

**COUNTY OF STEPHENS, TEXAS**

*ANNUAL FINANCIAL REPORT*

*FOR THE YEAR ENDED DECEMBER 31, 2013*

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**COUNTY OF STEPHENS, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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# Cameron L. Gulley

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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, 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**

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, 2013, 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.

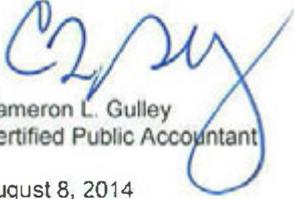
#### **Other Matters**

##### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Texas County and District Retirement System Schedule of Funding Progress, 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 8, 2014, 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 8, 2014

## 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, 2013. 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 decreased from \$19,961,466 to \$19,322,915. The primary reason for the decrease is due mainly to a sharp decline in property tax revenues. Current assets decreased by nearly \$60,000 (consisting primarily of increases in cash offset by decreases property taxes receivable). Capital assets decreased by approximately \$1,168,000 due to depreciation expense in excess of asset additions for the year. Long-term liabilities decreased by \$533,750 due to the liquidation of outstanding long-term notes payable. Other liabilities decreased by \$55,353 due to decreases in ending accounts payable and accrued liabilities.

Table I  
County of Stephens, Texas  
Net Position

	Governmental Activities 2013	Governmental Activities 2012	Variance Increase/ (Decrease)
Current and other assets	\$ 7,082,538	\$ 7,142,437	\$ (59,899)
Capital assets	19,466,369	20,634,124	(1,167,755)
Total assets	26,548,907	27,776,561	(1,227,654)
Long-term liabilities	6,936,250	7,470,000	(533,750)
Other liabilities	289,742	345,095	(55,353)
Total liabilities	7,225,992	7,815,095	(589,103)
Net position:			
Net investment in capital assets	12,422,835	13,048,590	(625,755)
Restricted for debt service	479,457	447,841	31,616
Unrestricted	6,420,623	6,465,035	(44,412)
Total net position	\$ 19,322,915	\$ 19,961,466	\$ (638,551)

Table II  
County of Stephens, Texas  
Changes in Net Position

	Governmental Activities 2013	Governmental Activities 2012	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 971,216	\$ 1,065,765	\$ (94,549)
Operating grants and contributions	117,233	459,735	(342,502)
General Revenues:			
Property taxes	5,904,567	6,443,810	(539,243)
Other taxes	12,141	13,948	(1,807)
Miscellaneous income	267,712	328,125	(60,413)
Investment earnings	176,703	157,219	19,484
Gain on sale of assets	11,150	0	11,150
Total Revenues	7,460,722	8,468,602	(1,007,880)
Expenses:			
Judicial	552,535	501,840	(50,695)
Public transportation	1,910,811	1,907,866	(2,945)
General government	1,862,164	1,966,800	104,636
Public facilities	197,221	199,320	2,099
Health and welfare	919,510	868,104	(51,406)
Public safety	2,340,445	2,423,347	82,902
Recreation and culture	27,447	32,436	4,989
Debt service	289,140	311,549	22,409
Total Expenses	8,099,273	8,211,262	111,989
Increase in Net Position	(638,551)	257,340	(895,891)
Net Position - beginning of year	19,961,466	19,774,584	186,882
Prior period adjustment	0	(70,458)	70,458
Net Position - end of year	\$ 19,322,915	\$ 19,961,466	\$ (638,551)

Total revenues of the County were down by \$1,007,880 from the previous year. Property taxes made up the most significant revenue decrease due to reductions in both taxable values and tax rates from the previous year. Grants and contributions were down due to completion of grant activities in the previous year.

Total expenses of the County were down by \$111,989 from the previous year. Increases in judicial expenses were due to increased legal representation fees for public defenders. Health and welfare expenses were higher due to increased net hospital subsidy payments including on-behalf payments of long-term hospital debt incurred in the previous year. Those expense increases were offset by decreases in nearly every other departmental category as the County curbed costs in relationship to the decline in operating revenues for the 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 \$3,327,988, an increase of \$495,711 in the County's governmental funds from last year's fund balance of \$2,832,277. This differs substantially from the decrease 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 \$2,510,360 reported on pages 12 and 14 differs from the projected budgetary fund balance of \$1,387,003 on page 27 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 2013, the County had \$45,663,527 invested in a broad range of capital assets including infrastructure, county government facilities and road and maintenance equipment. This amount represents an decrease of \$50,431 (net of dispositions) from last fiscal year. This year's major additions included:

2012 Ford pickup	\$ 35,407
2007 Ford van	30,162
2008 Superior broom	27,000
Kubota tractor	20,000
2004 International truck	32,500
Total	\$ 145,069

**Debt**

At December 31, 2013, the County had two outstanding debt obligations in the forms of notes payable. Payments on the outstanding obligations will mature in 2014 and 2023. The County retired \$566,250 in principal on the loans for an ending balance of \$6,936,250. Future annual payments will approximate \$850,000 until fully retired in 2023. A summary of outstanding debt balances is as follows:

	2013	2012
Certificates of obligation	\$ 6,920,000	\$ 7,470,000
Notes payable	16,250	0
Total	\$ 6,936,000	\$ 7,470,000

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

The County should maintain its financial health during the 2014 fiscal year. Budgeted expenditures for next fiscal year are approximately the same as they were for the 2013 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 2013. Total fund balances of the County's general fund are projected to approximate \$2,500,000 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, 2013

	Primary Govt Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,724,706
Property taxes receivable	3,793,353
Allowance for uncollectible taxes	(221,261)
Accounts receivable	785,740
Capital assets:	
Land	301,285
Infrastructure, net	7,839,225
Buildings and improvements, net	10,180,112
Furniture and equipment, net	1,145,747
Total assets	26,548,907
 <b>LIABILITIES</b>	
Accounts payable	119,330
Accrued liabilities	63,128
Accrued interest payable	107,284
Noncurrent liabilities:	
Due within one year	591,250
Due in more than one year	6,345,000
Total liabilities	7,225,992
 <b>NET POSITION</b>	
Net investment in capital assets	12,422,835
Restricted for debt service	479,457
Unrestricted net position	6,420,623
Total net position	\$ 19,322,915

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, 2013

		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	\$ 552,535	\$ 3,810	\$	\$ (548,725)
Public transportation	1,910,811	461,459	16,382	(1,432,970)
General government	1,862,164	291,121	71,390	(1,499,653)
Public facilities	197,221			(197,221)
Health and welfare	919,510		12,928	(906,582)
Public safety	2,340,445	214,826	16,533	(2,109,086)
Recreation and culture	27,447			(27,447)
Debt service	289,140			(289,140)
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ <u>8,099,273</u></b>	<b>\$ <u>971,216</u></b>	<b>\$ <u>117,233</u></b>	<b>(7,010,824)</b>

General revenues:

Taxes:

Property taxes, levied for general purposes	5,904,567
Other taxes	12,141
Investment and royalty earnings	176,703
Gain on sale of assets	11,150
Miscellaneous	267,712
Total general revenues	<u>6,372,273</u>

Change in net position	(638,551)
Net position - beginning of year	19,961,466
Prior period adjustment	<u>0</u>
<b>Net position - ending</b>	<b>\$ <u>19,322,915</u></b>

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

COUNTY OF STEPHENS, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013

	<u>General Fund</u>	<u>Road &amp; Bridge Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,941,861	\$ 608,899	\$ 173,946	\$ 2,724,706
Property taxes	3,793,353			3,793,353
Allowance for uncollectible taxes (credit)	(221,261)			(221,261)
Accounts receivable	<u>697,921</u>	<u>79,622</u>	<u>8,197</u>	<u>785,740</u>
<b>Total Assets</b>	<b><u>\$ 6,211,874</u></b>	<b><u>\$ 688,521</u></b>	<b><u>\$ 182,143</u></b>	<b><u>\$ 7,082,538</u></b>
<b>LIABILITIES</b>				
Accounts payable	\$ 90,298	\$ 9,933	\$ 19,099	\$ 119,330
Accrued payroll	<u>39,124</u>	<u>24,004</u>		<u>63,128</u>
<b>Total Liabilities</b>	<u>129,422</u>	<u>33,937</u>	<u>19,099</u>	<u>182,458</u>
<b>DEFERRED INFLOW OF RESOURCES</b>				
Unavailable revenue - property taxes	<u>3,572,092</u>			<u>3,572,092</u>
<b>Total Deferred Inflow of Resources</b>	<u>3,572,092</u>	<u>0</u>	<u>0</u>	<u>3,572,092</u>
<b>FUND BALANCES</b>				
Restricted for:				
Retirement of long-term debt	479,457			479,457
Committed for:				
Other purposes			163,044	163,044
Unassigned	<u>2,030,903</u>	<u>654,584</u>		<u>2,685,487</u>
<b>Total Fund Balances</b>	<u>2,510,360</u>	<u>654,584</u>	<u>163,044</u>	<u>3,327,988</u>
<b>Total Liabilities, Deferred Inflows &amp; Fund Balances</b>	<b><u>\$ 6,211,874</u></b>	<b><u>\$ 688,521</u></b>	<b><u>\$ 182,143</u></b>	<b><u>\$ 7,082,538</u></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, 2013

Total fund balances - governmental funds	\$ 3,327,988
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 \$45,713,958 and the accumulated depreciation was \$25,079,834. 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.	13,048,590
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.	4,080,599
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 2013 capital outlays and debt principal payments is to increase (decrease) net position.	711,319
4 The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(1,286,574)
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.	(559,007)
Net position of governmental activities	<hr style="width: 100%;"/> \$ <u>19,322,915</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, 2013

	General Fund	Road & Bridge Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
Property taxes	\$ 5,724,261	\$ 688,813	\$	\$ 6,413,074
Licenses and fees	367,200	446,009	158,007	971,216
Other taxes	12,141			12,141
State and federal grants and contracts	101,917	15,316		117,233
Investment earnings	17,278			17,278
Royalties	159,425			159,425
Miscellaneous revenues	237,294	30,418		267,712
Total revenues	<u>6,619,516</u>	<u>1,180,556</u>	<u>158,007</u>	<u>7,958,079</u>
<b>EXPENDITURES:</b>				
Judicial	519,769		32,766	552,535
Public transportation	23,262	1,187,515		1,210,777
General government	1,816,498		4,876	1,821,374
Public facilities	197,221			197,221
Health and welfare	804,187			804,187
Public safety	1,955,744		99,343	2,055,087
Recreation and culture	27,447			27,447
Debt service	847,390	16,250		863,640
Total expenditures	<u>6,191,518</u>	<u>1,203,765</u>	<u>136,985</u>	<u>7,532,268</u>
Excess (deficiency) of revenues over (under) expenditures	<u>427,998</u>	<u>(23,209)</u>	<u>21,022</u>	<u>425,811</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (out)	(14,050)		14,050	0
Sale of assets		37,400		37,400
Proceeds from long-term notes payable		32,500		32,500
Total other financing sources (uses)	<u>(14,050)</u>	<u>69,900</u>	<u>14,050</u>	<u>69,900</u>
Net change in fund balances	413,948	46,691	35,072	495,711
Fund balance - beginning	2,096,412	607,893	127,972	2,832,277
Adjustments to beginning fund balances				0
Fund balance - ending	<u>\$ 2,510,360</u>	<u>\$ 654,584</u>	<u>\$ 163,044</u>	<u>\$ 3,327,988</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, 2013

Total net change in fund balances - governmental funds	\$ 495,711
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 2013 capital outlays and debt principal payments is to increase (decrease) net position.	711,319
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.	(1,286,574)
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 unearned 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.	(559,007)
Change in net position of governmental activities	\$ <u>(638,551)</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, 2013**

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 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 expensed in the period incurred..

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
Infrastructure	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, 2013, the County's general fund balances were committed or assigned as follows:

Restricted for debt service                      \$ 479,457.

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 \$3,751.

### 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, 2013, 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, 2013, 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 2013 levy was based was approximately \$788,016,083. 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, 2013, was \$0.7418 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 40.77% and total tax collections were 108.25% 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		\$ 14,050	Operating activities
Special revenue fund	14,050		Operating activities
	<u>\$ 14,050</u>	<u>\$ 14,050</u>	

E. Disaggregation of receivables and payables

Receivables at December 31, 2013 were as follows:

	Accounts	Taxes	Total Receivables
Governmental Activities:			
General Fund	\$697,921	\$3,793,353	\$4,491,274
Road & Bridge Fund	79,622		79,622
Special Revenue Funds	8,197		8,197
Total Governmental Activities	<u>\$785,740</u>	<u>\$3,793,353</u>	<u>\$4,579,093</u>

Payables at December 31, 2013 were as follows:

	Accounts	Accrued Payroll	Total Payables
Governmental Activities:			
General Fund	\$90,298	\$39,124	\$129,422
Road & Bridge Fund	9,933	24,004	33,937
Special Revenue Funds	19,099		19,099
Total Governmental Activities	<u>\$119,330</u>	<u>\$63,128</u>	<u>\$182,458</u>

F. Capital asset activity

Capital asset activity for the County for the year ended December 31, 2013, was as follows:

	Balance 12/31/12	Additions	Deletions	Balance 12/31/13
<b>Governmental activities:</b>				
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	4,350,113	\$ 145,069	\$ 195,500	4,299,682
<b>Totals</b>	<b>45,713,958</b>	<b>145,069</b>	<b>195,500</b>	<b>45,663,527</b>
<b>Less accum depreciation for:</b>				
Infrastructure - roads	17,286,394	642,789		17,929,183
Buildings and improvements	4,792,625	321,415		5,114,040
Furniture and equipment	3,000,815	322,370	169,250	3,153,935
<b>Total accum depreciation</b>	<b>25,079,834</b>	<b>1,286,574</b>	<b>169,250</b>	<b>26,197,158</b>
<b>Governmental activities capital assets, net</b>	<b>\$20,634,124</b>	<b>\$(1,141,505)</b>	<b>\$ 26,250</b>	<b>\$19,466,369</b>

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

<b>Governmental activities:</b>	
General government	\$ 40,790
Public health and welfare	115,323
Public safety	315,520
Public transportation	814,941
<b>Total depreciation expense - governmental activities</b>	<b>\$1,286,574</b>

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 2013.

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, 2013, the annual pension cost for the TCDRS plan for its employees was \$267,110 (plus \$10,908 in group term life insurance) and the actual contributions were \$422,924.

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, 2012, the basis for determining the contribution rates for calendar year 2013. The December 31, 2012, actuarial valuation is the most recent valuation.

**Actuarial Valuation Information**

Actuarial Valuation Date	12/31/10	12/31/11	12/31/12
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)	6.5	6.0	6.5
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
<b>Actuarial Assumptions:</b>			
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%

I. Deferred inflow of resources

	Levied but Uncollected Taxes	Total Deferred Resources
General Fund	<u>\$3,572,092</u>	<u>\$3,572,092</u>

J. Long-term debt

During the year ended December 31, 2013, 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 06/25/13 bearing interest at 3.5% due 01/15/14	\$ 0	\$ 32,500	\$ 16,250	\$ 16,250	\$ 16,250
\$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	7,470,000		550,000	6,920,000	575,000
	<u>\$7,470,000</u>	<u>\$ 32,500</u>	<u>\$566,250</u>	<u>\$6,936,250</u>	<u>\$ 591,250</u>

Future debt service requirements are as follows:

Year ended December 31,	Principal	Interest	Total Requirements
2014	\$591,250	\$274,920	\$866,170
2015	595,000	251,190	846,190
2016	620,000	226,890	846,890
2017	645,000	201,590	846,590
2018	670,000	175,90	845,290
2019-2023	3,815,000	421,640	4,236,640
Total	<u>\$6,936,250</u>	<u>\$1,551,520</u>	<u>\$8,487,770</u>

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*REQUIRED SUPPLEMENTARY INFORMATION*

**COUNTY OF STEPHENS, TEXAS**  
*TCDRS SCHEDULE OF FUNDING PROGRESS (unaudited)*  
 DECEMBER 31, 2013

**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 (b-a/c)
	(a)	(b)	(b-a)	(a/b)	(c)	
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%
12/31/12	\$6,438,442	\$7,083,128	\$644,686	90.90%	\$2,199,351	29.31%

COUNTY OF STEPHENS, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 4,818,931	\$ 4,818,931	\$ 5,724,261	\$ 905,330
Licenses and fees	430,868	430,868	367,200	(63,668)
Other taxes	11,600	11,600	12,141	541
State and federal grants and contracts	55,250	55,250	101,917	46,667
Investment earnings	16,246	16,246	17,278	1,032
Royalties	133,502	133,502	159,425	25,923
Miscellaneous revenues	164,000	164,000	237,294	73,294
<b>Total revenues</b>	<u>5,630,397</u>	<u>5,630,397</u>	<u>6,619,516</u>	<u>989,119</u>
<b>EXPENDITURES:</b>				
Judicial	516,018	516,018	519,769	(3,751)
Public transportation	30,138	30,138	23,262	6,876
General government	1,881,512	1,881,512	1,816,498	65,014
Public facilities	209,758	209,758	197,221	12,537
Health and welfare	826,794	826,794	804,187	22,607
Public safety	1,990,200	1,990,200	1,955,744	34,456
Recreation and culture	27,996	27,996	27,447	549
Debt service	847,390	847,390	847,390	0
<b>Total expenditures</b>	<u>6,329,806</u>	<u>6,329,806</u>	<u>6,191,518</u>	<u>138,288</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(699,409)</u>	<u>(699,409)</u>	<u>427,998</u>	<u>1,127,407</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (out)	(10,000)	(10,000)	(14,050)	(4,050)
Sale of assets	0	0	0	0
Proceeds from long-term notes payable	0	0	0	0
<b>Total other financing sources (uses)</b>	<u>(10,000)</u>	<u>(10,000)</u>	<u>(14,050)</u>	<u>(4,050)</u>
Net change in fund balances	(709,409)	(709,409)	413,948	1,123,357
Fund balance - beginning	2,096,412	2,096,412	2,096,412	0
Adjustments to beginning fund balances				0
Fund balance - ending	<u>\$ 1,387,003</u>	<u>\$ 1,387,003</u>	<u>\$ 2,510,360</u>	<u>\$ 1,123,357</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, 2013

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 615,928	\$ 615,928	\$ 688,813	\$ 72,885
Licenses and fees	450,800	450,800	446,009	(4,791)
Other taxes	0	0		0
State and federal grants and contracts	14,000	14,000	15,316	1,316
Investment earnings	0	0		0
Royalties	0	0		0
Miscellaneous revenues	20,405	20,405	30,418	10,013
Total revenues	<u>1,101,133</u>	<u>1,101,133</u>	<u>1,180,556</u>	<u>79,423</u>
<b>EXPENDITURES:</b>				
Judicial	0	0		0
Public transportation	1,248,515	1,248,515	1,187,515	61,000
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	16,250	16,250	16,250	0
Total expenditures	<u>1,264,765</u>	<u>1,264,765</u>	<u>1,203,765</u>	<u>61,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(163,632)</u>	<u>(163,632)</u>	<u>(23,209)</u>	<u>140,423</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (out)	(1,291)	(1,291)		1,291
Sale of assets	0	0	37,400	37,400
Proceeds from long-term notes payable	0	0	32,500	32,500
Total other financing sources (uses)	<u>(1,291)</u>	<u>(1,291)</u>	<u>69,900</u>	<u>71,191</u>
Net change in fund balances	(164,923)	(164,923)	46,691	211,614
Fund balance - beginning	607,893	607,893	607,893	0
Adjustments to beginning fund balances				0
Fund balance - ending	<u>\$ 442,970</u>	<u>\$ 442,970</u>	<u>\$ 654,584</u>	<u>\$ 211,614</u>

*OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION*

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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, 2013, 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 8, 2014.

#### 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.

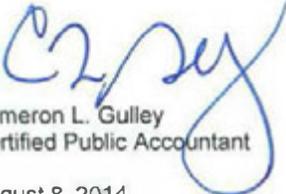
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify 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 8, 2014

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**COUNTY OF STEPHENS, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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, 2013*

None reported.