

PALO PINTO COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2014

PALO PINTO COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2014

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
FINANCIAL SECTION		
Independent Auditor's Report		1
Management's Discussion and Analysis		3
BASIC FINANCIAL STATEMENTS		
Statement of Net Position	A-1	9
Statement of Activities	A-2	10
Balance Sheet – Governmental Funds	A-3	11
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	A-4	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	A-5	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	A-6	15
Statement of Net Position – Internal Service Fund	A-7	16
Statement of Revenues, Expenses, and Changes in Net Position – Internal Service Fund	A-8	17
Statement of Cash Flows – Internal Service Fund	A-9	18
Statement of Assets and Liabilities - Fiduciary Funds	A-10	19
Notes to the Financial Statements		20
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule – General Fund	B-1	38
Notes to Required Supplementary Information		40
Schedule of Funding Progress – Texas County and District Retirement System	B-2	41
Schedule of Funding Progress – Palo Pinto County Retiree Health Care Plan	B-3	42
OTHER SUPPLEMENTARY INFORMATION		
Combining Balance Sheet – General Fund	C-1	43
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund	C-2	44
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual - General Fund	C-3	45
Combining Balance Sheet – Other Governmental Funds	C-4	47
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Other Governmental Funds	C-5	51
Combining Statement of Assets and Liabilities – Fiduciary Funds	C-6	55
Statement of Revenues, Expenditures and Changes in Fund Balance – Commissary Fund	C-7	59

PALO PINTO COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2014

TABLE OF CONTENTS (CONT'D.)

	<u>Exhibit</u>	<u>Page</u>
INTERNAL CONTROL AND COMPLIANCE		
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		60
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133		62
Schedule of Findings and Questioned Costs		64
Corrective Action Plan		65
Summary Schedule of Prior Audit Findings		66
Schedule of Expenditures of Federal Awards	D-1	67
Notes to Schedule of Expenditures of Federal Awards		68

FINANCIAL SECTION



EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

4110 KELL BLVD., SECOND FLOOR ▪ P.O. Box 750
WICHITA FALLS, TEXAS 76307-0750
PH. (940) 766-5550 ▪ FAX (940) 766-5778

MICHAEL D. EDGIN, CPA
DAVID L. PARKMAN, CPA, CFE
A. PAUL FLEMING, CPA
J. MARK FLEMING, CPA

Independent Auditor's Report

To The Honorable County Judge and County Commissioners
Palo Pinto County, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Palo Pinto County, Texas (County) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinions on Governmental Activities and General Fund

As fully described in Note 13 to the financial statements, the County has not recorded the receivables from the judicial assessments at September 30, 2014 in the accompanying financial statements of the Governmental Activities and General Fund. Accounting principles generally accepted in the United States of America require that these receivables should be recorded, which would increase the assets and fund balance/net position and change the revenues in the Governmental Activities and General Fund. The amount by which this departure would affect the assets, fund balance/net position, and revenues of the Governmental Activities and General Fund has not been determined.

Qualified Opinions

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinions on Governmental Activities and General Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities and General Fund of the County, as of September 30, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund other than the General Fund, and the aggregate remaining fund information of the County as of September 30, 2014, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and funding schedules on the Texas County and District Retirement System and Palo Pinto County Retiree Health Care Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining financial statements and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements and Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2015, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Edgin, Parkman, Fleming & Fleming, PC

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas
January 20, 2015

Management's Discussion and Analysis

As management of Palo Pinto County, we offer readers of the Palo Pinto County's financial statements this narrative overview of the financial activities of Palo Pinto County for the fiscal year ended September 30, 2014.

Financial Highlights

The assets of Palo Pinto County exceeded its liabilities at the close of the fiscal year by \$20,135,404 (*net position*). Of this amount, \$7,418,310 (*unrestricted net position*) may be used to meet the County's ongoing obligations.

As of the close of the fiscal year, the Palo Pinto County's governmental funds reported combined ending fund balances of \$9,981,172. Of this total amount, \$7,645,830 (68 percent) is *available for spending* at the County's discretion (*unassigned fund balance*).

At the end of the fiscal year, unassigned fund balance for the General Fund is \$7,645,830 or 55 percent of total General Fund expenditures.

The County's total long-term obligations increased \$174,809 (8 percent) during the fiscal year. The increase is due to an increase in post-employment benefit obligation of \$255,270, and retirements of debt in the amount of \$73,333. In addition, compensated absences decreased by \$7,128.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to Palo Pinto County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide a broad overview of Palo Pinto County's finances, in a manner similar to private sector business.

The *Statement of Net Position* presents information on all of Palo Pinto County's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as an indicator of whether the County's financial position is improving or deteriorating.

The *Statement of Activities* presents information showing how the County's net position changed during the year. All changes in net position are reported as soon as the event causing the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods (e.g., uncollected taxes).

The government-wide financial statements are presented on pages 9-10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Palo Pinto County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Palo Pinto County can be divided into three categories: governmental funds, internal service, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial focus is on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Palo Pinto County maintains twenty-four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other twenty-three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining funds* elsewhere in this report.

Palo Pinto County adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund.

The basic governmental financial statements can be found on pages 11-15 of this report.

The County adopted a Health Reimbursement Arrangement (HRA) Plan and it is accounted for as an Internal Service Fund. The Internal Service Fund's financial statements are at pages 16 – 18 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The combined fiduciary fund *Statement of Fiduciary Assets and Liabilities* can be found on page 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the audited financial statements.

The notes can be found on pages 20-37 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Palo Pinto County, assets exceeded liabilities by \$ 20,135,404 at September 30, 2014.

The largest portion of the County's net position (58 percent) reflects its investment in capital assets (eg., land, buildings, machinery and equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Palo Pinto County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Position

	<i>Government Activities</i>	
	2014	2013
<i>Current and Other Assets</i>	\$ 10,968,910	\$ 9,697,965
<i>Capital Assets</i>	12,242,494	11,982,281
Total Assets	\$ 23,211,404	\$ 21,680,246
<i>Current Liabilities</i>	\$ 705,225	\$ 489,406
<i>Long-Term Liabilities</i>	2,370,775	2,195,966
Total Liabilities	\$ 3,076,000	\$ 2,685,372
Net Position:		
<i>Net Investment in Capital Assets</i>	\$ 11,747,827	\$ 11,414,281
<i>Restricted</i>	969,267	936,050
<i>Unrestricted</i>	7,418,310	6,644,543
Total Net Position	\$ 20,135,404	\$ 18,994,874

Restricted net position represents resources that are subject to external restrictions. Unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the fiscal year, Palo Pinto County is able to report positive balances in net position, for the government as a whole, as well as for its separate governmental activities.

Changes in Net Position

	<i>Government Activities</i>	
	<u>2014</u>	<u>2013</u>
Revenues:		
Program Revenues:		
<i>Charges for Services</i>	\$ 3,021,164	\$ 2,874,682
<i>Operating Grants and Contributions</i>	278,186	1,200,477
<i>Capital Grants and Contributions</i>	220,245	-
General Revenues:		
<i>Property Taxes</i>	9,487,758	8,549,379
<i>Other Taxes</i>	1,670,831	1,631,955
<i>Other</i>	303,491	223,243
Total Revenues	<u>\$ 14,981,675</u>	<u>\$ 14,479,776</u>
Expenses:		
<i>General Government</i>	\$ 3,750,991	\$ 3,843,297
<i>Administration of Justice</i>	1,956,827	1,880,044
<i>Public Safety</i>	2,750,857	3,547,541
<i>Corrections and Rehabilitation</i>	2,207,992	2,170,303
<i>Health and Human Services</i>	207,013	203,996
<i>Community and Economic Development</i>	288,338	278,899
<i>Infrastructure and Environmental Services</i>	2,679,127	2,343,937
Total Expenses	<u>\$ 13,841,145</u>	<u>\$ 14,268,017</u>
 <i>Change in Net Position</i>	 \$ 1,140,530	 \$ 211,759
 <i>Net Position - 10/1/13</i>	 <u>18,994,874</u>	 <u>18,783,115</u>
<i>Net Position - 9/30/14</i>	<u>\$ 20,135,404</u>	<u>\$ 18,994,874</u>

Financial Analysis of the Government's Funds

Governmental funds. The focus of Palo Pinto County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

The General Fund is the chief operating fund of Palo Pinto County. At the end of the current fiscal year, unassigned fund balance of the General Fund is \$7,645,830 while the total fund balance reached \$8,681,495. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total General Fund expenditures. Unassigned fund balance represents 58.7 percent of total General Fund expenditures, while total fund balance represents 66.7 percent of total General Fund expenditures.

The fund balance of Palo Pinto County's General Fund increased by \$1,133,204 during the current fiscal year. Key factor in this growth is that ad valorem taxes increased by \$955,611 due to increased property valuations.

The Capital Projects Funds have a total fund balance of \$330,836 all of which is committed for future capital projects. This represents a decrease of \$213,434 from 2013. It is the intent of the County to use these funds for future growth and expansion needs of the County.

The Debt Service Fund has a total fund balance of \$0. The Fund is used to account for the Texas Capital Fund loan. The monthly lease payments received by the County are immediately paid toward the loan balance.

Palo Pinto County's Special Revenue Funds have a combined restricted fund balance of \$962,616 which represents an increase of \$28,778 primarily due to increases in the Commissary Fund and the Sheriff's Forfeiture Fund.

General Fund Budgetary Highlights

The final amended budget showed an increase of \$224,002 (1.6 percent) over the original budget which was for various grants, contributions, and insurance proceeds.

It is the practice of the County to budget very conservatively. Actual revenues were 2.5 percent higher than budgeted. Licenses, Fee and Fines were .37 percent higher than budgeted. Ad valorem taxes were 2.3 percent higher than budgeted. Sales tax revenue was 10 percent higher than budgeted after recovering from several years of suffering from slower retail sales and a poor local economy. Actual operating expenditures were 9 percent lower than budgeted. This can be attributed primarily to lower than anticipated costs in both general operations and road and bridge operations.

Capital Asset and Debt Administration

Capital assets. Palo Pinto County's investment in capital assets for its governmental activities as of September 30, 2014 amounts to \$12,242,494 (net of depreciation). This investment in capital assets includes land, buildings and building improvements, other improvements, transportation, machinery, equipment and other assets, infrastructure and construction-in-progress.

Major capital asset events during the current fiscal year included the following:

- ◆ The addition of infrastructure in the form of major road improvements, totaling \$247,456.
- ◆ The purchase of a number of law enforcement vehicles for \$241,275.
- ◆ The purchase of several vehicles and heavy equipment for road and bridge operations totaling \$180,202.

Additional information on the County's capital assets can be found in Note 5 on page 28 of this report.

Long-term debt. At the end of the fiscal year, the County had total long-term obligations of \$2,370,775 outstanding. This debt is 100% backed by the full faith and credit of the County.

Additional information on the County's long-term debt can be found in Note 7 on pages 29-30 of this report.

Economic Factors and Next Year's Budgets

At the end of the fiscal year the unassigned fund balance in the General Fund was \$7,645,830. The County appropriated \$694,697 of this amount for spending in the 2013-14 fiscal year budget for road and bridge operations, and to fund several contingency line items in the General Fund for unexpected emergencies. It is intended that the use of available fund balance will lessen the need to raise taxes during the 2015 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of Palo Pinto County's finances. Questions concerning information in this report should be addressed to the County Auditor, Palo Pinto County, P.O. Box 159, Palo Pinto, Texas 76484.

Reference: Gauthier, Stephen J. Governmental Accounting, Auditing, and Financial Reporting, Chicago: Government Finance Officers Association, 2001.

BASIC FINANCIAL STATEMENTS

PALO PINTO COUNTY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

	Governmental Activities
Assets	
Cash	\$ 1,272,026
Investments	8,681,799
Receivables:	
Property taxes, net	182,034
Sales taxes	281,854
Occupancy taxes	31,954
Accounts	146,823
Due from fiduciary	127,044
Prepaid expenses	182,186
Inventory	63,190
Capital assets, net	12,242,494
Total assets	<u>23,211,404</u>
Liabilities	
Accounts payable	514,780
Accrued liabilities	142,461
Due to fiduciary	24,346
Due to others	23,638
Long-term liabilities:	
Due within one year	229,061
Due in more than one year	2,141,714
Total liabilities	<u>3,076,000</u>
Net Position	
Net investment in capital assets	11,747,827
Restricted	969,267
Unrestricted	7,418,310
Total net position	<u>\$ 20,135,404</u>

The accompanying notes are an integral part of this statement.

PALO PINTO COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Net (Expense)
Revenue and
Changes in
Net Position

Functions/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government	\$ 3,750,991	\$ 1,296,820	\$ -	\$ -	\$ (2,454,171)
Administration of Justice	1,956,827	710,062	157,342	-	(1,089,423)
Public Safety	2,750,857	64,706	120,844	19,889	(2,545,418)
Corrections and Rehabilitation	2,207,992	133,000	-	-	(2,074,992)
Health and Human Services	207,013	-	-	-	(207,013)
Community and Economic Development	288,338	-	-	-	(288,338)
Infrastructure and Environmental Services	2,679,127	816,576	-	200,356	(1,662,195)
Total governmental activities	<u>\$ 13,841,145</u>	<u>\$ 3,021,164</u>	<u>\$ 278,186</u>	<u>\$ 220,245</u>	<u>(10,321,550)</u>
General revenues and special item:					
Property taxes, levied for general purposes					9,487,758
Sales taxes					1,533,386
Hotel/motel taxes					99,184
Mixed beverage taxes					38,261
Investment earnings					104,769
Miscellaneous					160,476
Special item - gain on sale of capital assets					38,246
Total general revenues and special item					<u>11,462,080</u>
Change in net position					1,140,530
Net position - beginning					18,994,874
Net position - ending					<u>\$ 20,135,404</u>

The accompanying notes are an integral part of this statement.

PALO PINTO COUNTY, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 503,282	\$ 658,503	\$ 1,161,785
Investments	8,083,964	597,835	8,681,799
Receivables, net:			
Property taxes	182,034	-	182,034
Sales taxes	281,854	-	281,854
Occupancy taxes	-	31,954	31,954
Accounts	131,867	14,956	146,823
Due from other funds	95,843	16,309	112,152
Prepaid expenses	182,186	-	182,186
Inventory	62,430	760	63,190
Total assets	<u>\$ 9,523,460</u>	<u>\$ 1,320,317</u>	<u>\$ 10,843,777</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 486,682	\$ 18,336	\$ 505,018
Accrued liabilities	140,895	1,566	142,461
Due to other funds	9,454	-	9,454
Due to others	22,900	738	23,638
Total liabilities	<u>659,931</u>	<u>20,640</u>	<u>680,571</u>
Deferred inflows of resources:			
Unavailable property taxes	<u>182,034</u>	<u>-</u>	<u>182,034</u>
Fund balances:			
Nonspendable	244,616	760	245,376
Restricted	5,791	962,716	968,507
Committed	71,425	336,201	407,626
Assigned	713,833	-	713,833
Unassigned	7,645,830	-	7,645,830
Total fund balances	<u>8,681,495</u>	<u>1,299,677</u>	<u>9,981,172</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 9,523,460</u>	<u>\$ 1,320,317</u>	<u>\$ 10,843,777</u>

The accompanying notes are an integral part of this statement.

PALO PINTO COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

Total fund balances - governmental funds (Exhibit A-3)	\$ 9,981,172
--	--------------

Amounts reported for *governmental activities* in the Statement of Net Position (Exhibit A-1) are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. Capital assets at year-end consist of:

Gross capital assets	\$ 22,961,883	
Related accumulated depreciation	<u>10,719,389</u>	12,242,494

Property tax receivables are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.	182,034
---	---------

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Note payable	494,667	
Accrued compensated absences	224,394	
Net other post-employment benefit obligation	<u>1,651,714</u>	(2,370,775)

The County uses an internal service fund to operate a health reimbursement account (HRA) for the benefit of all of eligible employees of the County. The assets and liabilities are included in the governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.	100,479
---	---------

Total net position - governmental activities (Exhibit A-1)	<u><u>\$ 20,135,404</u></u>
--	-----------------------------

The accompanying notes are an integral part of this statement.

PALO PINTO COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 9,484,842	\$ -	\$ 9,484,842
Sales taxes	1,533,386	-	1,533,386
Occupancy tax	-	99,184	99,184
Mixed beverage tax	38,261	-	38,261
Licenses, fees and fines	2,515,989	244,391	2,760,380
Federal and state grants	237,777	227,856	465,633
Inmate revenue	78,889	-	78,889
Commissary revenue	-	41,152	41,152
Interest earned	94,345	10,011	104,356
Other revenue	206,225	127,792	334,017
Total revenues	<u>14,189,714</u>	<u>750,386</u>	<u>14,940,100</u>
Expenditures			
29th District Court	373,646	-	373,646
Capital projects	-	294,416	294,416
Commissary	-	27,943	27,943
Commissioner's Court	43,890	-	43,890
Constable	412,519	-	412,519
County Attorney	230,351	5,048	235,399
County Auditor	231,687	-	231,687
County Clerk	283,251	136,770	420,021
County Court	165,882	-	165,882
County Extension Service	92,624	-	92,624
County Treasurer	114,360	-	114,360
Courthouse security	-	48,822	48,822
Debt service - principal	-	23,333	23,333
District Attorney	268,344	41,962	310,306
District Clerk	201,144	-	201,144
Election Administration	190,823	-	190,823
Emergency Management	67,460	-	67,460
Emergency Medical & Health Services	105,642	-	105,642
General operations	2,877,717	76,600	2,954,317
Health services	10,000	-	10,000
Hotel/motel tax	-	103,650	103,650
Information Technology	104,160	-	104,160
Inmate contract	217,588	-	217,588
Jail and detention	1,659,046	-	1,659,046
Justice of the Peace	443,736	-	443,736
Narcotics Unit	145,141	-	145,141
Public Works	393,453	172,373	565,826

The accompanying notes are an integral part of this statement.

PALO PINTO COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
Road and Bridge:			
Precinct No. 1	438,506	-	438,506
Precinct No. 2	545,959	-	545,959
Precinct No. 3	592,364	-	592,364
Precinct No. 4	548,369	-	548,369
Sheriff	1,702,174	3,030	1,705,204
Tax Assessor-Collector	508,376	-	508,376
Vending Expenditures	-	3,527	3,527
Veteran's Administration	52,040	-	52,040
Total expenditures	<u>13,020,252</u>	<u>937,474</u>	<u>13,957,726</u>
Excess of revenues over (under) expenditures	<u>1,169,462</u>	<u>(187,088)</u>	<u>982,374</u>
Other sources and (uses):			
Proceeds from the sale of capital assets	108,742	4,125	112,867
Transfer out	<u>(145,000)</u>	<u>-</u>	<u>(145,000)</u>
Total other sources and (uses)	<u>(36,258)</u>	<u>4,125</u>	<u>(32,133)</u>
Net change in fund balances	1,133,204	(182,963)	950,241
Fund balances, beginning of year	7,548,291	1,482,640	9,030,931
Fund balances, end of year	<u>\$ 8,681,495</u>	<u>\$ 1,299,677</u>	<u>\$ 9,981,172</u>

The accompanying notes are an integral part of this statement.

PALO PINTO COUNTY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Net change in fund balances - total governmental funds (Exhibit A-5) \$ 950,241

Amounts reported for *governmental activities* in the Statement of Activities (Exhibit A-2) are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. The net difference between the two is as follows:

Capital outlay during the year	\$ 1,317,089	
Depreciation expense for the year	<u>982,255</u>	334,834

Proceeds from the sale of capital assets are recorded as revenues when received in the governmental funds. In the Statement of Activities, the difference between the proceeds and the book value of the capital asset is reported as a gain (loss) from sale. (74,621)

Because property tax receivables will not be collected for several months after the County's fiscal year ends, they are not considered 'available' revenues and are deferred inflows of resources in the governmental funds. Deferred inflows of resources increased by this amount. 2,916

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. The long-term debt principal paid during the year was as follows:

Time warrants	50,000	
Note payable	<u>23,333</u>	73,333

Included in long-term debt are obligations for accrued vacation leave and the net other post-employment benefit obligation. The changes in these obligations are not included in the governmental fund financial statements, but are included in the government-wide financial statements. The change in these long-term obligations was: (248,142)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The decrease in accrued interest is as follows:

Accrued interest at September 30, 2013	1,490	
Accrued interest at September 30, 2014	<u>-</u>	1,490

The County uses an internal service fund to operate a health reimbursement account (HRA) for the benefit of all of eligible employees of the County. The change in net position of the internal service service fund is reported with the governmental activities. The net effect of this consolidation is an increase of net position. 100,479

Change in net position of governmental activities (Exhibit A-2) \$ 1,140,530

The accompanying notes are an integral part of this statement.

PALO PINTO COUNTY, TEXAS
STATEMENT OF NET POSITION
INTERNAL SERVICE FUND
SEPTEMBER 30, 2014

	Health Reimbursement Arrangement
Assets	
Cash	\$ 110,241
Total assets	<u>110,241</u>
Liabilities	
Accounts payable	9,762
Total liabilities	<u>9,762</u>
Net Position	
Unrestricted	100,479
Total net position	<u>\$ 100,479</u>

The accompanying notes are an integral part of this statement.

PALO PINTO COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - INTERNAL SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Health Reimbursement Arrangement
Operating revenues	
None	\$ -
Operating expenses:	
Reimbursements	36,744
Administrative fees	8,190
Total operating expenses	<u>44,934</u>
Loss from operations	(44,934)
Non-operating income:	
Interest income	413
Transfers in	<u>145,000</u>
Change in net position	100,479
Total net position - beginning	-
Total net position - ending	<u><u>\$ 100,479</u></u>

The accompanying notes are an integral part of this statement.

PALO PINTO COUNTY, TEXAS
STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Health Reimbursement Arrangement
Cash flows from operating activities	
Cash paid to employees for health reimbursements	\$ (26,982)
Cash paid to third party administrator	(8,190)
Net cash used by operating activities	<u>(35,172)</u>
Cash flows from investing activities	
Transfers in from other funds	145,000
Interest earnings	413
Net cash provided by investing activities	<u>145,413</u>
Net increase in cash and cash equivalents	110,241
Cash and cash equivalents at beginning of the year	-
Cash and cash equivalents at end of the year	<u><u>\$ 110,241</u></u>
Reconciliation of loss from operations to net cash used by operating activities:	
Operating loss	\$ (44,934)
Effect of change in current assets and liabilities:	
Increase in accounts payable	9,762
Net cash used by operating activities	<u><u>\$ (35,172)</u></u>

The accompanying notes are an integral part of this statement.

PALO PINTO COUNTY, TEXAS
STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUNDS
SEPTEMBER 30, 2014

	Agency Funds
Assets	
Cash	\$ 1,633,009
Investments	527,839
Accounts receivable	2,459
Due from other funds	24,346
Total assets	<u>\$ 2,187,653</u>
Liabilities	
Due to other funds	\$ 127,044
Due to others	2,060,609
Total liabilities	<u>\$ 2,187,653</u>

The accompanying notes are an integral part of this statement.

PALO PINTO COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The County of Palo Pinto, Texas (County) was created by the Act of Legislature on August 27, 1856, and operates as specified under the Constitution of the State of Texas and statutes which provide for a Commissioners Court consisting of the County Judge and four Commissioners, one from each of four geographical precincts. The County Judge is elected for a term of four years and the Commissioners for four year staggered terms. Other major County elective officers include the County Clerk, District Clerk, County Tax Assessor-Collector and County Treasurer. The County Auditor is appointed for a term of two years and serves at the will of the District Judge, whose court is located in Palo Pinto County. The 2010 census population for the County was 28,111 and the area covered is approximately 949 square miles. The unincorporated community of Palo Pinto is the County Seat. The County provides the following public services: Public Safety – Sheriff's Department and Jail Detention, Tax Assessing and Collecting, Sanitation, Fire, Emergency Medical Services, Public Records, Criminal and Civil Prosecution, Road and Bridge Maintenance and General Operations.

The financial statements of the County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The government's significant accounting policies are described below:

A. *Reporting Entity*

In evaluating the County for financial reporting purposes, management has considered all potential component units. The evaluation was made by applying the criteria set forth in generally accepted accounting principles for inclusion of component units with a reporting entity. The major criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility over the unit. The most significant manifestation of this ability to exercise oversight responsibility includes, but is not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the County is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no potential component units included in the reporting entity as defined by GASB 14, "The Reporting Entity", as amended by GASB 39 and 61.

There are no component units which satisfy requirements for blending or discrete presentation within the County's financial statements. Accordingly, the basic financial statements present the County only.

B. *Government-wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all the non-fiduciary activities of the County. For the most part, the effects of interfund activity have been removed from these statements.

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

PALO PINTO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The County reports the following major governmental fund:

The *General Fund* is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The County reports the following nonmajor governmental funds reported as 'Other Governmental Funds':

The *Special Revenue Funds* account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Capital Project Funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The *Debt Service Funds* are used to account for the accumulation of funds for the periodic payment of principal and interest on long-term debt.

The County reports the following internal service fund:

The *Health Reimbursement Arrangement (HRA) Plan* was established under Internal Revenue Code Section 106 for reimbursing eligible County employees for the cost of certain eligible medical expenses incurred by them, their spouses and eligible dependents.

Additionally, the County reports the following fund types:

Agency Funds are used to report cash and investments and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments. The assets are held in a trustee or agent capacity and are not available to support County programs; therefore, these funds are not included in the government-wide financial statements.

PALO PINTO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, miscellaneous revenue, and interest income.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

The preparation of the financial statements in conformity with generally accepted accounting principles require the use of estimates by management that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

D. Financial Statement Amounts

1. Deposits and Investments

The County's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the County to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and investment pools.

Investments for the County are reported at fair value. The authorized investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables, including those for the County, are shown net of an allowance for uncollectibles.

Property taxes are levied by October 1. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed.

3. Uncollected Taxes Receivable

The office of the Tax Assessor-Collector is under contract to eighteen (18) different taxing entities. It is the responsibility of the Tax Assessor-Collector to collect the taxes for the various taxing districts and then to remit the tax, including any penalty and interest, less a 1% fee of current taxes and 7% of delinquent taxes, to the tax district, except for the Palo Pinto County Education District, in which the Tax Assessor-Collector receives all penalties collected. The amount recorded as investment in uncollected taxes represents the total taxes receivable for the eighteen districts and the Palo Pinto County Education District.

PALO PINTO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

4. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. For the year ended September 30, 2014, the County has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item that qualifies for reporting in this category, property taxes receivable. Property taxes receivable are unavailable and therefore cannot be recognized as revenue in the governmental funds until they are received.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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 time received.

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. Interest costs on fixed assets are not capitalized. Interest is charged to the Debt Service Fund for assets acquired with tax notes. For assets purchased under capital lease agreements, interest is expensed in the fund responsible for making the lease payments.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

Furniture & Fixtures	7 years
Vehicles	3 - 15 years
Equipment	5 - 7 years
Heavy Equipment	8 - 30 years
Buildings and Improvements	5 - 40 years
Other Improvements	10 - 20 years
Public Domain Infrastructure	15 - 30 years

PALO PINTO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

7. Compensated Absences

It is the County's policy to permit employees to accumulate a limited amount of earned but unused vacation and compensated absences, which will be paid to employees upon separation from the County's service. In governmental funds, the cost of vacation and compensated absences is recognized when payments are made to employees. A long-term liability of \$224,394 of accrued vacation and compensated absences at September 30, 2014 has been recorded in the government-wide statements, representing the County's commitment to fund such costs from future operations. The department for which the employee works is charged when payments for vacation or compensated absences are paid. The County's sick leave policy provides for an unlimited accumulation of earned sick leave. The County has no obligation for the accumulated sick leave until it is actually taken; therefore, no accrual for sick leave has been made.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Issuance costs associated with long-term debt are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize 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 and issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Fund Balances – Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the County's Commissioners' Court. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

PALO PINTO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

Assigned Fund Balance – represents amounts which the County intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the General Fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the County itself.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

2. COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures", violations of finance-related legal and contractual provisions are reported below, along with actions taken to address such violations:

For the year ended September 30, 2014, the County had no violations of finance-related legal or contractual provisions.

B. Deficit Fund Balance or Net Position of Individual Funds

As of September 30, 2014, there were no funds with a deficit fund balance or net position.

3. DEPOSITS AND INVESTMENTS

A. Deposits

Deposits, except for those held in trust by the County and District Clerks, were held with the contracted depository banks in interest bearing accounts which were secured at the balance sheet date by FDIC coverage and by pledged government securities in the name of the depository banks. At September 30, 2014, the carrying amount of the County's deposits was \$9,953,825 and the balance per the bank was \$10,139,647. Included in the carrying amount and bank balance are certificates of deposit (recorded as investments) totaling \$8,681,799.

The County and District Clerks hold deposit accounts and investments as trustees under court orders in various banks. The accounts are styled for the benefit of the individual beneficiaries and do not actually belong to the County. The investments consist of interest bearing demand deposits and certificates of deposit whose carrying value and market value are the same. The carrying amounts of agency funds held by the County at September 30, 2014 were \$2,160,848 and the balance per the bank was \$2,160,848. All deposits and investments were secured by FDIC coverage.

PALO PINTO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

B. Investments

The County is required by Government Code Chapter 2256, The Public Funds Investment Act (Act) to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, maturity and the quality and capability of investment management; include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the County adhered to the requirements of the Act. Additionally, investment practices of the County were in accordance with local policies.

The Act determines the types of investments which are allowable for the County. These include, with certain restrictions, (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, and (10) common trust funds.

The County's investments at September 30, 2014 are shown below:

<u>Investments</u>	<u>Weighted Maturity (Months)</u>	<u>Fair Value</u>
Certificates of Deposit	7.00	<u>\$8,681,799</u>

C. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the County was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

1. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the County was not significantly exposed to credit risk.

2. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the County's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the County's name.

At year end, the County was not exposed to custodial credit risk.

PALO PINTO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

3. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the County was not exposed to concentration of credit risk.

4. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the County was not exposed to interest rate risk.

5. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the County was not exposed to foreign currency risk.

D. Investment Accounting Policy

The County's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

4. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of the prior year. Taxes are levied on October 1 and do not begin to accrue interest until February 1. The County is permitted by the Municipal Finance Law of the State of Texas to levy taxes (exclusive of those amounts levied to service long-term debt) up to \$.80 per \$100 of assessed valuation for general services, permanent improvements, road and bridge and jury fund purposes. The combined tax rate to finance general government (exclusive of long-term debt service and Special Road & Bridge) for the year ended September 30, 2014, was \$0.35200 per \$100 valuation.

No taxes were levied for the payment of principal and interest related to long-term debt as the bonded debt was paid in full in the prior year.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the County is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

At September 30, 2014, net property taxes receivable is calculated as follows:

Gross property taxes receivable	\$409,597
Allowance for uncollectible taxes	(227,563)
Net property taxes receivable	<u>\$182,034</u>

PALO PINTO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

Of the \$409,597 of property taxes receivable at September 30, 2014, the County expects to collect approximately \$160,000 within a year. This is similar to the amount of delinquent taxes received in previous years.

5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014 was as follows:

Governmental Activities:	<u>Balance 10/1/13</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance 9/30/14</u>
Capital assets not being depreciated:					
Land	\$ 224,820	\$ 39,000	\$ -	\$ -	\$ 263,820
Construction in progress	104,500	217,666	-	(34,625)	287,541
Total capital assets not being depreciated	<u>329,320</u>	<u>256,666</u>	<u>-</u>	<u>(34,625)</u>	<u>551,361</u>
Capital assets being depreciated:					
Buildings and improvements	8,627,748	366,606	-	34,625	9,028,979
Equipment	3,586,814	86,528	106,565	(8,807)	3,557,970
Vehicles	2,745,250	354,530	445,948	8,807	2,662,639
Infrastructure	<u>6,908,175</u>	<u>252,759</u>	<u>-</u>	<u>-</u>	<u>7,160,934</u>
Total capital assets being depreciated	<u>21,867,987</u>	<u>1,060,423</u>	<u>552,513</u>	<u>34,625</u>	<u>22,410,522</u>
Less accumulated depreciation for:					
Buildings and improvements	4,891,279	247,731	-	-	5,139,010
Equipment	2,004,534	168,089	52,481	(593)	2,119,549
Vehicles	2,064,401	224,884	425,411	593	1,864,467
Infrastructure	<u>1,254,812</u>	<u>341,551</u>	<u>-</u>	<u>-</u>	<u>1,596,363</u>
Total accumulated depreciation	<u>10,215,026</u>	<u>982,255</u>	<u>477,892</u>	<u>-</u>	<u>10,719,389</u>
Total capital assets being depreciated, net	<u>11,652,961</u>	<u>78,168</u>	<u>74,621</u>	<u>34,625</u>	<u>11,691,133</u>
Governmental activities capital assets, net	<u>\$11,982,281</u>	<u>\$ 334,834</u>	<u>\$ 74,621</u>	<u>\$ -</u>	<u>\$12,242,494</u>

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

Governmental Activities:	
General Government	\$ 89,376
Administration of Justice	8,655
Public Safety	168,514
Corrections and Rehabilitation	132,182
Health and Human Services	894
Community and Economic Development	27,691
Infrastructure and Environmental Services	<u>554,943</u>
Total governmental depreciation	<u>\$982,255</u>

PALO PINTO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

6. INTERFUND BALANCES AND ACTIVITIES

A. Balances due to and from other funds at September 30, 2014 was as follows:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Fiduciary Funds	\$ 95,843	Short-term loan
Other Governmental Funds	Fiduciary Funds	16,309	Short-term loan
Fiduciary Funds	General Fund	9,454	Short-term loan
Fiduciary Funds	Fiduciary Funds	<u>14,892</u>	Short-term loan
	Total	<u>\$136,498</u>	

All of the above amounts are expected to be repaid within one year.

B. Transfers in and out during the year ended September 30, 2014 were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Internal Service Fund	<u>\$145,000</u>	Establish new fund

7. LONG-TERM OBLIGATIONS

The County issued time warrants and notes payable to provide funds for the acquisition and construction of major capital facilities. These issues are direct obligations and pledge the full faith and credit of the County.

Changes in long-term liabilities for the year ended September 30, 2014 was as follows:

	<u>Balance 10/01/13</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 09/30/14</u>	<u>Due Within One Year</u>
Governmental Activities:					
Time warrants	\$ 50,000	\$ -	\$ 50,000	\$ -	\$ -
Note payable	518,000	-	23,333	494,667	4,667
Compensated absences	231,522	244,769	251,897	224,394	224,394
Net other post-employment benefit obligation	<u>1,396,444</u>	<u>255,270</u>	<u>-</u>	<u>1,651,714</u>	<u>-</u>
Total long-term liabilities – governmental activities	<u>\$2,195,966</u>	<u>\$500,039</u>	<u>\$325,230</u>	<u>\$2,370,775</u>	<u>\$229,061</u>

For the governmental activities, compensated absences and other post-employment benefit obligations are generally liquidated by the General Fund.

PALO PINTO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

Total debt service requirements to maturity are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 4,667	\$ -	\$ 4,667
2016	28,000	-	28,000
2017	28,000	-	28,000
2018	28,000	-	28,000
2019	28,000	-	28,000
2020-24	140,000	-	140,000
2025-29	140,000	-	140,000
2030-32	98,000	-	98,000
Totals	<u>\$494,667</u>	<u>\$ -</u>	<u>\$494,667</u>

Time Warrants

Time warrants, payable to the Comanche National Bank, at September 30, 2014 consisted of the following:

<u>Purpose</u>	<u>Original Amount</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Balance 9/30/14</u>
Construction of the Chestnut Mountain Road	\$250,000	12/23/10	10/31/13	3.25%	<u>\$ -</u>

Note Payable

The note payable to the Texas Department of Rural Community Affairs is part of the Texas Department of Agriculture's Community Development Block Grant (CDBG) known as the Texas Capital Fund. The County borrowed \$560,000 interest-free to purchase a facility which was leased to a business. The lease proceeds will be used to repay the loan. The monthly lease is for \$2,333 which began in June 2012, but has been deferred from August 1, 2014 to July 31, 2015.

<u>Purpose</u>	<u>Original Amount</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Balance 9/30/14</u>
Purchase and lease facility as part of the CDBG Texas Capital Fund program	\$560,000	05/23/11	04/15/32	0.00%	<u>\$494,667</u>

8. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various nature. The County participates in the Texas Association of Counties Intergovernmental Risk Pool (Pool) which provides protection for risks of loss. Premiums are paid to the Pool which retains the risk of loss beyond the County's policy deductibles. Any losses reported but unsettled or incurred and not reported, are believed to be insignificant to the County's basic financial statements. For the last three years, there have been no significant reductions of insurance coverage or insurance settlements in excess of insurance coverage.

PALO PINTO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

9. CONTINGENT LIABILITIES AND COMMITMENTS

Federal and State Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by such agencies. Any disallowed claims, including amounts already collected may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

Litigation

In the normal course of providing services to the public, the County from time-to-time is subjected to litigation claims. The County defends itself against such claims based on internal assessment of liability and risk. Litigation expenses are recorded as expenditures in the period when litigation services are rendered and damages are accrued as expenditures when determined to be probable and when amounts can reasonably be estimated. The County cannot readily determine the outcome of the litigation at this time; consequently, no liabilities have been accrued in the financial statements relative to litigation in process at September 30, 2014.

Texas Department of Transportation Contract

On December 21, 2006, the County entered into a contract with the Texas Department of Transportation (TXDOT) for the replacement of six bridges in Palo Pinto County. Three bridges have been completed. The total cost of the remaining three bridges is estimated at \$1,957,018 with the County contributing a 10% match of \$195,702. The County's match may be made in cash or in-kind. The County's match is required to be made no more than three years from the date TXDOT lets contracts for the construction project. As of September 30, 2014, the three remaining bridges had not been let.

Post-employment Benefits

A. Health and Supplemental Insurance

Effective October 1, 2002, the County began offering post-employment benefits, subject to appropriations, for monthly healthcare premiums for qualified retirees under 65 years of age. In addition, the County pays a portion of the cost of a Medicare supplement for retirees over 65 years of age. Effective January 1, 2006, the County's contribution amount is 35% of the supplement premium. At year end there were eleven participants receiving healthcare benefits and eight participants receiving Medicare supplemental benefits. The cost to the County for retiree healthcare benefits was \$70,240 and the cost for retiree Medicare supplemental benefits was \$7,531 and is funded on a pay-as-you-go basis.

B. Life Insurance Benefit

The County participates in a cost-sharing multiple-employer defined benefit group term life insurance plan operated by the Texas County & District Retirement System (TCDRS). This plan is referred to as the Group Term Life Fund (GTLF). This optional plan provides group term life insurance coverage to current eligible employees and, if elected by employers, to retired employees. The coverage provided to retired employees is a post-employment benefit other than pension benefits (OPEB). Retired employees are insured for \$5,000.

The GTLF is a separate trust administered by the TCDRS Board of Trustees. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the GTLF. This report may be obtained by writing to the Texas County & District Retirement System, P.O. Box 2034, Austin, TX 78768-2034, or by calling 800-823-7782.

PALO PINTO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

Each participating employer contributes to the GTLF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is determined using the unit credit method for providing one-year term life insurance. The County's contributions to the GTLF, attributable to retired employees, for the years ended September 30, 2014, 2013 and 2012 were \$10,137, \$8,919, and \$7,220, respectively, which equaled the contractually required contributions each year.

10. RETIREMENT PLAN

A. 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 statewide TCDRS. The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 656 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 of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the County.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and the County-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 County'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 County-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

B. Funding Policy

The County has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the County based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The County contributed using the actuarially determined rate of 11.50% for the months of the accounting year in 2013, and 12.10% for the months of the accounting year in 2014.

The contribution rate payable by the employee members for calendar years 2013 and 2014 is the rate of 7% as adopted by the Commissioners' Court of the County. The employee contribution rate and the County contribution rate may be changed by the Commissioners' Court of the County within the options available in the TCDRS Act.

PALO PINTO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

C. Annual Pension Cost

The required contribution was determined as part of the December 31, 2013 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2013 included (a) 8.0 percent investment rate of return (net of administrative expenses), and (b) projected salary increases of 4.9 percent. Both (a) and (b) included an inflation component of 3.0 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten-year period. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2013 was 20 years.

The County's annual pension cost and actual contributions for the years ended September 30, 2014, 2013 and 2012 were \$821,223, \$749,624, and \$682,421, respectively. The County did not have a Net Pension Obligation (NPO) at the end of any of those years.

D. Funding Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the plan was 81.13 percent funded. The actuarial accrued liability for benefits was \$19,170,055 and the actuarial value of assets was \$15,553,490, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,616,565. The covered payroll (annual payroll of active employees covered by the plan) was \$6,694,417, and the ratio of the UAAL to the covered payroll was 54.02 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

11. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The County administers the Palo Pinto County Retiree Health Care Plan for retired employees.

A. Plan Description

Pre-65 Plan – Any employee who meets the retirement eligibility requirements of the TCDRS, and who leaves the employ of the County may, upon retirement, elect to remain on the County's group medical until the retiree reaches age 65 or qualifies for Medicare. The County pays 100% of the total monthly premium prescribed in the current health plan for retired participants who continue coverage. The retired employee may continue coverage for dependents, if he or she pays the entire premium for the dependent. Premiums are determined annually by estimating the amount needed to cover projected claims. The benefit is subject to annual appropriations by the Commissioners' Court.

Post-65 Plan – Retirees may purchase a Medicare supplement policy without prescription drug coverage for a reduced premium. Retirees have the option to purchase prescription drug coverage to which the County does not contribute. Spouses may receive the same plan at retiree's expense. Premiums and benefits are subject to change each year. Percent of premium paid by County is subject to change with the intent of leaving the dollar amount of benefit the same. The benefit is subject to annual appropriations by the Commissioners' Court.

PALO PINTO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

B. Normal Retirement Benefits

Retirement benefits are a defined benefit plan under TCDRS (see note 10). Members are eligible to retire under TCDRS at age 60 or more with 8 years of vested service, at any time with a minimum of 30 years of vested service, or any age plus years of service equaling 75.

C. Early Retirement Benefits

Members retiring under early retirement conditions (non-vested) are not eligible for retiree healthcare benefits.

D. Deferred Retirement Benefits

Members who may be vested and terminate employment, but do not apply for retirement benefits, are not eligible for retiree health care benefits.

E. Benefits for Spouses / Children of Retired Employees

Currently, the spouse of a retiree is eligible to continue health care benefits until Medicare eligible. Children of retirees are eligible to continue to receive health care benefits until age 26, meeting the qualifications of dependent children described in the County's healthcare plan.

F. Disability Retirement Benefits

If a member has 8 years or more of service and becomes disabled, the employee may be eligible for disability retirement. If a member has less than 8 years of service and the disability is work-related, the member may be eligible for disability retirement.

G. Funding Policy and Annual OPEB Cost

The County's annual other post-employment benefits (OPEB) cost is based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The County had its first OPEB actuarial valuation performed for the fiscal year beginning October 1, 2008 as required by GASB and another valuation completed for the year ended September 30, 2014. The County's OPEB cost for the year ended September 30, 2014 was as follows:

Annual Required Contribution	\$ 390,196
Interest on OPEB obligation	62,840
Adjustment to ARC	(58,225)
Annual OPEB cost (expense) end of year	394,811
Net estimated employer contributions	(139,541)
Increase (decrease) in net OPEB obligation	255,270
Net OPEB obligation – beginning of year	<u>1,396,444</u>
Net OPEB obligation – end of year	<u>\$1,651,714</u>

PALO PINTO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

H. Schedule of Actuarial Liabilities and Funding Status

Actuarial Valuation Date	10/1/13
Actuarial Value of Assets	\$ -
Actuarial Accrued Liabilities	\$3,792,108
Unfunded Actuarial Accrued Liability (UAAL)	\$3,792,108
Funded Ratio	0.00%
Annual Covered Payroll	\$5,852,930
UAAL as a Percentage of Annual Covered Payroll	64.79%

I. Actuarial Methods and Assumptions

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the County's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the accrued liability.

Projections of health benefits are based on the plan as understood by the County and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between Palo Pinto County and its employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Inflation Rate	3.0% per annum
Investment Rate of Return	4.5%, net of expenses
Actuarial Cost Method	Projected Unit Credit Cost Method
Amortization Method	Level as a percentage of salary
Amortization Period	Open 30 year period
Salary Growth	3.0% per annum
Medical Trend	Initial rate of 9.0% declining to an ultimate rate of 4.5% after 9 years

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the profitability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the County's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

PALO PINTO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

12. DEFERRED COMPENSATION PLAN

The County offers its employees two deferred compensation plans created in accordance with Internal Revenue Code 457. The plans, available to all County employees on a voluntary basis, permit them to defer a portion of their salaries until future years. The County does not make any contributions to the plans.

Deferred compensation is available to employees' beneficiaries in case of death. One plan is through the National Association of Counties and its assets are administered by Nationwide Retirement Solutions, an independent third party administrator. The second plan's assets are managed by ITT Hartford, an independent administrator. All amounts of compensation deferred under the plans, all property and rights purchased with those amounts and all income attributed to those amounts, property or rights are solely the property and rights of the participants.

13. JUDICIAL ASSESSMENT RECEIVABLES

At September 30, 2014, the County has not recorded the receivables from judicial assessments in the accompanying financial statements; nor have they been recorded in the prior year. Though these amounts are significant, the County has not determined the allowances for uncollectible amounts for recording them at year end. Consequently, the effects on the financial statements of not including the judicial assessment receivables are not reasonably determinable.

14. NET POSITION/FUND BALANCES

The Governmental Activities' net position consisted of the following at September 30, 2014:

Net investment in capital assets	<u>\$11,747,827</u>
Restricted:	
General Government	504,891
Administration of Justice	131,118
Public Safety	214,040
Corrections and Rehabilitation	48,224
Community and Economic Development	70,894
Infrastructure and Environmental Services	<u>100</u>
Total restricted	<u>969,267</u>
Unrestricted	<u>7,418,310</u>
Total net position	<u>\$20,135,404</u>

PALO PINTO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

The Governmental Funds' fund balances consisted of the following at September 30, 2014:

	General Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:			
Prepays	\$ 182,186	\$ -	\$ 182,186
Inventories	62,430	760	63,190
Total nonspendable	<u>244,616</u>	<u>760</u>	<u>245,376</u>
Restricted:			
General Government	-	504,891	504,891
Administration of Justice	-	131,118	131,118
Public Safety	5,791	208,249	214,040
Corrections and Rehabilitation	-	47,464	47,464
Community and Economic Development	-	70,894	70,894
Infrastructure and Environmental Services	-	100	100
Total restricted	<u>5,791</u>	<u>962,716</u>	<u>968,507</u>
Committed:			
General Government	17,740	3,390	21,130
Health and Human Services	-	2,075	2,075
Infrastructure and Environmental Services	53,685	330,736	384,421
Total committed	<u>71,425</u>	<u>336,201</u>	<u>407,626</u>
Assigned:			
PK roads	72,821	-	72,821
2014-15 budget deficit	641,012	-	641,012
Total assigned	<u>713,833</u>	<u>-</u>	<u>713,833</u>
Unassigned	<u>7,645,830</u>	<u>-</u>	<u>7,645,830</u>
Total fund balances	<u>\$8,681,495</u>	<u>\$1,299,677</u>	<u>\$9,981,172</u>

15. NEW PRONOUNCEMENT

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68 to amend GASB Statements 27 and 50. The statement is effective for fiscal years beginning after June 15, 2014 and addresses accounting and financial reporting for pensions that are provided to the employees of state and local government employers. This statement will affect the County's reporting of its governmental activities on the government-wide statements as of and for the year ended September 30, 2015, although the impact of applying the statement is unknown.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

PALO PINTO COUNTY, TEXAS
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
Revenues				
Property taxes	\$ 9,273,100	\$ 9,273,100	\$ 9,484,842	\$ 211,742
Sales taxes	1,400,000	1,400,000	1,533,386	133,386
Mixed beverage tax	30,000	30,000	38,261	8,261
Licenses, fees and fines	2,487,330	2,506,766	2,515,989	9,223
Federal and state grants	175,200	220,073	237,777	17,704
Inmate revenue	57,000	57,000	78,889	21,889
Interest earned	63,300	63,300	94,345	31,045
Other revenue	135,750	295,443	206,225	(89,218)
Total revenues	13,621,680	13,845,682	14,189,714	344,032
Expenditures				
29th District Court	374,360	389,360	373,646	15,714
Commissioners' Court	44,618	44,618	43,890	728
Constable	428,034	433,536	412,519	21,017
County Attorney	245,983	246,569	230,351	16,218
County Auditor	232,796	232,796	231,687	1,109
County Clerk	292,088	292,088	283,251	8,837
County Court	183,278	183,278	165,882	17,396
County Extension Service	95,694	95,694	92,624	3,070
County Treasurer	115,774	115,774	114,360	1,414
District Attorney	274,453	274,453	268,344	6,109
District Clerk	203,742	203,742	201,144	2,598
Election Administration	173,629	193,065	190,823	2,242
Emergency Management	75,400	80,113	67,460	12,653
Emergency Medical & Health Services	116,000	116,000	105,642	10,358
General Operations	3,203,600	3,190,598	2,877,717	312,881
Health Services	10,000	10,000	10,000	-
Information Technology	107,715	107,715	104,160	3,555
Inmate Contract	233,464	219,864	217,588	2,276
Jail and Detention	1,663,207	1,689,968	1,659,046	30,922
Justice of the Peace	463,731	463,731	443,736	19,995
Narcotics Unit	157,652	162,652	145,141	17,511
Public Works	392,661	423,998	393,453	30,545
Road and Bridge:				
Precinct No. 1	627,528	645,403	438,506	206,897
Precinct No. 2	789,620	791,998	545,959	246,039
Precinct No. 3	709,256	772,548	592,364	180,184
Precinct No. 4	627,837	657,562	548,369	109,193
Sheriff	1,721,922	1,752,254	1,702,174	50,080
Tax Assessor-Collector	518,469	518,469	508,376	10,093
Veterans' Administration	53,826	53,826	52,040	1,786
Total expenditures	14,136,337	14,361,672	13,020,252	1,341,420
Excess (deficiency) of revenues over (under) expenditures before other sources and (uses)	(514,657)	(515,990)	1,169,462	1,685,452

PALO PINTO COUNTY, TEXAS
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Other sources and (uses):				
Proceeds from the sale of capital assets	5,000	6,333	108,742	102,409
Transfers out	-	(145,000)	(145,000)	-
Total other sources and (uses)	5,000	(138,667)	(36,258)	102,409
Net change in fund balances	(509,657)	(654,657)	1,133,204	1,787,861
Fund balances, beginning of year	7,548,291	7,548,291	7,548,291	-
Fund balances, end of year	<u>\$ 7,038,634</u>	<u>\$ 6,893,634</u>	<u>\$ 8,681,495</u>	<u>\$ 1,787,861</u>

PALO PINTO COUNTY, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY INFORMATION YEAR ENDED SEPTEMBER 30, 2014

Annual budgets are adopted on the GAAP basis of accounting for all governmental funds except capital project funds. All annual appropriations lapse at fiscal year end.

The County Judge is, by statute, the Budget Officer of the County and has the responsibility of preparing the County's budget. Under the County's budgeting procedures, each department submits a budget request to the County Judge. The County Judge reviews budget requests and holds informal hearings when needed. Before October 1, a proposed budget is presented to the Commissioners' Court. A public hearing is then held and the Commissioners' Court takes action on the proposed budget. Before determining the final budget, the Commissioners' Court may increase or decrease the amounts requested by the various departments. Amounts finally budgeted may not exceed the estimate of revenues and available fund balance.

Once the budget has been adopted by the Commissioners' Court, the County Auditor is responsible for monitoring the expenditures of the various departments of the County to prevent expenditures from exceeding budgeted appropriations and for keeping members of the Commissioners' Court advised of the conditions of the various funds and accounts.

The appropriated budget is prepared by fund. Any transfers of appropriations are first approved by the Commissioners' Court. No amendments may be made without Commissioners' Court approval to the total budget for each department within a fund. Thus, the legal level of budgetary control is at the department level. No supplemental appropriations were required during the year.

PALO PINTO COUNTY, TEXAS
SCHEDULE OF FUNDING PROGRESS -
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2011	\$ 13,092,992	\$ 16,249,834	\$ 3,156,842	80.57%	\$ 6,121,549	51.57%
12/31/2012	14,150,456	17,728,774	3,578,318	79.82%	6,338,220	56.46%
12/31/2013	15,553,490	19,170,055	3,616,565	81.13%	6,694,417	54.02%

PALO PINTO COUNTY, TEXAS
SCHEDULE OF FUNDING PROGRESS -
PALO PINTO COUNTY RETIREE HEALTH CARE PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
3/31/2008	\$ -	\$ 2,767,074	\$ 2,767,074	0.00%	N/A	N/A
3/31/2011	-	3,323,771	3,323,771	0.00%	N/A	N/A
10/1/2013	-	3,792,108	3,792,108	0.00%	\$ 5,852,930	64.79%

Note: Valuations are performed every third year.

*COMBINING FINANCIAL STATEMENTS
AS SUPPLEMENTARY INFORMATION*

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

PALO PINTO COUNTY, TEXAS
COMBINING BALANCE SHEET - GENERAL FUND
SEPTEMBER 30, 2014

	10	11/12/13/14	
	General	Road	
	Fund	and Bridge	Total
	Fund	Fund	
ASSETS			
Cash	\$ 354,131	\$ 149,151	\$ 503,282
Investments	6,000,000	2,083,964	8,083,964
Receivables, net:			
Property taxes	153,537	28,497	182,034
Sales tax	281,854	-	281,854
Accounts	126,082	5,785	131,867
Due from other funds	71,064	24,779	95,843
Prepaid expenses	182,186	-	182,186
Inventory	2,815	59,615	62,430
Total assets	<u>\$ 7,171,669</u>	<u>\$ 2,351,791</u>	<u>\$ 9,523,460</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 366,832	\$ 119,850	\$ 486,682
Accrued liabilities	121,703	19,192	140,895
Due to other funds	9,454	-	9,454
Due to others	22,900	-	22,900
Total liabilities	<u>520,889</u>	<u>139,042</u>	<u>659,931</u>
Deferred inflows of resources:			
Unavailable property taxes	<u>153,537</u>	<u>28,497</u>	<u>182,034</u>
Fund balances:			
Nonspendable	185,001	59,615	244,616
Restricted	5,791	-	5,791
Committed	71,425	-	71,425
Assigned	-	713,833	713,833
Unassigned	6,235,026	1,410,804	7,645,830
Total fund balances	<u>6,497,243</u>	<u>2,184,252</u>	<u>8,681,495</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,171,669</u>	<u>\$ 2,351,791</u>	<u>\$ 9,523,460</u>

PALO PINTO COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	10	11/12/13/14	
	General	Road	Total
	Fund	and Bridge	
	Fund	Fund	
Revenues			
Property taxes	\$ 8,011,807	\$ 1,473,035	\$ 9,484,842
Sales taxes	1,533,386	-	1,533,386
Mixed beverage tax	38,261	-	38,261
Licenses, fees and fines	1,822,952	693,037	2,515,989
Federal and state grants	224,612	13,165	237,777
Inmate revenue	78,889	-	78,889
Interest earned	72,781	21,564	94,345
Other revenue	195,267	10,958	206,225
Total revenues	11,977,955	2,211,759	14,189,714
Expenditures			
29th District Court	373,646	-	373,646
Commissioners' Court	43,890	-	43,890
Constable	412,519	-	412,519
County Attorney	230,351	-	230,351
County Auditor	231,687	-	231,687
County Clerk	283,251	-	283,251
County Court	165,882	-	165,882
County Extension Service	92,624	-	92,624
County Treasurer	114,360	-	114,360
District Attorney	268,344	-	268,344
District Clerk	201,144	-	201,144
Election Administration	190,823	-	190,823
Emergency Management	67,460	-	67,460
Emergency Medical & Health Services	105,642	-	105,642
General operations	2,877,717	-	2,877,717
Health services	10,000	-	10,000
Information Technology	104,160	-	104,160
Inmate contract	217,588	-	217,588
Jail and detention	1,659,046	-	1,659,046
Justice of the Peace	443,736	-	443,736
Narcotics Unit	145,141	-	145,141
Public Works	393,453	-	393,453
Road and Bridge:			
Precinct No. 1	-	438,506	438,506
Precinct No. 2	-	545,959	545,959
Precinct No. 3	-	592,364	592,364
Precinct No. 4	-	548,369	548,369
Sheriff	1,702,174	-	1,702,174
Tax Assessor-Collector	508,376	-	508,376
Veteran's Administration	52,040	-	52,040
Total expenditures	10,895,054	2,125,198	13,020,252
Excess of revenues over expenditures before other sources and (uses)	1,082,901	86,561	1,169,462
Other sources and (uses):			
Proceeds from the sale of capital assets	6,334	102,408	108,742
Transfer out	(145,000)	-	(145,000)
Total other sources and (uses)	(138,666)	102,408	(36,258)
Net change in fund balances	944,235	188,969	1,133,204
Fund balances, beginning of year	5,553,008	1,995,283	7,548,291
Fund balances, end of year	\$ 6,497,243	\$ 2,184,252	\$ 8,681,495

PALO PINTO COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED SEPTEMBER 30, 2014

	General (10)		
	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 7,832,600	\$ 8,011,807	\$ 179,207
Sales taxes	1,400,000	1,533,386	133,386
Mixed beverage tax	30,000	38,261	8,261
Licenses, fees and fines	1,810,436	1,822,952	12,516
Federal and state grants	220,073	224,612	4,539
Inmate revenue	57,000	78,889	21,889
Interest earned	55,000	72,781	17,781
Other revenue	182,173	195,267	13,094
Total revenues	<u>11,587,282</u>	<u>11,977,955</u>	<u>390,673</u>
Expenditures			
29th District Court	389,360	373,646	15,714
Commissioners' Court	44,618	43,890	728
Constable	433,536	412,519	21,017
County Attorney	246,569	230,351	16,218
County Auditor	232,796	231,687	1,109
County Clerk	292,088	283,251	8,837
County Court	183,278	165,882	17,396
County Extension Service	95,694	92,624	3,070
County Treasurer	115,774	114,360	1,414
District Attorney	274,453	268,344	6,109
District Clerk	203,742	201,144	2,598
Election Administration	193,065	190,823	2,242
Emergency Management	80,113	67,460	12,653
Emergency Medical & Health Services	116,000	105,642	10,358
General operations	3,190,598	2,877,717	312,881
Health services	10,000	10,000	-
Information Technology	107,715	104,160	3,555
Inmate contract	219,864	217,588	2,276
Jail and detention	1,689,968	1,659,046	30,922
Justice of the Peace	463,731	443,736	19,995
Narcotics Unit	162,652	145,141	17,511
Public Works	423,998	393,453	30,545
Road and Bridge:			
Precinct No. 1	-	-	-
Precinct No. 2	-	-	-
Precinct No. 3	-	-	-
Precinct No. 4	-	-	-
Sheriff	1,752,254	1,702,174	50,080
Tax Assessor-Collector	518,469	508,376	10,093
Veteran's Administration	53,826	52,040	1,786
Total expenditures	<u>11,494,161</u>	<u>10,895,054</u>	<u>599,107</u>
Excess (deficiency) of revenues over (under) expenditures before other sources and (uses)	<u>93,121</u>	<u>1,082,901</u>	<u>989,780</u>
Other sources and (uses):			
Proceeds from the sale of capital assets	6,333	6,334	1
Transfer out	(145,000)	(145,000)	-
Total other sources and (uses):	<u>(138,667)</u>	<u>(138,666)</u>	<u>1</u>
Net change in fund balances	(45,546)	944,235	989,781
Fund balances, beginning of year	<u>5,553,008</u>	<u>5,553,008</u>	<u>-</u>
Fund balances, end of year	<u>\$ 5,507,462</u>	<u>\$ 6,497,243</u>	<u>\$ 989,781</u>

Road and Bridge (11/12/13/14)			Total		
Final Budget	Actual	Variance Favorable (Unfavorable)	Final Budget	Actual	Variance Favorable (Unfavorable)
\$ 1,440,500	\$ 1,473,035	\$ 32,535	\$ 9,273,100	\$ 9,484,842	\$ 211,742
-	-	-	1,400,000	1,533,386	133,386
-	-	-	30,000	38,261	8,261
696,330	693,037	(3,293)	2,506,766	2,515,989	9,223
-	13,165	13,165	220,073	237,777	17,704
-	-	-	57,000	78,889	21,889
8,300	21,564	13,264	63,300	94,345	31,045
113,270	10,958	(102,312)	295,443	206,225	(89,218)
<u>2,258,400</u>	<u>2,211,759</u>	<u>(46,641)</u>	<u>13,845,682</u>	<u>14,189,714</u>	<u>344,032</u>
-	-	-	389,360	373,646	15,714
-	-	-	44,618	43,890	728
-	-	-	433,536	412,519	21,017
-	-	-	246,569	230,351	16,218
-	-	-	232,796	231,687	1,109
-	-	-	292,088	283,251	8,837
-	-	-	183,278	165,882	17,396
-	-	-	95,694	92,624	3,070
-	-	-	115,774	114,360	1,414
-	-	-	274,453	268,344	6,109
-	-	-	203,742	201,144	2,598
-	-	-	193,065	190,823	2,242
-	-	-	80,113	67,460	12,653
-	-	-	116,000	105,642	10,358
-	-	-	3,190,598	2,877,717	312,881
-	-	-	10,000	10,000	-
-	-	-	107,715	104,160	3,555
-	-	-	219,864	217,588	2,276
-	-	-	1,689,968	1,659,046	30,922
-	-	-	463,731	443,736	19,995
-	-	-	162,652	145,141	17,511
-	-	-	423,998	393,453	30,545
645,403	438,506	206,897	645,403	438,506	206,897
791,998	545,959	246,039	791,998	545,959	246,039
772,548	592,364	180,184	772,548	592,364	180,184
657,562	548,369	109,193	657,562	548,369	109,193
-	-	-	1,752,254	1,702,174	50,080
-	-	-	518,469	508,376	10,093
-	-	-	53,826	52,040	1,786
<u>2,867,511</u>	<u>2,125,198</u>	<u>742,313</u>	<u>14,361,672</u>	<u>13,020,252</u>	<u>1,341,420</u>
(609,111)	86,561	695,672	(515,990)	1,169,462	1,685,452
-	102,408	102,408	6,333	108,742	102,409
-	-	-	(145,000)	(145,000)	-
-	<u>102,408</u>	<u>102,408</u>	<u>(138,667)</u>	<u>(36,258)</u>	<u>102,409</u>
(609,111)	188,969	798,080	(654,657)	1,133,204	1,787,861
1,995,283	1,995,283	-	7,548,291	7,548,291	-
<u>\$ 1,386,172</u>	<u>\$ 2,184,252</u>	<u>\$ 798,080</u>	<u>\$ 6,893,634</u>	<u>\$ 8,681,495</u>	<u>\$ 1,787,861</u>

PALO PINTO COUNTY, TEXAS
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	Special Revenue Funds				
	20	24	25	30	32
	Commissary	Marlow Cemetery Trust	County Attorney	District Attorney Fees	Tax Assessor-Collector
ASSETS					
Cash	\$ 48,191	\$ 2,125	\$ 51	\$ 1,508	\$ 2,896
Investments	-	-	-	-	-
Receivables, net:					
Occupancy taxes	-	-	-	-	-
Accounts	11	-	-	-	-
Due from other funds	-	-	640	-	23
Inventory	760	-	-	-	-
Total assets	<u>\$ 48,962</u>	<u>\$ 2,125</u>	<u>\$ 691</u>	<u>\$ 1,508</u>	<u>\$ 2,919</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ 50	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-	-
Due to others	738	-	-	-	-
Total liabilities	<u>738</u>	<u>50</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Nonspendable	760	-	-	-	-
Restricted	47,464	-	691	1,508	2,919
Committed	-	2,075	-	-	-
Total fund balances	<u>48,224</u>	<u>2,075</u>	<u>691</u>	<u>1,508</u>	<u>2,919</u>
Total liabilities and fund balances	<u>\$ 48,962</u>	<u>\$ 2,125</u>	<u>\$ 691</u>	<u>\$ 1,508</u>	<u>\$ 2,919</u>

Special Revenue Funds							
35 Hotel/ Motel Fund	42 District Attorney Forfeited	45 Sheriff Forfeited	48 District Attorney State	49 Election Services Fund	50 County Clerk PRF	51 District Clerk PRF	52 Preservation of Records
\$ 38,940	\$ 15,923	\$ 57,528	\$ 9,361	\$ 8,097	\$ 33,686	\$ 35,695	\$ 51,578
-	-	-	-	-	301,356	-	-
31,954	-	-	-	-	-	-	-
-	-	-	-	3,135	-	-	-
-	-	-	-	-	12,483	53	312
-	-	-	-	-	-	-	-
<u>\$ 70,894</u>	<u>\$ 15,923</u>	<u>\$ 57,528</u>	<u>\$ 9,361</u>	<u>\$ 11,232</u>	<u>\$ 347,525</u>	<u>\$ 35,748</u>	<u>\$ 51,890</u>
\$ -	\$ 2,067	\$ -	\$ -	\$ -	\$ 400	\$ -	\$ -
-	-	-	572	-	-	-	-
-	-	-	-	-	-	-	-
-	<u>2,067</u>	-	<u>572</u>	-	<u>400</u>	-	-
-	-	-	-	-	-	-	-
70,894	13,856	57,528	8,789	11,232	347,125	35,748	51,890
-	-	-	-	-	-	-	-
<u>70,894</u>	<u>13,856</u>	<u>57,528</u>	<u>8,789</u>	<u>11,232</u>	<u>347,125</u>	<u>35,748</u>	<u>51,890</u>
<u>\$ 70,894</u>	<u>\$ 15,923</u>	<u>\$ 57,528</u>	<u>\$ 9,361</u>	<u>\$ 11,232</u>	<u>\$ 347,525</u>	<u>\$ 35,748</u>	<u>\$ 51,890</u>

PALO PINTO COUNTY, TEXAS
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	Special Revenue Funds				
	53 Juvenile Case Management	54 Law Library Fund	55 Courthouse Security Fund	56 Justice Technology Fund	57 Justice Court Security Fee
ASSETS					
Cash	\$ 9,745	\$ 56,851	\$ 5,046	\$ 79,406	\$ 18,417
Investments	-	-	145,739	-	-
Receivables, net:					
Occupancy taxes	-	-	-	-	-
Accounts	30	-	42	56	13
Due from other funds	543	455	1,119	552	129
Inventory	-	-	-	-	-
Total assets	<u>\$ 10,318</u>	<u>\$ 57,306</u>	<u>\$ 151,946</u>	<u>\$ 80,014</u>	<u>\$ 18,559</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ 1,329	\$ 231	\$ -	\$ 2,617
Accrued liabilities	-	-	994	-	-
Due to others	-	-	-	-	-
Total liabilities	<u>-</u>	<u>1,329</u>	<u>1,225</u>	<u>-</u>	<u>2,617</u>
Fund balances:					
Nonspendable	-	-	-	-	-
Restricted	10,318	55,977	150,721	80,014	15,942
Committed	-	-	-	-	-
Total fund balances	<u>10,318</u>	<u>55,977</u>	<u>150,721</u>	<u>80,014</u>	<u>15,942</u>
Total liabilities and fund balances	<u>\$ 10,318</u>	<u>\$ 57,306</u>	<u>\$ 151,946</u>	<u>\$ 80,014</u>	<u>\$ 18,559</u>

58	Debt Service	Capital Projects Funds					Total Other Governmental Funds
	Fund	70	72	73	74	76	
Employee Fund	62 Texas Capital Fund	70 Texas Capital Fund	72 Dempsey Facility	73 HAVA Fund	74 Capital Improvement Fund	76 Sewer Grant Fund	
\$ 3,363	\$ -	\$ 100	\$ 175,849	\$ 4,131	\$ 16	\$ -	\$ 658,503
-	-	-	150,740	-	-	-	597,835
-	-	-	-	-	-	-	31,954
382	-	-	-	-	-	11,287	14,956
-	-	-	-	-	-	-	16,309
-	-	-	-	-	-	-	760
<u>\$ 3,745</u>	<u>\$ -</u>	<u>\$ 100</u>	<u>\$ 326,589</u>	<u>\$ 4,131</u>	<u>\$ 16</u>	<u>\$ 11,287</u>	<u>\$ 1,320,317</u>
\$ 355	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,287	\$ 18,336
-	-	-	-	-	-	-	1,566
-	-	-	-	-	-	-	738
<u>355</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,287</u>	<u>20,640</u>
-	-	-	-	-	-	-	760
-	-	100	-	-	-	-	962,716
3,390	-	-	326,589	4,131	16	-	336,201
<u>3,390</u>	<u>-</u>	<u>100</u>	<u>326,589</u>	<u>4,131</u>	<u>16</u>	<u>-</u>	<u>1,299,677</u>
<u>\$ 3,745</u>	<u>\$ -</u>	<u>\$ 100</u>	<u>\$ 326,589</u>	<u>\$ 4,131</u>	<u>\$ 16</u>	<u>\$ 11,287</u>	<u>\$ 1,320,317</u>

PALO PINTO COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Special Revenue Funds				
	20	24	25	30	32
	Commissary	Marlow Cemetery Trust	County Attorney	District Attorney Fees	Tax Assessor-Collector
Revenues					
Occupancy tax	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses, fees and fines	-	-	5,061	8	213
Federal and state grants	-	-	-	-	-
Commissary revenue	41,152	-	-	-	-
Interest earned	-	5	-	-	15
Other revenue	-	-	-	-	-
Total revenues	<u>41,152</u>	<u>5</u>	<u>5,061</u>	<u>8</u>	<u>228</u>
Expenditures					
Capital projects	-	-	-	-	-
Commissary	27,943	-	-	-	-
County Attorney	-	-	5,048	-	-
County Clerk	-	-	-	-	-
Courthouse security	-	-	-	-	-
Debt Service - principal	-	-	-	-	-
District Attorney	-	-	-	-	-
General operations	-	250	-	-	-
Hotel/motel tax	-	-	-	-	-
Public works	-	-	-	-	-
Sheriff	-	-	-	-	-
Vending expenditures	-	-	-	-	-
Total expenditures	<u>27,943</u>	<u>250</u>	<u>5,048</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures before other source	13,209	(245)	13	8	228
Other source:					
Proceeds from the sale of capital assets	-	-	-	-	-
Net change in fund balances	13,209	(245)	13	8	228
Fund balances, beginning of year	35,015	2,320	678	1,500	2,691
Fund balances, end of year	<u>\$ 48,224</u>	<u>\$ 2,075</u>	<u>\$ 691</u>	<u>\$ 1,508</u>	<u>\$ 2,919</u>

Special Revenue Funds							
35 Hotel/ Motel Fund	42 District Attorney Forfeited	45 Sheriff Forfeited	48 District Attorney State	49 Election Services Fund	50 County Clerk PRF	51 District Clerk PRF	52 Preservation of Records
\$ 99,184	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	6,711	145,375	9,028	10,609
-	-	-	27,500	-	-	-	-
-	-	-	-	-	-	-	-
278	82	260	17	29	1,959	166	1,379
-	26,047	24,625	-	3,500	-	-	-
<u>99,462</u>	<u>26,129</u>	<u>24,885</u>	<u>27,517</u>	<u>10,240</u>	<u>147,334</u>	<u>9,194</u>	<u>11,988</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	136,770	-	-
-	-	-	-	-	-	-	-
-	13,788	-	28,174	-	-	-	-
-	-	-	-	6,600	-	-	44,489
103,650	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	3,030	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>103,650</u>	<u>13,788</u>	<u>3,030</u>	<u>28,174</u>	<u>6,600</u>	<u>136,770</u>	<u>-</u>	<u>44,489</u>
-	-	-	-	-	-	-	-
(4,188)	12,341	21,855	(657)	3,640	10,564	9,194	(32,501)
-	-	-	-	-	-	-	-
(4,188)	12,341	21,855	(657)	3,640	10,564	9,194	(32,501)
75,082	1,515	35,673	9,446	7,592	336,561	26,554	84,391
<u>\$ 70,894</u>	<u>\$ 13,856</u>	<u>\$ 57,528</u>	<u>\$ 8,789</u>	<u>\$ 11,232</u>	<u>\$ 347,125</u>	<u>\$ 35,748</u>	<u>\$ 51,890</u>

PALO PINTO COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Special Revenue Funds				
	53 Juvenile Case Management	54 Law Library Fund	55 Courthouse Security Fund	56 Justice Technology Fund	57 Justice Court Security Fee
Revenues					
Occupancy tax	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses, fees and fines	10,302	15,758	22,229	15,570	3,527
Federal and state grants	-	-	-	-	-
Commissary revenue	-	-	-	-	-
Interest earned	16	285	1,561	417	90
Other revenue	-	-	-	-	-
Total revenues	<u>10,318</u>	<u>16,043</u>	<u>23,790</u>	<u>15,987</u>	<u>3,617</u>
Expenditures					
Capital projects	-	-	-	-	-
Commissary	-	-	-	-	-
County Attorney	-	-	-	-	-
County Clerk	-	-	-	-	-
Courthouse security	-	-	45,715	-	3,107
Debt Service - principal	-	-	-	-	-
District Attorney	-	-	-	-	-
General operations	-	11,728	-	13,533	-
Hotel/motel tax	-	-	-	-	-
Public works	-	-	-	-	-
Sheriff	-	-	-	-	-
Vending expenditures	-	-	-	-	-
Total expenditures	<u>-</u>	<u>11,728</u>	<u>45,715</u>	<u>13,533</u>	<u>3,107</u>
Excess (deficiency) of revenues over (under) expenditures before other source	10,318	4,315	(21,925)	2,454	510
Other source:					
Proceeds from the sale of capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	10,318	4,315	(21,925)	2,454	510
Fund balances, beginning of year	-	51,662	172,646	77,560	15,432
Fund balances, end of year	<u>\$ 10,318</u>	<u>\$ 55,977</u>	<u>\$ 150,721</u>	<u>\$ 80,014</u>	<u>\$ 15,942</u>

58 Employee Fund	Debt Service Fund	Capital Projects					Total Other Governmental Funds
	62 Texas Capital Fund	70 Texas Capital Fund	72 Dempsey Facility	73 HAVA Fund	74 Capital Improvement Fund	76 Sewer Grant Fund	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 99,184
-	-	-	-	-	-	-	244,391
-	-	-	-	-	-	200,356	227,856
-	-	-	-	-	-	-	41,152
18	-	-	2,308	6	1,120	-	10,011
4,847	23,333	-	45,440	-	-	-	127,792
4,865	23,333	-	47,748	6	1,120	200,356	750,386
-	-	-	277	-	266,156	27,983	294,416
-	-	-	-	-	-	-	27,943
-	-	-	-	-	-	-	5,048
-	-	-	-	-	-	-	136,770
-	-	-	-	-	-	-	48,822
-	23,333	-	-	-	-	-	23,333
-	-	-	-	-	-	-	41,962
-	-	-	-	-	-	-	76,600
-	-	-	-	-	-	-	103,650
-	-	-	-	-	-	172,373	172,373
-	-	-	-	-	-	-	3,030
3,527	-	-	-	-	-	-	3,527
3,527	23,333	-	277	-	266,156	200,356	937,474
1,338	-	-	47,471	6	(265,036)	-	(187,088)
-	-	-	-	4,125	-	-	4,125
1,338	-	-	47,471	4,131	(265,036)	-	(182,963)
2,052	-	100	279,118	-	265,052	-	1,482,640
\$ 3,390	\$ -	\$ 100	\$ 326,589	\$ 4,131	\$ 16	\$ -	\$ 1,299,677

PALO PINTO COUNTY, TEXAS
COMBINING STATEMENT OF ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
SEPTEMBER 30, 2014

	40 District Attorney Seized Funds	79 Sheriff's Department Civil Process	80 Tax Collection	81 Auto Registration	82 Justice of the Peace Precinct #2
Assets					
Cash	\$ 60,192	\$ 8,026	\$ 188,100	\$ 393,815	\$ 3,179
Investments	-	-	-	-	-
Accounts receivable	-	-	-	-	270
Due from other funds	-	-	-	-	-
Total assets	<u>\$ 60,192</u>	<u>\$ 8,026</u>	<u>\$ 188,100</u>	<u>\$ 393,815</u>	<u>\$ 3,449</u>
Liabilities					
Due to other funds	\$ -	\$ 1,989	\$ 14,191	\$ 33,066	\$ 3,449
Due to others	60,192	6,037	173,909	360,749	-
Total liabilities	<u>\$ 60,192</u>	<u>\$ 8,026</u>	<u>\$ 188,100</u>	<u>\$ 393,815</u>	<u>\$ 3,449</u>

83	84	85	87	88	89	93
Justice of the Peace Precinct #3	Justice of the Peace Precinct #4	Justice of the Peace Precinct #5	County Treasurer (Special)	County Clerk	Juvenile Rest	County Clerk
\$ 8,068	\$ 3,195	\$ 15,091	\$ 104,437	\$ 38,842	\$ 330	\$ 212,013
-	-	-	-	-	-	-
988	190	1,011	-	-	-	-
-	-	-	24,346	-	-	-
<u>\$ 9,056</u>	<u>\$ 3,385</u>	<u>\$ 16,102</u>	<u>\$ 128,783</u>	<u>\$ 38,842</u>	<u>\$ 330</u>	<u>\$ 212,013</u>
\$ 9,056	\$ 3,385	\$ 16,102	\$ 2,148	\$ 38,842	\$ 200	\$ 315
-	-	-	126,635	-	130	211,698
<u>\$ 9,056</u>	<u>\$ 3,385</u>	<u>\$ 16,102</u>	<u>\$ 128,783</u>	<u>\$ 38,842</u>	<u>\$ 330</u>	<u>\$ 212,013</u>

PALO PINTO COUNTY, TEXAS
COMBINING STATEMENT OF ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
SEPTEMBER 30, 2014

	94	95	96	97
	County Attorney	District Clerk	District Attorney	Public Works
Assets				
Cash	\$ 6,646	\$ 582,365	\$ 6,505	\$ 80
Investments	-	50,366	-	-
Accounts receivable	-	-	-	-
Due from other funds	-	-	-	-
Total assets	<u>\$ 6,646</u>	<u>\$ 632,731</u>	<u>\$ 6,505</u>	<u>\$ 80</u>
Liabilities				
Due to other funds	\$ -	\$ 4,301	\$ -	\$ -
Due to others	<u>6,646</u>	<u>628,430</u>	<u>6,505</u>	<u>80</u>
Total liabilities	<u>\$ 6,646</u>	<u>\$ 632,731</u>	<u>\$ 6,505</u>	<u>\$ 80</u>

98

110

<u>Inmate Trust</u>	<u>Deferred Compensation</u>	<u>Totals</u>
\$ 2,125	\$ -	\$ 1,633,009
-	477,473	527,839
-	-	2,459
-	-	24,346
<u>\$ 2,125</u>	<u>\$ 477,473</u>	<u>\$ 2,187,653</u>
\$ -	\$ -	\$ 127,044
2,125	477,473	2,060,609
<u>\$ 2,125</u>	<u>\$ 477,473</u>	<u>\$ 2,187,653</u>

PALO PINTO COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - COMMISSARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Revenues	
Commissary revenue	\$ 27,575
Phone card revenue	12,694
Over-the-counter revenue	880
Other income	3
Total revenues	<u>41,152</u>
Expenditures	
Commissary:	
Operations and management	3,600
Phone card expense	4,228
Commissary supplies	5,428
Over-the-counter supplies	470
Indigent supplies	5,588
Inmate education	423
Cable TV	576
Miscellaneous expense	1,713
Capital expense	5,917
Total expenditures	<u>27,943</u>
Excess of revenues over expenditures	13,209
Fund balance, beginning of year	<u>35,015</u>
Fund balance, end of year	<u>\$ 48,224</u>

INTERNAL CONTROL AND COMPLIANCE



EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

4110 KELL BLVD., SECOND FLOOR • P.O. Box 750
WICHITA FALLS, TEXAS 76307-0750
PH. (940) 766-5550 • FAX (940) 766-5778

MICHAEL D. EDGIN, CPA
DAVID L. PARKMAN, CPA, CFE
A. PAUL FLEMING, CPA
J. MARK FLEMING, CPA

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To The Honorable County Judge and County Commissioners
Palo Pinto County, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Palo Pinto County, Texas (County) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 20, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Edgin, Parkman, Fleming & Fleming, PC

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas
January 20, 2015



EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

4110 KELL BLVD., SECOND FLOOR ▪ P.O. Box 750
WICHITA FALLS, TEXAS 76307-0750
PH. (940) 766-5550 ▪ FAX (940) 766-5778

MICHAEL D. EDGIN, CPA
DAVID L. PARKMAN, CPA, CFE
A. PAUL FLEMING, CPA
J. MARK FLEMING, CPA

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

To The Honorable County Judge and County Commissioners
Palo Pinto County, Texas

Report on Compliance for Each Major Federal Program

We have audited Palo Pinto County, Texas' (County) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended September 30, 2014. The County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended September 30, 2014.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Edgin, Parkman, Fleming & Fleming, PC

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas
January 20, 2015

PALO PINTO COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

A. Summary of Auditor's Results

Unmodified opinions were issued on the financial statements, except for the Governmental Activities' and General Fund's financial statements, which were qualified opinions since the judicial receivables are not reported.

The audit disclosed no significant deficiencies or material weaknesses relating to the audit of the financial statements in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.

The audit disclosed no noncompliance that is material to the financial statements.

The audit disclosed no significant deficiencies or material weaknesses relating to the audit of the major federal award program in the Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

An unqualified opinion was issued on compliance for major programs.

The audit disclosed no audit findings that are required to be reported in this schedule under OMB Circular A-133.

Major program is as follows:

14.228 Community Development Block Grant

The threshold used to distinguish between Type A and Type B programs was \$300,000.

The County was classified as a low-risk auditee in the context of OMB Circular A-133.

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

None

C. Findings and Questioned Costs for Federal Awards

None

PALO PINTO COUNTY, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2014

There were no findings or questioned costs for the year ended September 30, 2014; consequently, a corrective action plan is not required.

PALO PINTO COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

There were no prior year findings or questioned costs.

PALO PINTO COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Contract Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures and Indirect Costs</u>
<u>U.S.Department of Housing and Urban Development</u>			
Passed Through Texas Department of Agriculture:			
Community Development Block Grant/ Texas Capital Fund - Loan Program (outstanding loan balance)	711022	14.228	\$ 494,666
Community Development Block Grant Sewer Grant	712270	14.228	<u>200,356</u>
Total U.S. Department of Housing and Urban Development			<u>695,022</u>
<u>U.S. Department of Justice</u>			
Direct Program:			
Bureau of Justice Assistance: State Criminal Alien Assistance Program	2012-AP-BX-0173	16.606	<u>1,160</u>
Total U.S. Department of Justice			<u>1,160</u>
<u>U.S. Department of Homeland Security</u>			
Passed Through Texas Department of Public Safety:			
Fire Management Assistance Grant	FM 2814 TX	97.046	<u>31,894</u>
Total U.S. Department of Homeland Security			<u>31,894</u>
Total Expenditures of Federal Awards			<u><u>\$ 728,076</u></u>

PALO PINTO COUNTY, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Note 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of Palo Pinto County, Texas (County). The County's reporting entity is defined in Note 1 to the County's financial statements. All financial assistance received directly from federal agencies, as well as federal financial awards passed through other government agencies, is included on this schedule.

Note 2 - BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. Most federal grant funds were accounted for in the Capital Projects Fund, a component of the Governmental Fund types. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable.

Federal grant funds are ordinarily considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

Note 3 - CONTINGENCIES

The County participates in various federal programs, on both a direct and state pass-through basis. In connection with these programs, the County is required to comply with specific terms and agreements as well as applicable federal laws and regulations. Such compliance is subject to review and audit by the grantors and their representatives.

Since such programs are subject to audit or review, the possibility of disallowed expenditures exists. In the event of any disallowance of claimed expenditures, the County expects the resulting liability to be immaterial.