>\$229,561</u>

F. Capital asset activity

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

	Balance 12/31/11	Additions	Deletions	Balance 12/31/12
Governmental activities:				
Land	\$ 301,285			\$ 301,285
Infrastructure - roads	25,768,408			25,768,408
Buildings and improvements	15,294,152			15,294,152
Furniture and equipment	4,072,470	\$ 277,643		4,350,113
Totals	45,436,315	277,643		45,713,958
Less accum depreciation for:				
Infrastructure - roads	16,642,629	643,765		17,286,394
Buildings and improvements	4,471,199	321,426		4,792,625
Furniture and equipment	2,679,384	321,431		3,000,815
Total accum depreciation	23,793,212	1,286,622		25,079,834
Governmental activities capital assets, net	<u>\$21,643,103</u>	<u>\$(1,008,979)</u>	<u>\$ 0</u>	<u>\$20,634,124</u>

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

Governmental activities:

General government	\$ 44,580
Public health and welfare	115,334
Public safety	322,072
Public transportation	804,636
Total depreciation expense - governmental activities	<u>\$1,286,622</u>

G. Accumulated unpaid vacation and sick leave benefits

County employees are entitled to certain compensated absences based on their length of employment. However, total accrued leave benefits were inconsequential in amount and were not recorded as a liability.

H. Texas County and District Retirement System

Plan Description

The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the state-wide 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, 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 or with 30 years regardless of age, or when the sum of their age and years of service equals 75 or more. A member is vested after 8 years but must leave his accumulated contributions in the plan to receive any employer-financed benefit. Member who withdraw their personal contributions in a lump-sum are not entitled to any amounts contributed by their employer.

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

**Funding Policy.** The employer has elected the annually determined contribution rate (ADCR) plan provisions if the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The County contributed using the actuarially determined rate of 12% for calendar year 2012.

The contribution rate payable by the employee members is the rate of 7% as adopted by the County. The employee contribution rate and the employer contribution rate may be changed by the County within the options available in the TCDRS Act.

**Annual Pension Cost.** For the County's accounting year ending December 31, 2012, the annual pension cost for the TCDRS plan for its employees was \$263,922 and the actual contributions were \$417,876.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuation as of December 31, 2011, the basis for determining the contribution rates for calendar year 2012. The December 31, 2011, actuarial valuation is the most recent valuation.

**Actuarial Valuation Information**

Actuarial Valuation Date	12/31/09	12/31/10	12/31/11
Actuarial Cost Method	Entry age	Entry age	Entry age
Amortization Method	level percentage of payroll, closed	level percentage of payroll, closed	level percentage of payroll, closed
Amortization Period (in years)	6.8	6.5	6.0
Asset Valuation Method	SAF: 10-yr smoothed value ESF: fund value	SAF: 10-yr smoothed value ESF: fund value	SAF: 10-yr smoothed value ESF: fund value

**Actuarial Assumptions:**

Investment Return	8.0%	8.0%	8.0%
Projected Salary Increases	5.4%	5.4%	5.4%
Inflation	3.5%	3.5%	3.5%
Cost-of-Living Adjustments	0.0%	0.0%	0.0%

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a/c)
12/31/09	\$6,161,800	\$6,795,343	\$633,543	90.68%	\$1,709,034	37.07%
12/31/10	\$5,845,856	\$6,530,212	\$684,356	89.52%	\$2,005,311	34.13%
12/31/11	\$6,379,952	\$7,031,291	\$651,339	90.74%	\$2,138,723	30.45%

I. Deferred inflow of resources

	Levied but Uncollected Taxes	Total Deferred Resources
General Fund	<u>\$4,080,599</u>	<u>\$4,080,599</u>

J. Long-term debt

During the year ended December 31, 2012, the County had two outstanding loans payable as follows:

Issue	Beginning Balance	Advanced	Retired	Ending Balance	Current Portion
First National Bank - Albany/Breckenridge note payable dated 02/18/10 bearing interest at 4.00% due 03/30/12	\$ 12,535		\$ 12,535	\$ 0	N/A
\$9,000,000 Certificates of Obligation, Series 2008 bearing interest at 4.0262% due incrementally on 02/15 and 08/15 of each year until 02/15/23	8,000,000		530,000	7,470,000	550,000
	<u>\$8,012,535</u>	<u>\$ 0</u>	<u>\$542,535</u>	<u>\$7,470,000</u>	<u>\$ 550,000</u>

Future debt service requirements are as follows:

Year ended December 31,	Principal	Interest	Total Requirements
2013	\$550,000	\$297,090	\$847,090
2014	575,000	274,590	849,590
2015	595,000	251,190	846,190
2016	620,000	226,890	846,890
2017	645,000	201,590	846,590
2018-2022	3,655,000	579,293	4,234,293
2023	830,000	17,637	847,637
Total	<u>\$7,470,000</u>	<u>\$1,848,280</u>	<u>\$9,318,280</u>

K. Beginning net position adjustment

GASB Statement No. 65 changed the way that certain bond issue costs should be reported (previously capitalized and amortized over the life of the associated debt; presently expensed in the period incurred). The pronouncement change was effective for the current year's audit period. Therefore, a beginning net position adjustment was necessary to remove previously capitalized bond issue costs on the Statement of Activities. Amounts previously capitalized but unamortized amounted to \$70,458.

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*REQUIRED SUPPLEMENTARY INFORMATION*

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

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 4,596,246	\$ 4,596,246	\$ 4,960,889	\$ 364,643
Licenses and fees	432,983	432,983	436,618	3,635
Other taxes	13,200	13,200	13,948	748
State and federal grants and contracts	55,250	55,250	444,877	389,627
Investment earnings	17,479	17,479	14,908	(2,571)
Royalties	129,200	129,200	142,311	13,111
Miscellaneous revenues	197,150	197,150	277,417	80,267
<b>Total revenues</b>	<u>5,441,508</u>	<u>5,441,508</u>	<u>6,290,968</u>	<u>849,460</u>
<b>EXPENDITURES:</b>				
Judicial	410,651	410,651	477,102	(66,451)
Public transportation	222,864	222,864	48,926	173,938
General government	2,147,050	2,147,050	2,025,094	121,956
Public facilities	202,452	202,452	199,320	3,132
Health and welfare	563,759	563,759	752,770	(189,011)
Public safety	2,039,923	2,039,923	2,115,867	(75,944)
Recreation and culture	28,272	28,272	32,436	(4,164)
Debt service	848,990	848,990	848,990	0
<b>Total expenditures</b>	<u>6,463,961</u>	<u>6,463,961</u>	<u>6,500,505</u>	<u>(36,544)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,022,453)</u>	<u>(1,022,453)</u>	<u>(209,537)</u>	<u>812,916</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (out)	172,000	172,000	10,000	(162,000)
Proceeds from long-term notes payable	0	0		0
<b>Total other financing sources (uses)</b>	<u>172,000</u>	<u>172,000</u>	<u>10,000</u>	<u>(162,000)</u>
<b>Net change in fund balances</b>	<u>(850,453)</u>	<u>(850,453)</u>	<u>(199,537)</u>	<u>650,916</u>
Fund balance - beginning	2,295,949	2,295,949	2,295,949	0
Adjustments to beginning fund balances				0
<b>Fund balance - ending</b>	<u>\$ 1,445,496</u>	<u>\$ 1,445,496</u>	<u>\$ 2,096,412</u>	<u>\$ 650,916</u>

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

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 646,405	\$ 646,405	\$ 646,267	\$ (138)
Licenses and fees	465,200	465,200	447,597	(17,603)
Other taxes	0	0		0
State and federal grants and contracts	14,000	14,000	14,858	858
Investment earnings	0	0		0
Royalties	0	0		0
Miscellaneous revenues	5,500	5,500	50,708	45,208
Total revenues	<u>1,131,105</u>	<u>1,131,105</u>	<u>1,159,430</u>	<u>28,325</u>
<b>EXPENDITURES:</b>				
Judicial	0	0		0
Public transportation	1,206,205	1,206,205	1,081,330	124,875
General government	0	0		0
Public facilities	0	0		0
Health and welfare	0	0		0
Public safety	0	0		0
Recreation and culture	0	0		0
Debt service	13,046	13,046	13,044	2
Total expenditures	<u>1,219,251</u>	<u>1,219,251</u>	<u>1,094,374</u>	<u>124,877</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(88,146)</u>	<u>(88,146)</u>	<u>65,056</u>	<u>153,202</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (out)	0	0	(21,000)	(21,000)
Proceeds from long-term notes payable	0	0		0
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>(21,000)</u>	<u>(21,000)</u>
Net change in fund balances	(88,146)	(88,146)	44,056	132,202
Fund balance - beginning	563,837	563,837	563,837	0
Adjustments to beginning fund balances				0
Fund balance - ending	<u>\$ 475,691</u>	<u>\$ 475,691</u>	<u>\$ 607,893</u>	<u>\$ 132,202</u>

*OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION*

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# Cameron L. Gulley

CERTIFIED PUBLIC ACCOUNTANT

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## Independent Auditor's Report

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

County Commission  
County of Stephens, Texas  
200 W. Walker  
Breckenridge, Texas 76424

I 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of County of Stephens, Texas (the "County") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued my report thereon dated August 19, 2013.

#### Internal Control Over Financial Reporting

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

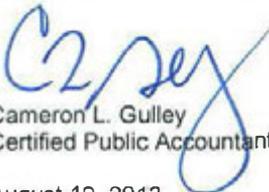
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether County of Stephens, Texas' financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County'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 County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Cameron L. Gulley  
Certified Public Accountant

August 19, 2013

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**COUNTY OF STEPHENS, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

A. Summary of Auditor's Results

Type of auditor's report issued: Unmodified.

Internal control over financial reporting:

Material weakness(es) identified? None.

Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported.

Noncompliance material to financial statements noted? No.

An unmodified opinion was issued on the general purpose financial statements.

The audit disclosed no noncompliance which is material to the general purpose financial statements.

B. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

None reported.

C. Findings and Questioned Costs for Federal Awards

N/A.

**COUNTY OF STEPHENS, TEXAS**  
*SUMMARY OF PRIOR AUDIT FINDINGS*  
*FOR THE YEAR ENDED DECEMBER 31, 2012*

None reported.