

**HOUSTON COUNTY, TEXAS**  
**AUDITED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**



## **INTRODUCTORY SECTION**

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**HOUSTON COUNTY, TEXAS  
CURRENT PRINCIPAL PUBLIC OFFICIALS**

**COMMISSIONERS' COURT**

Erin Ford ..... County Judge  
Roger Dickey..... Commissioner Precinct #1  
Willie Kitchen..... Commissioner Precinct #2  
Pat Perry..... Commissioner Precinct #3  
Kennon Kellum..... Commissioner Precinct #4

**COUNTY ELECTED OFFICIALS**

Morris Luker ..... Constable Precinct #1  
Kenneth Smith..... Constable Precinct #2  
Daphne Session..... County Attorney  
Bridget Lamb ..... County Clerk  
Sarah T. Clark ..... County Court at Law  
Charles R. Hodges..... County Surveyor  
Dina Herrera..... County Treasurer  
Clyde Black..... Justice of the Peace, Precinct #1  
Ronnie Jordan ..... Justice of the Peace, Precinct #2  
Darrel Bobbitt..... Sheriff  
Danette Millican..... Tax Assessor/Collector

**DISTRICT ELECTED OFFICIALS**

Donna Gordon Kaspar..... District Attorney, 349th Judicial District  
Carolyn Rains..... District Clerk  
Mark Alan Calhoon..... District Judge, 3rd Judicial District  
Pam Foster Fletcher..... District Judge, 349th Judicial District

**APPOINTED OFFICIALS**

Odia McWhirter ..... Building Maintenance Supervisor  
Brandon Sheeley ..... Community Supervision/Corrections Department  
Melissa Mosley..... County Auditor  
Jo Smith ..... County Extension Agent – Agriculture  
Mandy Patrick ..... County Extension Agent – Family & Consumer Science  
David Lamb..... Emergency Management Coordinator & Fire Marshal  
Norman Moore ..... Information Technology Director  
Angela B. Cross ..... Juvenile Probation Department  
Fred Newtz..... Veteran Service Officer

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**FINANCIAL SECTION**

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# Todd, Hamaker & Johnson, LLP

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CERTIFIED PUBLIC ACCOUNTANTS

420 S 1<sup>st</sup> Street • PO Box 468 • Lufkin, TX 75902-0468 • (936) 632-8181  
301 N 6<sup>th</sup> Street • PO Box 1249 • Crockett, TX 75835-1249 • (936) 544-2143

Melvin R. Todd, CPA  
Daren Hamaker, CPA  
Kim Johnson, CPA  
Rachel Kennerly, CPA

## INDEPENDENT AUDITORS' REPORT

To the Honorable County Judge  
and Commissioners' Court  
Houston County, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County, Texas, as of and for the year ended September 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Houston County, Texas' management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County, Texas, as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2013, 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, contract, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress of pension plan on pages 9 through 15 and 53 through 67 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

## INDEPENDENT AUDITORS' REPORT – CONTINUED

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Houston County, Texas' financial statements as a whole. The introductory section and combining fund statements, on pages 1 through 3 and 72 through 95, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of 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 financial statements. The combining nonmajor fund financial statements and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on them.

*Todd, Hamaker & Johnson, LLP*

Todd, Hamaker & Johnson, LLP  
Lufkin, Texas

June 21, 2013

**HOUSTON COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

As management of Houston County, Texas (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended September 30, 2012. We encourage readers to consider information presented here as well as the County's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The County's overall assets exceeded its total liabilities by \$7,783,450 (net assets) at September 30, 2012. Of this amount, \$1,887,575 may be used to meet the County's ongoing obligations to citizens and creditors.
- Overall expenses exceeded revenues (or a decrease in net assets) by \$1,096,896. Depreciation expense of \$1,107,587 is included in these expenses.
- At the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$3,862,419, a decrease of \$884,850 in comparison with the prior year.
- At September 30, 2012, unassigned fund balance for the General Fund was \$737,152, or 12% of total General Fund expenditures.
- The County's total long-term debt decreased by \$653,356 during the current fiscal year. Two additional capital leases, totaling \$52,935, were authorized in comparison to the prior year, during which new capital leases, totaling \$610,119, were authorized.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary that further explains and supports the information in the financial statements.

**Government-wide Financial Statements.** The *government-wide financial statements*, which begin on page 21 of this report, are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the County's net assets changed during the fiscal year. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows.

**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. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**HOUSTON COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

**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 statements focus on *near-term inflows and outflows of spendable resources* available at the end of the fiscal year. Revenues are recognized when they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest, which are reported as expenditures in the year due.

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 in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The governmental fund financial statements can be found on pages 26 to 33 of this report.

**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 statements because the resources are not available to support the County's own programs.

The fiduciary fund financial statements can be found on pages 35 and pages 92 to 95 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39 to 50 of this report.

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. The County's assets exceeded its liabilities by \$7,783,450 as of September 30, 2012.

The County has a large investment in capital assets (e.g., land, buildings, equipment, and construction in progress) and related debt used to acquire those assets that remains outstanding. The County uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the 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.

An additional portion of the County's net assets totaling \$2,302,510 represents resources that are subject to restriction on how they may be used. The remaining balance is \$1,887,575 and is unrestricted in nature.

**HOUSTON COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

**The County's Net Assets**

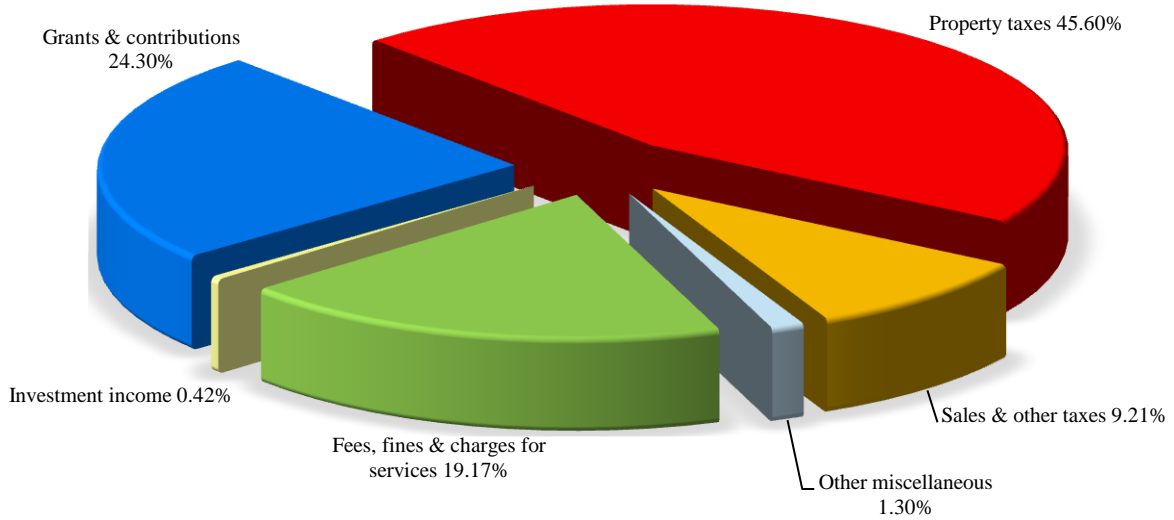
	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 4,805,455	\$ 5,926,142
Capital assets	<u>17,171,191</u>	<u>18,133,794</u>
Total assets	<u>21,976,646</u>	<u>24,059,936</u>
Long-term liabilities	13,577,826	14,231,182
Other liabilities	<u>615,370</u>	<u>835,908</u>
Total liabilities	<u>14,193,196</u>	<u>15,067,090</u>
Net assets:		
Invested in capital assets, net of related debt	3,593,365	3,902,612
Restricted	2,302,510	851,848
Unrestricted	<u>1,887,575</u>	<u>4,238,386</u>
Total net assets	<u>\$ 7,783,450</u>	<u>\$ 8,992,846</u>

**Change in Net Assets**

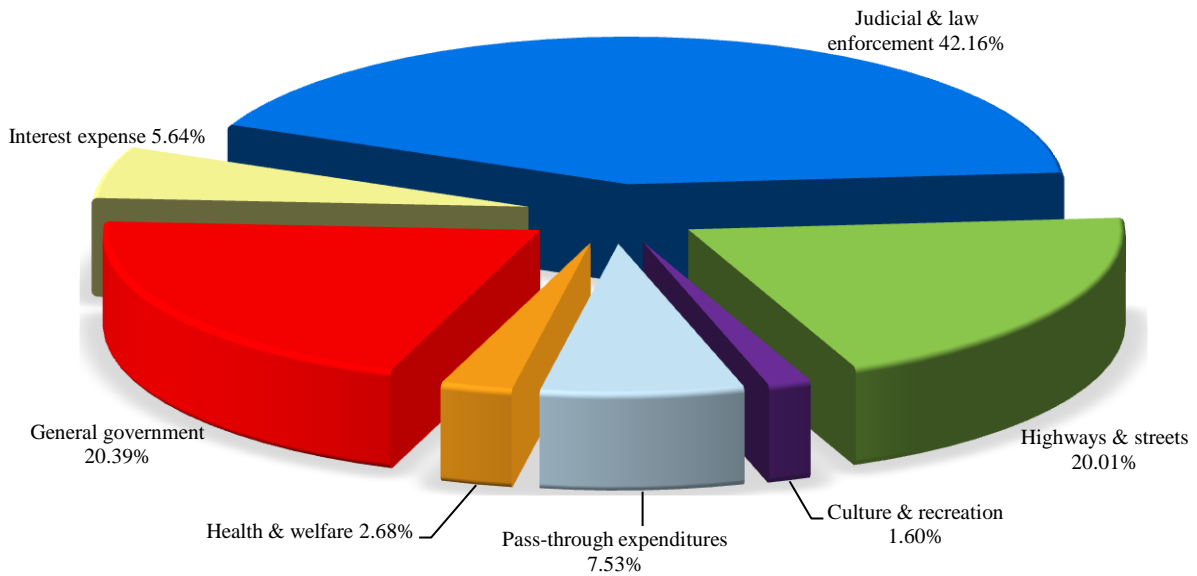
	<u>2012</u>	<u>2011</u>
Revenues		
Fees, fines, charges for services	\$ 2,049,761	\$ 1,956,923
Property taxes	4,840,747	4,749,651
Sales taxes	935,369	774,522
Other taxes	49,312	44,674
Investment income	44,565	45,663
Grants and contributions	2,598,304	3,103,700
Payment in lieu of taxes	35,356	33,322
Gain on sale of assets	60,577	57,627
Other miscellaneous	<u>78,343</u>	<u>120,207</u>
Total revenues	<u>10,692,334</u>	<u>10,886,289</u>
Expenses		
General government	2,403,409	2,940,593
Judicial and law enforcement	4,970,694	4,403,701
Highways and streets	2,358,730	2,097,127
Health and welfare	315,368	75,767
Culture and recreation	188,462	201,147
Pass-through expenditures	887,725	1,293,631
Interest on long-term debt	<u>664,842</u>	<u>663,899</u>
Total expenses	<u>11,789,230</u>	<u>11,675,865</u>
Increase (decrease in net assets)	(1,096,896)	(789,576)
Prior period adjustment	(112,500)	204,655
Net assets at beginning of year	<u>8,992,846</u>	<u>9,577,767</u>
Net assets at end of year	<u>\$ 7,783,450</u>	<u>\$ 8,992,846</u>

**HOUSTON COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

**Revenues by Source  
For the Fiscal Year Ended September 30, 2012**



**Expenses by Function  
For the Fiscal Year Ended September 30, 2012**





**HOUSTON COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

**FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS**

**Governmental Funds.** The focus of the 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, *unreserved fund balances* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The County's governmental fund financial statements are presented on pages 26 to 33.

As of September 30, 2012, the County's governmental funds reported a total fund balance of \$3,862,419. This fund balance is comprised of \$3,160,202 that is either in a nonspendable form, restricted, or assigned for specific purpose. The remaining balance, \$702,217, is unassigned. During the year, the fund balance in the County's governmental funds decreased by \$884,850.

**Budgetary comparisons.** A comparison of the general fund, as well as the other major funds, budget and actual results are presented as required supplementary information on pages 53 to 65.

*General fund.* Actual revenues were higher than budgeted amounts by \$595,051. Actual expenses were lower than budgeted amounts by \$539,141. Actual other financing sources (uses) were unfavorable to budgeted amounts by \$13,823. An overall decrease in fund balance of \$963,500 had been projected, using prior year budget carryovers to fund the decrease.

Actual results were better than expected, resulting in an increase in fund balance of \$156,869.

*Road and bridge funds.* An overall decrease in fund balance of \$248,500 had been projected, using prior year budget carryovers to fund the decrease.

Actual results yielded an overall decrease in fund balance of \$65,964 during the fiscal year.

*Debt service fund.* An overall decrease in fund balance of \$620,685 was budgeted for the debt service fund, using prior year budget carryovers to fund the decrease. Actual results yielded a \$443,403 decrease in fund balance or a \$177,282 favorable budget variance.

**CAPITAL ASSETS**

The County's investment in capital assets as of September 30, 2012 totaled \$17,171,191 (net of accumulated depreciation). This investment includes land, building, equipment, improvements (other than buildings), and construction work in progress.

Capital outlays of \$257,484 were made during the year. Significant expenditures included:

- Building improvements at the senior center
- Air conditioning units and elevator upgrades at the annex and courthouse, respectively
- Bridge replacement
- Various road and bridge equipment and trucks
- Various law enforcement vehicles
- Airport refueling station work in progress (local match for grant)

**HOUSTON COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

**Capital Assets (Net of Depreciation)**

	2012	(Restated) 2011
Land	\$ 140,320	\$ 140,320
Construction in progress	46,500	37,500
Buildings and improvements	17,935,505	17,894,911
Infrastructure	67,651	43,851
Rolling stock	6,288,529	6,104,439
Furniture and equipment	1,525,150	1,525,150
Less: accumulated depreciation	<u>(8,832,464)</u>	<u>(7,724,877)</u>
Total	<u>\$ 17,171,191</u>	<u>\$ 18,021,294</u>

Note: Construction in progress has been restated to reflect the prior period adjustment recorded to adjust the carrying value related to the airport refueling station project funded in part by a grant administered by the Texas Department of Transportation. See notes to the financial statements for additional information.

**DEBT ADMINISTRATION**

At the end of the current fiscal year, the County had total bond debt and capital lease obligations of \$13,577,826.

**Debt Outstanding**

	Beginning Balance	Additions	Reductions	Ending Balance
Certificates of obligation	\$ 12,835,000	\$ -	\$ 345,000	\$ 12,490,000
Capital leases	<u>1,396,182</u>	<u>52,935</u>	<u>361,291</u>	<u>1,087,826</u>
Total	<u>\$ 14,231,182</u>	<u>\$ 52,935</u>	<u>\$ 706,291</u>	<u>\$ 13,577,826</u>

**ECONOMIC FACTORS AND FUTURE FUNDING**

Local property taxes provide the major source of funding for county governments in Texas. Property tax revenue is historically very stable and predictable. Houston County's adopted rate of 38.6 cents is the lowest rate in our region and one of the lower rates statewide.

Despite difficult statewide economic times, Houston County continues to be mindful of their financial condition and impact on the local taxpayers. We remain conservative and proactive in all aspects of county activities. We are concerned about the impact of declining state and federal revenue, including timber and mineral revenues from the Davy Crockett National Forest, and declining grants available, and have reached out to our representatives on all government levels to make them aware of our issues. We are facing areas of infrastructure maintenance, such as county roads, which are under increased traffic and usage by oil and gas heavy equipment. We have not received an economic benefit proportionate to the expense of the upkeep. We are always looking to protect and maintain the quality of life for our citizens.

**HOUSTON COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

In 2011, the County lost a major employment industry with the closing of the Crockett State School, but we are fighting to regain opportunities for employment for our citizens, as well as increase property values to better improve our County. With the volatility of fuel prices, healthcare from the Affordable Health Care Act and other consumables, the Houston County Commissioners Court has worked with all of your elected officials to produce a 2013 budget that is as "lean" as possible, while still providing adequate funding for important county services.

**REQUESTS FOR INFORMATION**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the County's finances. If you have questions about this report or need any additional information, contact the Houston County Auditor at (936) 544-3255 or write to 401 E. Goliad, Suite 204, Crockett, Texas 75835.

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**BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**HOUSTON COUNTY, TEXAS**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2012**

	Primary Government	
	Governmental Activities	Total
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,366,566	\$ 1,366,566
Receivables, net of allowance for uncollectibles		
Property taxes	478,121	478,121
Sales taxes	221,568	221,568
Grants	141,861	141,861
Other - miscellaneous	50,202	50,202
Prepays	92,537	92,537
Restricted assets		
Cash and cash equivalents	373,567	373,567
Time deposits held as collateral by others	1,931,044	1,931,044
Grant receivables	149,989	149,989
Capital assets		
Land	140,320	140,320
Infrastructure	67,651	67,651
Buildings and improvements	17,935,505	17,935,505
Furniture and equipment	1,525,150	1,525,150
Rolling stock	6,288,529	6,288,529
Construction in progress	46,500	46,500
Accumulated depreciation	(8,832,464)	(8,832,464)
<b>TOTAL ASSETS</b>	<b>21,976,646</b>	<b>21,976,646</b>
<b>LIABILITIES</b>		
Accounts payable	440,280	440,280
Accrued interest	76,855	76,855
Deferred revenues	70,121	70,121
Bond premium	28,114	28,114
Noncurrent liabilities		
Due within one year	693,002	693,002
Due in more than one year	12,884,824	12,884,824
<b>TOTAL LIABILITIES</b>	<b>14,193,196</b>	<b>14,193,196</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,593,365	3,593,365
Restricted for		
Debt service	176,608	176,608
General government	1,931,044	1,931,044
Judicial and law enforcement	42,750	42,750
Highways and streets	152,108	152,108
Unrestricted	1,887,575	1,887,575
<b>TOTAL NET ASSETS</b>	<b>\$ 7,783,450</b>	<b>\$ 7,783,450</b>

See accompanying notes to financial statements.

**HOUSTON COUNTY, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Functions/Programs	Expenses
Primary government	
Governmental activities	
General government	\$ 2,403,409
Judicial and law enforcement	4,970,694
Highways and streets	2,358,730
Health and welfare	315,368
Culture and recreation	188,462
Pass-through expenditures	887,725
Interest on long-term debt	664,842
Total governmental activities	11,789,230

Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
Fees, Fines, Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
\$ 258,841	\$ 345,062	\$ -	\$ (1,799,506)
1,107,412	858,540	-	(3,004,742)
643,679	849,469	-	(865,582)
39,829	525,924	-	250,385
-	19,309	-	(169,153)
-	-	-	(887,725)
-	-	-	(664,842)
<u>2,049,761</u>	<u>2,598,304</u>	<u>-</u>	<u>(7,141,165)</u>

General revenues

Property taxes	4,840,747
Sales taxes	935,369
Other taxes	49,312
Investment income	44,565
Payments in lieu of taxes	35,356
Gain on sale of assets	60,577
Miscellaneous income	78,343
Total general revenues	<u>6,044,269</u>
Change in net assets	(1,096,896)
Net assets - beginning	8,992,846
Prior period adjustment	(112,500)
Net assets - ending	<u>\$ 7,783,450</u>

See accompanying notes to financial statements.

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**FUND FINANCIAL STATEMENTS**

**HOUSTON COUNTY, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2012**

	<u>General Fund</u>	<u>Road and Bridge Precinct #1</u>	<u>Road and Bridge Precinct #2</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 665,443	\$ 15,172	\$ 92,481
Time deposits	1,931,044	-	-
Receivables, net of allowance for uncollectibles			
Property taxes	476,237	-	-
Sales taxes	221,568	-	-
Grants	28,687	-	-
Other - miscellaneous	38,979	-	-
Due from other funds	-	-	-
Prepaid items	31,648	-	-
<b>TOTAL ASSETS</b>	<u>\$ 3,393,606</u>	<u>\$ 15,172</u>	<u>\$ 92,481</u>
<b>LIABILITIES</b>			
Deficit in pooled cash	\$ -	\$ -	\$ -
Accounts payable	182,666	919	34,886
Due to other funds	15,831	-	-
Deferred revenues	495,265	-	-
<b>Total liabilities</b>	<u>693,762</u>	<u>919</u>	<u>34,886</u>
<b>FUND BALANCES</b>			
Nonspendable	31,648	-	-
Restricted	1,931,044	-	-
Assigned	-	14,253	57,595
Unassigned	737,152	-	-
<b>Total fund balances</b>	<u>2,699,844</u>	<u>14,253</u>	<u>57,595</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 3,393,606</u>	<u>\$ 15,172</u>	<u>\$ 92,481</u>

<u>Road and Bridge Precinct #3</u>	<u>Road and Bridge Precinct #4</u>	<u>Debt Service</u>	<u>FEMA Fund</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total Governmental Funds</u>
\$ 120,076	\$ 94,009	\$ 176,593	\$ -	\$ 715,514	\$ 1,879,288
-	-	-	-	-	1,931,044
-	-	27,048	-	-	503,285
-	-	-	-	-	221,568
-	-	-	121,302	141,861	291,850
-	3,506	-	-	7,717	50,202
-	-	-	-	15,831	15,831
-	-	-	-	60,889	92,537
<u>\$ 120,076</u>	<u>\$ 97,515</u>	<u>\$ 203,641</u>	<u>\$ 121,302</u>	<u>\$ 941,812</u>	<u>\$ 4,985,605</u>
\$ -	\$ -	\$ -	\$ -	\$ 139,155	\$ 139,155
69,787	6,040	1,999	121,302	22,681	440,280
-	-	-	-	-	15,831
-	-	25,034	-	7,621	527,920
<u>69,787</u>	<u>6,040</u>	<u>27,033</u>	<u>121,302</u>	<u>169,457</u>	<u>1,123,186</u>
-	-	-	-	60,889	92,537
-	-	176,608	-	204,870	2,312,522
50,289	91,475	-	-	541,531	755,143
-	-	-	-	(34,935)	702,217
<u>50,289</u>	<u>91,475</u>	<u>176,608</u>	<u>-</u>	<u>772,355</u>	<u>3,862,419</u>
<u>\$ 120,076</u>	<u>\$ 97,515</u>	<u>\$ 203,641</u>	<u>\$ 121,302</u>	<u>\$ 941,812</u>	<u>\$ 4,985,605</u>

See accompanying notes to financial statements.

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**HOUSTON COUNTY, TEXAS**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Total fund balances - governmental funds balance sheet	\$ 3,862,419
Amounts reported for governmental activities in the statement of activities are difference because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds.	17,171,191
Certain deferred charges are amortized over the life of the bonds and therefore, do not consume available financial resources.	(28,114)
Certain deferred revenues are not available to pay current period expenditures and therefore, are deferred in the governmental funds.	432,635
Payable for accrued interest on long-term liabilities is not due in the current period and therefore, is not reported in the governmental funds.	(76,855)
Payables for long-term liabilities, including certificates of obligations and capital leases, are not due in the current period and therefore, are not reported in the governmental funds.	<u>(13,577,826)</u>
Net assets of governmental activities	<u><u>\$ 7,783,450</u></u>

See accompanying notes to financial statements.

**HOUSTON COUNTY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	General Fund	Road and Bridge Precinct #1	Road and Bridge Precinct #2
<b>REVENUES</b>			
Property taxes	\$ 4,835,564	\$ -	\$ -
General sales and use taxes	935,369	-	-
Selective sales and use taxes	8,325	-	-
Fees, licenses, and permits	29,784	98,094	129,071
Charges for services	1,041,037	-	-
Fines and forfeitures	95,062	-	-
Intergovernmental revenue and grants	233,277	6,555	8,625
Contributions and donations from private sources	18,316	-	9,342
Investment earnings	42,377	63	163
Payments in lieu of taxes	35,356	-	-
Other revenue	56,071	-	6,919
Total revenues	<u>7,330,538</u>	<u>104,712</u>	<u>154,120</u>
<b>EXPENDITURES</b>			
Current			
General government	2,169,368	-	-
Judicial and law enforcement	3,835,545	-	-
Highways and streets	-	328,696	423,961
Health and welfare	-	-	-
Culture and recreation	136,059	-	-
Pass-through expenditures	-	-	-
Capital outlay	104,654	-	29,795
Debt service			
Principal	61,193	61,625	83,287
Interest	995	6,949	9,092
Total expenditures	<u>6,307,814</u>	<u>397,270</u>	<u>546,135</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>1,022,724</u>	<u>(292,558)</u>	<u>(392,015)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of real and personal property	-	-	60,577
Proceeds from capital leases	-	-	-
Transfers in	440,910	256,491	337,144
Transfers out	(1,271,830)	-	(3,200)
Net other financing sources (uses)	<u>(830,920)</u>	<u>256,491</u>	<u>394,521</u>
<b>NET CHANGE IN FUND BALANCE</b>	191,804	(36,067)	2,506
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>2,508,040</u>	<u>50,320</u>	<u>55,089</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 2,699,844</u>	<u>\$ 14,253</u>	<u>\$ 57,595</u>

Road and Bridge Precinct #3	Road and Bridge Precinct #4	Debt Service	FEMA Fund	Nonmajor Special Revenue Funds	Total Governmental Funds
\$ -	\$ -	\$ 9,735	\$ -	\$ -	\$ 4,845,299
-	-	-	-	-	935,369
-	-	-	-	40,987	49,312
149,722	139,395	-	-	182,733	728,799
-	-	-	-	38,195	1,079,232
-	-	-	-	146,668	241,730
10,005	9,316	-	202,968	1,819,191	2,289,937
271,756	4,000	-	-	4,953	308,367
104	159	537	-	1,162	44,565
-	-	-	-	-	35,356
400	3,635	-	-	11,318	78,343
<u>431,987</u>	<u>156,505</u>	<u>10,272</u>	<u>202,968</u>	<u>2,245,207</u>	<u>10,636,309</u>
-	-	-	-	168,791	2,338,159
-	-	-	-	530,924	4,366,469
785,219	412,183	-	-	35,296	1,985,355
-	-	-	-	302,075	302,075
-	-	-	-	959	137,018
-	-	-	183,001	704,724	887,725
35,000	12,500	-	-	75,535	257,484
59,127	96,059	345,000	-	-	706,291
6,965	8,355	621,739	-	-	654,095
<u>886,311</u>	<u>529,097</u>	<u>966,739</u>	<u>183,001</u>	<u>1,818,304</u>	<u>11,634,671</u>
<u>(454,324)</u>	<u>(372,592)</u>	<u>(956,467)</u>	<u>19,967</u>	<u>426,903</u>	<u>(998,362)</u>
-	-	-	-	-	60,577
35,000	-	-	-	17,935	52,935
390,126	369,387	513,064	-	147,973	2,455,095
-	-	-	(41,514)	(1,138,551)	(2,455,095)
<u>425,126</u>	<u>369,387</u>	<u>513,064</u>	<u>(41,514)</u>	<u>(972,643)</u>	<u>113,512</u>
(29,198)	(3,205)	(443,403)	(21,547)	(545,740)	(884,850)
<u>79,487</u>	<u>94,680</u>	<u>620,011</u>	<u>21,547</u>	<u>1,318,095</u>	<u>4,747,269</u>
<u>\$ 50,289</u>	<u>\$ 91,475</u>	<u>\$ 176,608</u>	<u>\$ -</u>	<u>\$ 772,355</u>	<u>\$ 3,862,419</u>

See accompanying notes to financial statements.

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**HOUSTON COUNTY, TEXAS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Net change in fund balance - governmental funds	\$ (884,850)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are not reported as expenses in the statement of activities.	257,484
The depreciation of capital assets used in governmental activities is not reported in the governmental funds.	(1,107,587)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(4,552)
Certain deferred charges are amortized over the life of the bonds and are not available to pay for current period expenditures and therefore, are not reported in the governmental funds.	1,406
Repayment of long-term debt is an expenditure in the governmental funds, but is not an expense in the statement of activities.	706,291
Proceeds from leases do not provide revenue in the statement of activities, but are reported as current resources in the governmental funds.	(52,935)
The net effect of various transactions involving capital assets (i.e. sales, trade-ins, donations) is to decrease net assets.	-
Amount represents the change in accrued interest from the beginning of the period to the end of the period.	<u>(12,153)</u>
Change in net assets of governmental activities	<u>\$ (1,096,896)</u>

See accompanying notes to financial statements.

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**HOUSTON COUNTY, TEXAS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**SEPTEMBER 30, 2012**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>1,165,349</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>1,165,349</u></b>
<b>LIABILITIES</b>	
Amounts held for others	\$ 863,346
Due to other units	<u>302,003</u>
<b>TOTAL LIABILITIES</b>	<b>\$ <u>1,165,349</u></b>

See accompanying notes to financial statements.

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**NOTES TO FINANCIAL STATEMENTS**

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**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Introduction**

The financial statements of Houston County, Texas (the “County”) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies used by the County are discussed below.

**Reporting entity**

Houston County, Texas is an independent governmental entity under the laws of the State of Texas. The County is governed by an elected Commissioners’ Court, comprised of the County Judge and four Commissioners. The County provides the following services as authorized by the statutes of the State of Texas: general government (e.g. tax collection), judicial (courts, juries, district attorney, etc.), public safety (sheriff, jail, etc.), highways and streets, and public welfare (e.g. juvenile services and assistance to indigents).

For financial reporting purposes, based on standards established by GASB Statement No. 14, “The Financial Reporting Entity”, these financial statements should present the County (the primary government) and its component units. Component units generally are legally separate entities for which the primary government is financially accountable. The County does not have any blended or discretely presented component units.

**Government-wide and fund financial statements**

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report information on all of the activities of the County as a whole. *Governmental activities* include programs normally supported by taxes, grants and other intergovernmental revenues.

The 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 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 or capital requirements of a particular function or segment. Taxes and other revenue sources not properly included with program revenues are reported as *general revenues*.

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

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide 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 tax revenues are recognized in the year for which they are levied. Grants and donations are recognized as revenue in the fiscal year in which grantor eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

liabilities. The County considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related liability is incurred, as under accrual accounting. Debt service expenditures, both principal and interest, are recorded only when payment is due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, and investment income. In general, all other revenue items are considered to be measurable and available only when cash is received. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The County has the following types of governmental funds:

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 principal sources of revenues include local property taxes, sales taxes, fines, fees and forfeitures, as well as licenses and permits. Expenditures include general government, judicial and law enforcement, and culture and recreation.

The *debt service fund* is used to account for the accumulation of restricted monies for the payment of general obligation debt.

The *jail construction fund* is used to account for financial resources to be used for the acquisition and construction and equipping of a new County Law Enforcement Center (County Jail).

*Special revenue funds* are used to account for resources restricted to, or designated for, specific purposes by the County or a grantor in a special revenue fund. The County has elected to present the Road and Bridge Funds for Precincts 1, 2, 3 and 4 as major funds due to their significance within the County.

*Fiduciary funds* account for assets held by the government in a trustee capacity or as an agency on behalf of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs.

The general fund, debt service fund, road and bridge funds, and the FEMA grant fund are reported as major governmental funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the County's policy to generally consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the County that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts. In both instances, when a proposed expenditure is made with specific balances identified as the source of the funding, that specific fund balance will be used.

The financial statements of the County are prepared in accordance with generally accepted accounting principles (GAAP). The County's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The County's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**Assets, liabilities, and net assets or equity**

**Deposits and investments**

The County's cash and cash equivalents are considered to be cash on hand, demand deposits, money market accounts, and certificates of deposit and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents include investments with original maturities of three months or less. Cash equivalents are stated at fair value.

Time deposits consist of certificates of deposit with original maturities greater than three months. Certificates of deposit are recorded at cost, which approximates market value at September 30, 2012.

The County is authorized to invest in the following instruments, as authorized by the Public Funds Investment Act: U.S. Treasury securities which have a liquid market; direct obligations of the State of Texas, and other obligations that are guaranteed by the State of Texas or United States of America; obligations of states, agencies, counties, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent; fully insured or collateralized certificates of deposit at commercial banks; repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities in accordance with a master repurchase agreement; joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law (investment in such pools shall be limited to 15% of the County's entire portfolio and the pool must be continuously rated no lower than "AAA" or "AAA-M" by at least one nationally recognized rating service).

**Fair value of financial instruments**

The County evaluates the fair value of its non-investment financial instruments based on the current interest rate environment and current pricing of debt instruments with comparable terms. The carrying value of all non-investment financial instruments, including debt, is considered to approximate fair value.

**Receivables**

Property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is calculated based on historical collection rates.

Property taxes are levied by October 1 and 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 payment of all taxes, penalties, and interest ultimately imposed. The County provides an allowance for all delinquent property taxes.

Fines receivable reflect outstanding fines and citations charged by the various justice of the peace offices within the County. The receivable is shown net of an allowance for uncollectibles. The fines receivable allowance is calculated based on historical collection rates.

**Restricted assets**

Certain assets are classified as restricted because they are maintained in separate accounts and their use is limited by applicable bond covenants, grant agreements, laws or regulations, and other contractual agreements.

**Prepaid Items**

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.

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**Capital assets and depreciation**

The County's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and reported in the applicable governmental type activities column in the government-wide financial statements. The County, a Phase 3 government as described by GASB Statement No. 34, has elected not to report major general infrastructure assets retroactively. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

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.

Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

The estimated useful lives are as follows:

Buildings and improvements	5 to 40 years
Office furniture and equipment	3 to 10 years
Other equipment and rolling stock	3 to 10 years
Infrastructure	20 years

**Compensated absences**

It is the County's policy not to permit employees to accumulate earned but unused vacation pay past calendar year end. Unused sick pay is not paid to employees when employment by the County ends. Consequently, there is no liability for unpaid accumulated vacation or sick pay.

**Long-term obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financial sources and as capital outlay in the acquiring fund. Lease payments representing both principal and interest are recorded as expenditures in the applicable fund with a reduction of principal recorded in the government-wide financial statements.

**Net assets and fund balances**

In the government-wide financial statements, the difference between the County's total assets and total liabilities represents net assets. Net assets are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. At September 30, 2012, restricted net assets represent monies that are legally restricted for payment of debt service, grant expenditures, law enforcement expenditures allowable from

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

seized assets, and time deposits held as collateral for capital leases. Unrestricted net assets represent the net assets available for future operations.

In the governmental fund financial statements, fund balances are classified as follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form (such as inventories and prepaid amounts) or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes due to constraints imposed on resources either (a) externally by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Commissioners' Court – the government's highest level of decision making authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Commissioners' Court.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

Unassigned – all other spendable amounts.

**Estimates**

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

**STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgets and budgetary process**

A proposed annual operating budget is filed by the County Judge and Commissioners' Court with the County Clerk's office and made available for public inspection at least 15 days prior to public budget hearing. Public hearings are conducted to obtain taxpayer comments. The budget is legally enacted by the Commissioners' Court on or before October 1, as required by statute. Only the Commissioners' Court may amend the budget. Under state statute, actual expenditures cannot exceed budgetary appropriations at any level for which the budget is formally approved. Budgets are adopted for all funds except the fiduciary funds.

Subsequent to approval, the Commissioners Court and County Judge may amend the legally adopted budget when unexpected modifications are required in estimated revenues and expenditures. The County amended its budget several times during the year, with all budget amendments being approved by an act of the Commissioners Court.

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**DETAILED NOTES ON ALL FUNDS**

**ASSETS**

**Deposits**

*Interest rate risk.* In accordance with its investment policy, the County manages its exposure to declines in fair value by limiting the maturity of any single investment to twelve months or less.

*Credit risk.* State law and the County's investment policy limit investments to obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County's investment policy requires funds on deposit at depository banks to be collateralized. As of September 30, 2012, the County's cash deposits with depository banks totaled \$5,149,706. Included in the balances are certificates of deposit totaling \$1,931,046 and agency funds in the amount of \$1,169,574. All deposits were fully collateralized by securities pledged by the depository banks with total collateral value of \$7,429,743, in addition to FDIC coverage.

**Receivables**

*Receivable and uncollectible accounts*

Receivables at September 30, 2012, including the related allowances for uncollectible accounts, are as follows:

	<u>Property Taxes</u>	<u>Sales Taxes</u>	<u>Grants</u>	<u>Other</u>	<u>Totals</u>
General fund	\$ 476,237	\$ 221,568	\$ 28,687	\$ 38,979	\$ 765,471
R&B #4	-	-	-	3,506	3,506
Debt service	27,048	-	-	-	27,048
FEMA fund	-	-	121,302	-	121,302
Nonmajor funds	-	-	<u>141,861</u>	<u>7,717</u>	<u>149,578</u>
Subtotal	<u>503,285</u>	<u>221,568</u>	<u>291,850</u>	<u>50,202</u>	<u>(25,164)</u>
Less allowance for uncollectibles	<u>(25,164)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,066,905</u>
Net	<u>\$ 478,121</u>	<u>\$ 221,568</u>	<u>\$ 291,850</u>	<u>\$ 50,202</u>	<u>\$ 1,041,741</u>

*Property taxes*

Property taxes attach as an enforceable lien on property as of January 1. Property taxes are due October 1 and become delinquent January 31. The combined tax rate to finance general governmental services and principal and interest on general long term debt for the year ended September 30, 2012, was \$.3860 per \$100 of assessed valuation. The rate was allocated entirely to maintenance and operation.

Of the \$503,285 in property taxes receivable, \$363,504 represents the outstanding balances for tax assessments for years 2010 and prior.



**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**Capital assets**

**Prior period adjustment**

During the prior year, the County accepted and approved a grant administered by the Texas Department of Transportation (TxDOT) for the purpose of replacing the airport's refueling system. As of September 30, 2011, the County had contributed to TxDOT \$37,500, but the project was incomplete and the original amount of the grant award, \$150,000, was recorded as construction in progress (CIP). Prior to the issuance of this report, the total grant award and associated County match had increased, but the project remained incomplete. The balance in CIP at September 30, 2011 has been adjusted to reflect only the County's matching contribution as of that date. The adjustment resulted in a reduction in carrying value of CIP totaling \$112,500.

A summary of changes in capital assets for the year ended September 30, 2012, is as follows:

	(Restated) Balance <u>09/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>09/30/2012</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 140,320	\$ -	\$ -	\$ 140,320
Construction in progress	<u>37,500</u>	<u>9,000</u>	<u>-</u>	<u>46,500</u>
Total not being depreciated	<u>177,820</u>	<u>9,000</u>	<u>-</u>	<u>186,820</u>
Capital assets, being depreciated				
Buildings and improvements	17,894,911	40,594	-	17,935,505
Infrastructure	43,851	23,800	-	67,651
Rolling stock	6,104,439	184,090	-	6,288,529
Furniture and equipment	<u>1,525,150</u>	<u>-</u>	<u>-</u>	<u>1,525,150</u>
Total being depreciated	<u>25,568,351</u>	<u>248,484</u>	<u>-</u>	<u>25,816,835</u>
Less accumulated depreciation	<u>(7,724,877)</u>	<u>(1,107,587)</u>	<u>-</u>	<u>(8,832,464)</u>
Total being depreciated, net	<u>17,843,474</u>	<u>(859,103)</u>	<u>-</u>	<u>16,984,371</u>
Total capital assets, governmental activities, net	<u>\$ 18,021,294</u>	<u>\$ (850,103)</u>	<u>\$ -</u>	<u>\$ 17,171,191</u>
				<u>(13,577,826)</u>
				<u>\$ 3,593,365</u>

Depreciation expense was charged to governmental funds as follows:

General government	\$ 65,250
Judicial and law enforcement	604,225
Highways and streets	373,375
Health and welfare	13,293
Culture and recreation	<u>51,444</u>
Total	<u>\$ 1,107,587</u>

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**LIABILITIES**

**Capital leases**

The County has entered into lease agreements as lessee for financing the acquisition of machinery and equipment as well as vehicles. The agreements accrue interest at rates from 1.00% to 3.25% and are all for durations greater than one year. These lease agreements qualify as capital leases for accounting purposes, and therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset:	
Rolling stock	\$ 2,185,609
Less accumulated depreciation	<u>(815,709)</u>
Total	<u>\$ 1,369,900</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2012, were as follows:

<u>Year ending September 30,</u>	
2013	\$ 359,475
2014	392,647
2015	205,090
2016	104,509
2017	72,007
2018 - 2022	<u>25,498</u>
Total minimum lease payments	\$ 1,159,226
Less amount representing interest	<u>(71,400)</u>
Present value of minimum lease payments	<u>\$ 1,087,826</u>

**Long-term debt**

Long-term debt activity for the year ended September 30, 2012, was as follows:

	<u>Balance</u> <u>09/30/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>09/30/12</u>	<u>Due Within</u> <u>One Year</u>
2008 Certificates	\$ 12,835,000	\$ -	\$ (345,000)	\$ 12,490,000	\$ 360,000
Capital leases	<u>1,396,182</u>	<u>52,935</u>	<u>(361,291)</u>	<u>1,087,826</u>	<u>333,002</u>
Total long-term debt	<u>\$ 14,231,182</u>	<u>\$ 52,935</u>	<u>\$ (706,291)</u>	<u>\$ 13,577,826</u>	<u>\$ 693,002</u>

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

The annual debt service requirements to maturity for long-term debt are as follows:

Year Ending September 30,	Certificates of Obligation		Capital leases	
	Principal	Interest	Principal	Interest
2013	\$ 360,000	\$ 607,639	\$ 333,002	\$ 26,473
2014	375,000	592,470	372,777	19,870
2015	390,000	576,214	192,201	12,889
2016	405,000	559,320	96,672	7,837
2017	425,000	542,214	68,105	3,902
2018-2022	2,435,000	2,400,373	25,069	429
2023-2027	3,120,000	1,714,643	-	-
2028-2032	4,040,000	798,859	-	-
2033-2037	940,000	24,675	-	-
Total	<u>\$ 12,490,000</u>	<u>\$ 7,816,407</u>	<u>\$ 1,087,826</u>	<u>\$ 71,400</u>

At year end, the County had \$176,593 available in the debt service fund to service long-term debt.

Bonds and other debt payable at September 30, 2012, are comprised of the following:

*Certificates of Obligation, Series 2008.* On August 15, 2008, the County issued \$13,499,998 of certificates of obligation. The bonds were issued as follows: \$14,998 of capital appreciation certificates maturing in February, 2009 and a yield to maturity of 2.350%; \$8,580,000 of current interest serial certificates bearing interest at rates of 4.000% to 5.250% and maturing from 2010 to 2029; and \$4,905,000 of current interest term certificates bearing interest at rates of 5.125% to 5.250% with maturities of 2028 and 2033. The term bonds are subject to mandatory redemption in prescribed amounts before the maturity dates beginning in 2027 and 2030. The proceeds were used to construct and equip a new county jail. The premium (net of issuance costs and discounts) is reported on the statement of net assets and is being amortized over the life of the bonds.

The bonds are secured by the County's ad valorem taxes and require annual payments of principal and semi-annual payments of interest at varying amounts. The bond indenture allows the County to pay the bonds from the proceeds of an additional ad valorem tax that may be levied by the County, and the County has pledged any such proceeds to secure the payment. The bonds have been recorded in the debt service fund.

*Capital leases.* The County has entered into various lease purchase agreements for the purpose of purchasing equipment. During the year, the County paid-off two existing leases and incurred two new leases. The agreements accrue interest at rates from 1.00% to 3.25% and are all for durations greater than one year. Each lease purchase is collateralized by the equipment that each respective agreement serves to finance as well as certificates of deposit totaling \$1,931,044 held at the County's financial institution.

**Bond compliance requirements**

The bond ordinances require that during the period in which the bonds are outstanding, the County must create and maintain certain accounts or funds to receive the proceeds from the sale of the bonds and to account for the revenues (as defined) and/or taxes, which are pledged for payment of the bonds. The assets can be used only in accordance with the terms of the bond ordinance and for the specific purpose(s) designated therein.

The County is generally required to make a monthly transfer to debt service funds equal to one-sixth of the next interest payment and one-twelfth of the next principal payment. Certain bond ordinances have additional requirements for the establishment of rates and the accumulation of principal and interest repayment amounts from surplus operating funds. Generally, the bonds may be redeemed prior to their maturities in accordance with the bond ordinances and at various premiums equal to or less than 2%.

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**Interfund Transfers**

Transfers between funds are indicative of funding for capital projects, lease payments or debt service, subsidies of various County operations and re-allocations of special revenues with no anticipation of repayment. The following schedule summarizes the County's transfer activity during the year:

Transfers Out:		Transfers In:	
General Fund	\$ 1,271,830	General Fund	\$ 440,910
Road & Bridge Pct #2	3,200	Road & Bridge Pct #1	256,491
Hotel Occupancy Tax	2,500	Road & Bridge Pct #2	337,144
Comm. Development	10,000	Road & Bridge Pct #3	390,126
Right of Way	89,025	Road & Bridge Pct #4	369,387
Road & Bridge Fines	97,529	Senior Fund	27,000
Timber Fund	717,135	Debt Service	513,064
Co. Attorney Forfeiture	2,000	Perm. Improvement	17,937
D. A. Forfeiture	4,091	Emer. Mgmt. Grant	31,811
Perm. Improvement	9,000	Victim's Assist. Grant	2,000
Jail Construction Fund	182,510	Total	<u>\$ 2,455,095</u>
D. A. Apportionment	6,824		
FEMA Fund	41,514		
CH Renovation Grant	<u>17,937</u>		
Total	<u>\$ 2,455,095</u>		

**OTHER INFORMATION**

**Pension plan**

The County provides pension benefits for all of its full-time employees through a non-traditional defined benefit plan in the statewide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 624 non-traditional 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, 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 eight 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.

*Funding Policy*

Plan members are required to contribute 7% of their annual covered salary. The County is required to contribute at an actuarially determined rate, as explained below. The contribution rate was 6.21% for the months in calendar year 2011 and 6.45% for the months in calendar year 2012.

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

*Annual Pension Cost*

For 2012, the County's annual pension cost of \$260,704 for TCDRS was equal to the County's required contributions.

*Three-Year Trend Information*

<u>Accounting Year Ending</u>	<u>Annual Pension Cost ("APC")</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
09/30/10	\$217,580	100%	-
09/30/11	\$242,587	100%	-
09/30/12	\$260,704	100%	-

The required contribution was determined as part of the December 31, 2011, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2011, included (a) 8.0% percent investment rate of return (net of investment expenses), and (b) projected salary increases of 5.4%. Both (a) and (b) included an inflation component of 3.5%. 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 accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2011, was 20 years. This actuarial information is summarized below.

*Contribution information*

	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Percentage of Payroll, Closed	Level Percentage of Payroll, Closed	Level Percentage of Payroll, Closed
Amortization Period in Years	20.0 years	20.0 years	20.0 years
Asset Valuation Method:			
Subdivision Accumulation Fund	10-year Smoothed Value	10-year Smoothed Value	10-year Smoothed Value
Employee Saving Fund	Fund Value	Fund Value	Fund Value

*Actuarial assumptions*

	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>
Investment Return (1)	8.0%	8.0%	8.0%
Projected Salary Increases (1)	5.4%	5.4%	5.4%
Inflation Rate	3.5%	3.5%	3.5%
Cost-of-Living Adjustments	0.0%	0.0%	0.0%

(1) Includes inflation at the stated rate.

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

*Funded Status and Funding Progress*

As of December 31, 2011, the most recent actuarial valuation date, the plan was 89.41% funded. The actuarial accrued liability for benefits was \$7,628,225, and the actuarial value of assets was \$6,820,211, resulting in an unfunded actuarial accrued liability (UAAL) of \$808,014. The covered payroll (annual payroll of active employees covered) was \$3,874,754, and the ratio of the UAAL to the covered payroll was 20.85%.

The schedule of funding progress, presented as Required Supplementary Information (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.

**Risk management**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The County provides insurance coverage for each of these risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the County. Settled claims did not exceed this coverage during the current year.

**Contingent liabilities**

All amounts received or receivable from grant agencies are subject to audit and adjustment by the granting agency. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. Amounts payable by the County in its capacity as a pass-through grantor have been accrued along with an offsetting grant receivable (i.e. should expenditures claimed by subrecipients be disallowed by the granting agency(ies), no liability to the County would exist). The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

**Subsequent events**

Management has evaluated subsequent events through June 21, 2013, the date when the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**HOUSTON COUNTY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 4,737,016	\$ 4,737,016	\$ 4,835,564	\$ 98,548
General sales and use taxes	685,000	685,000	935,369	250,369
Selective sales and use taxes	8,400	8,400	8,325	(75)
Fees, licenses, and permits	24,300	24,300	29,784	5,484
Charges for services	768,143	801,850	1,041,037	239,187
Fines and forfeitures	115,300	115,300	95,062	(20,238)
Intergovernmental revenue and grants	205,395	240,848	233,277	(7,571)
Contributions and donations from private sources	10,000	18,720	18,316	(404)
Investment earnings	35,130	35,130	42,377	7,247
Payments in lieu of taxes	32,500	32,500	35,356	2,856
Other revenue	29,262	36,423	56,071	19,648
Total revenues	<u>6,650,446</u>	<u>6,735,487</u>	<u>7,330,538</u>	<u>595,051</u>
<b>EXPENDITURES</b>				
General government	2,546,626	2,518,150	2,169,368	348,782
Judicial and law enforcement	3,841,417	3,973,149	3,835,545	137,604
Highways and streets	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	158,684	163,175	136,059	27,116
Pass-through expenditures	-	-	-	-
Capital outlay	94,000	130,002	104,654	25,348
Debt service				
Principal	61,192	61,192	61,193	(1)
Interest	1,287	1,287	995	292
Total expenditures	<u>6,703,206</u>	<u>6,846,955</u>	<u>6,307,814</u>	<u>539,141</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(52,760)</u>	<u>(111,468)</u>	<u>1,022,724</u>	<u>1,134,192</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of real and personal property	-	-	-	-
Proceeds from capital leases	-	-	-	-
Transfers in	381,261	418,969	440,910	21,941
Transfers out	(1,246,001)	(1,271,001)	(1,306,765)	(35,764)
Net other financing sources (uses)	<u>(864,740)</u>	<u>(852,032)</u>	<u>(865,855)</u>	<u>(13,823)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(917,500)</u>	<u>(963,500)</u>	<u>156,869</u>	<u>1,120,369</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>2,508,040</u>	<u>2,508,040</u>	<u>2,508,040</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 1,590,540</u>	<u>\$ 1,544,540</u>	<u>\$ 2,664,909</u>	<u>\$ 1,120,369</u>

See Independent Auditors' Report.

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**HOUSTON COUNTY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**ROAD AND BRIDGE PRECINCT #1**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
General sales and use taxes	-	-	-	-
Selective sales and use taxes	-	-	-	-
Fees, licenses, and permits	113,000	113,000	98,094	(14,906)
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Intergovernmental revenue and grants	6,600	6,600	6,555	(45)
Contributions and donations from private sources	-	-	-	-
Investment earnings	50	50	63	13
Payments in lieu of taxes	-	-	-	-
Other revenue	-	-	-	-
Total revenues	<u>119,650</u>	<u>119,650</u>	<u>104,712</u>	<u>(14,938)</u>
<b>EXPENDITURES</b>				
General government	-	-	-	-
Judicial and law enforcement	-	-	-	-
Highways and streets	334,075	337,666	328,696	8,970
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Pass-through expenditures	-	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	61,626	61,626	61,625	1
Interest	9,822	7,122	6,949	173
Total expenditures	<u>405,523</u>	<u>406,414</u>	<u>397,270</u>	<u>9,144</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(285,873)</u>	<u>(286,764)</u>	<u>(292,558)</u>	<u>(5,794)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of real and personal property	-	-	-	-
Proceeds from capital leases	-	-	-	-
Transfers in	260,873	261,764	256,491	(5,273)
Transfers out	-	-	-	-
Net other financing sources (uses)	<u>260,873</u>	<u>261,764</u>	<u>256,491</u>	<u>(5,273)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(25,000)	(25,000)	(36,067)	(11,067)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>50,320</u>	<u>50,320</u>	<u>50,320</u>	-
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 25,320</u>	<u>\$ 25,320</u>	<u>\$ 14,253</u>	<u>\$ (11,067)</u>

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**HOUSTON COUNTY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**ROAD AND BRIDGE PRECINCT #2**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
General sales and use taxes	-	-	-	-
Selective sales and use taxes	-	-	-	-
Fees, licenses, and permits	147,100	147,100	129,071	(18,029)
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Intergovernmental revenue and grants	8,600	8,600	8,625	25
Contributions and donations from private sources	-	6,616	9,342	2,726
Investment earnings	100	100	163	63
Payments in lieu of taxes	-	-	-	-
Other revenue	-	6,919	6,919	-
Total revenues	<u>155,800</u>	<u>169,335</u>	<u>154,120</u>	<u>(15,215)</u>
<b>EXPENDITURES</b>				
General government	-	-	-	-
Judicial and law enforcement	-	-	-	-
Highways and streets	496,233	485,968	423,961	62,007
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Pass-through expenditures	-	-	-	-
Capital outlay	5,995	29,795	29,795	-
Debt service				
Principal	83,288	83,288	83,287	1
Interest	11,599	11,599	9,092	2,507
Total expenditures	<u>597,115</u>	<u>610,650</u>	<u>546,135</u>	<u>64,515</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(441,315)</u>	<u>(441,315)</u>	<u>(392,015)</u>	<u>49,300</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of real and personal property	-	-	60,577	60,577
Proceeds from capital leases	-	-	-	-
Transfers in	336,315	336,315	333,944	(2,371)
Transfers out	-	-	-	-
Net other financing sources (uses)	<u>336,315</u>	<u>336,315</u>	<u>394,521</u>	<u>58,206</u>
<b>NET CHANGE IN FUND BALANCE</b>	(105,000)	(105,000)	2,506	107,506
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>55,089</u>	<u>55,089</u>	<u>55,089</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ (49,911)</u>	<u>\$ (49,911)</u>	<u>\$ 57,595</u>	<u>\$ 107,506</u>

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**HOUSTON COUNTY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**ROAD AND BRIDGE PRECINCT #3**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
General sales and use taxes	-	-	-	-
Selective sales and use taxes	-	-	-	-
Fees, licenses, and permits	157,400	157,400	149,722	(7,678)
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Intergovernmental revenue and grants	10,050	10,050	10,005	(45)
Contributions and donations from private sources	-	271,555	271,756	201
Investment earnings	100	100	104	4
Payments in lieu of taxes	-	-	-	-
Other revenue	-	-	400	400
Total revenues	<u>167,550</u>	<u>439,105</u>	<u>431,987</u>	<u>(7,118)</u>
<b>EXPENDITURES</b>				
General government	-	-	-	-
Judicial and law enforcement	-	-	-	-
Highways and streets	574,207	845,762	785,219	60,543
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Pass-through expenditures	-	-	-	-
Capital outlay	-	-	35,000	(35,000)
Debt service				
Principal	59,127	59,127	59,127	-
Interest	9,826	9,826	6,965	2,861
Total expenditures	<u>643,160</u>	<u>914,715</u>	<u>886,311</u>	<u>28,404</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(475,610)</u>	<u>(475,610)</u>	<u>(454,324)</u>	<u>21,286</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of real and personal property	-	-	-	-
Proceeds from capital leases	-	-	35,000	35,000
Transfers in	386,610	386,610	390,126	3,516
Transfers out	-	-	-	-
Net other financing sources (uses)	<u>386,610</u>	<u>386,610</u>	<u>425,126</u>	<u>38,516</u>
<b>NET CHANGE IN FUND BALANCE</b>	(89,000)	(89,000)	(29,198)	59,802
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>79,487</u>	<u>79,487</u>	<u>79,487</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ (9,513)</u>	<u>\$ (9,513)</u>	<u>\$ 50,289</u>	<u>\$ 59,802</u>

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**HOUSTON COUNTY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**ROAD AND BRIDGE PRECINCT #4**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
General sales and use taxes	-	-	-	-
Selective sales and use taxes	-	-	-	-
Fees, licenses, and permits	151,750	151,750	139,395	(12,355)
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Intergovernmental revenue and grants	9,375	9,375	9,316	(59)
Contributions and donations from private sources	-	2,000	4,000	2,000
Investment earnings	50	50	159	109
Payments in lieu of taxes	-	-	-	-
Other revenue	-	-	3,635	3,635
Total revenues	<u>161,175</u>	<u>163,175</u>	<u>156,505</u>	<u>(6,670)</u>
<b>EXPENDITURES</b>				
General government	-	-	-	-
Judicial and law enforcement	-	-	-	-
Highways and streets	445,031	439,533	412,183	27,350
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Pass-through expenditures	-	-	-	-
Capital outlay	-	12,500	12,500	-
Debt service				
Principal	97,060	97,060	96,059	1,001
Interest	10,047	10,047	8,355	1,692
Total expenditures	<u>552,138</u>	<u>559,140</u>	<u>529,097</u>	<u>30,043</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(390,963)</u>	<u>(395,965)</u>	<u>(372,592)</u>	<u>23,373</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of real and personal property	-	-	-	-
Proceeds from capital leases	-	-	-	-
Transfers in	361,463	366,465	369,387	2,922
Transfers out	-	-	-	-
Net other financing sources (uses)	<u>361,463</u>	<u>366,465</u>	<u>369,387</u>	<u>2,922</u>
<b>NET CHANGE IN FUND BALANCE</b>	(29,500)	(29,500)	(3,205)	26,295
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>94,680</u>	<u>94,680</u>	<u>94,680</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 65,180</u>	<u>\$ 65,180</u>	<u>\$ 91,475</u>	<u>\$ 26,295</u>

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**HOUSTON, COUNTY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 15,000	\$ 15,000	\$ 9,735	\$ (5,265)
General sales and use taxes	-	-	-	-
Selective sales and use taxes	-	-	-	-
Fees, licenses, and permits	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Intergovernmental revenue and grants	-	-	-	-
Contributions and donations from private sources	-	-	-	-
Investment earnings	500	500	537	37
Payments in lieu of taxes	-	-	-	-
Other revenue	-	-	-	-
Total revenues	<u>15,500</u>	<u>15,500</u>	<u>10,272</u>	<u>(5,228)</u>
<b>EXPENDITURES</b>				
General government	-	-	-	-
Judicial and law enforcement	-	-	-	-
Highways and streets	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Pass-through expenditures	-	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	345,000	345,000	345,000	-
Interest	621,739	621,739	621,739	-
Total expenditures	<u>966,739</u>	<u>966,739</u>	<u>966,739</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(951,239)</u>	<u>(951,239)</u>	<u>(956,467)</u>	<u>(5,228)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of real and personal property	-	-	-	-
Proceeds from capital leases	-	-	-	-
Transfers in	330,554	330,554	513,064	182,510
Transfers out	-	-	-	-
Net other financing sources (uses)	<u>330,554</u>	<u>330,554</u>	<u>513,064</u>	<u>182,510</u>
<b>NET CHANGE IN FUND BALANCE</b>	(620,685)	(620,685)	(443,403)	177,282
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>620,011</u>	<u>620,011</u>	<u>620,011</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ (674)</u>	<u>\$ (674)</u>	<u>\$ 176,608</u>	<u>\$ 177,282</u>

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**HOUSTON, COUNTY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**FEMA FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
General sales and use taxes	-	-	-	-
Selective sales and use taxes	-	-	-	-
Fees, licenses, and permits	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Intergovernmental revenue and grants	-	202,968	202,968	-
Contributions and donations from private sources	-	-	-	-
Investment earnings	-	-	-	-
Payments in lieu of taxes	-	-	-	-
Other revenue	-	-	-	-
Total revenues	<u>-</u>	<u>202,968</u>	<u>202,968</u>	<u>-</u>
<b>EXPENDITURES</b>				
General government	-	-	-	-
Judicial and law enforcement	-	-	-	-
Highways and streets	-	-	-	-
Health and welfare	21,547	203,153	183,001	20,152
Culture and recreation	-	-	-	-
Pass-through expenditures	-	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>21,547</u>	<u>203,153</u>	<u>183,001</u>	<u>20,152</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(21,547)</u>	<u>(185)</u>	<u>19,967</u>	<u>20,152</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of real and personal property	-	-	-	-
Proceeds from capital leases	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	(21,362)	(41,514)	(20,152)
Net other financing sources (uses)	<u>-</u>	<u>(21,362)</u>	<u>(41,514)</u>	<u>(20,152)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(21,547)</u>	<u>(21,547)</u>	<u>(21,547)</u>	<u>-</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>21,547</u>	<u>21,547</u>	<u>21,547</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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**HOUSTON COUNTY, TEXAS**  
**SCHEDULE OF FUNDING PROGRESS OF PENSION PLAN -**  
**TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

The following schedule presents multi-year information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2006	\$ 4,421,502	\$ 4,485,893	98.56%	\$ 64,391	\$ 2,724,219	2.36%
12/31/2007	\$ 4,586,331	\$ 4,751,019	96.53%	\$ 164,688	\$ 3,120,254	5.28%
12/31/2008	\$ 4,816,818	\$ 5,344,231	90.13%	\$ 527,413	\$ 3,422,378	15.41%
12/31/2009	\$ 5,589,696	\$ 6,144,859	90.97%	\$ 555,163	\$ 3,667,989	15.14%
12/31/2010	\$ 6,098,317	\$ 6,777,400	89.98%	\$ 679,083	\$ 3,694,203	18.38%
12/31/2011	\$ 6,820,211	\$ 7,628,225	89.41%	\$ 808,014	\$ 3,874,754	20.85%

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**SUPPLEMENTARY INFORMATION**

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**COMBINING FUND STATEMENTS**

**HOUSTON COUNTY, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
SEPTEMBER 30, 2012**

	<u>Hotel Occupancy Tax</u>	<u>Community Development</u>	<u>Justice Court Security</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 100,292	\$ 16,107	\$ 6,510
Receivables, net			
Grants	-	-	-
Other - miscellaneous	1,756	-	-
Due from other funds	-	-	98
Prepaid items	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 102,048</u>	<u>\$ 16,107</u>	<u>\$ 6,608</u>
<b>LIABILITIES</b>			
Deficit in pooled cash	\$ -	\$ -	\$ -
Accounts payable	603	82	41
Due to other funds	-	-	-
Deferred revenues	-	-	-
<b>Total liabilities</b>	<u>603</u>	<u>82</u>	<u>41</u>
<b>FUND BALANCES</b>			
Nonspendable	-	-	-
Restricted	-	-	-
Assigned	101,445	16,025	6,567
Unassigned	-	-	-
<b>Total fund balances</b>	<u>101,445</u>	<u>16,025</u>	<u>6,567</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 102,048</u>	<u>\$ 16,107</u>	<u>\$ 6,608</u>

<u>Justice Court Technology</u>	<u>County &amp; District Court Technology</u>	<u>Family Protection</u>	<u>Child Abuse Prevention</u>	<u>Right of Way</u>	<u>Road &amp; Bridge Fines</u>
\$ 32,408	\$ 1,757	\$ 4,072	\$ 409	\$ 39,379	\$ 10,809
-	-	-	-	-	-
-	-	-	-	-	-
389	46	90	-	-	6,503
7,000	-	-	-	-	-
<u>\$ 39,797</u>	<u>\$ 1,803</u>	<u>\$ 4,162</u>	<u>\$ 409</u>	<u>\$ 39,379</u>	<u>\$ 17,312</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
246	10	30	2	218	168
-	-	-	-	-	-
-	-	-	-	-	-
<u>246</u>	<u>10</u>	<u>30</u>	<u>2</u>	<u>218</u>	<u>168</u>
7,000	-	-	-	-	-
-	-	-	-	-	-
32,551	1,793	4,132	407	39,161	17,144
-	-	-	-	-	-
<u>39,551</u>	<u>1,793</u>	<u>4,132</u>	<u>407</u>	<u>39,161</u>	<u>17,144</u>
<u>\$ 39,797</u>	<u>\$ 1,803</u>	<u>\$ 4,162</u>	<u>\$ 409</u>	<u>\$ 39,379</u>	<u>\$ 17,312</u>

**HOUSTON COUNTY, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
SEPTEMBER 30, 2012**

	Timber Fund	Records Management & Preservation	Co Clerk Records Preservation
<b>ASSETS</b>			
Cash and cash equivalents	\$ 153,695	\$ -	\$ 4,108
Receivables, net			
Grants	-	-	-
Other - miscellaneous	-	-	-
Due from other funds	-	445	4,475
Prepaid items	-	17,600	20,750
	<u>153,695</u>	<u>18,045</u>	<u>29,333</u>
<b>TOTAL ASSETS</b>	<u>\$ 153,695</u>	<u>\$ 18,045</u>	<u>\$ 29,333</u>
<b>LIABILITIES</b>			
Deficit in pooled cash	\$ -	\$ 12,009	\$ -
Accounts payable	1,587	16	138
Due to other funds	-	-	-
Deferred revenues	-	-	-
	<u>1,587</u>	<u>12,025</u>	<u>138</u>
Total liabilities	<u>1,587</u>	<u>12,025</u>	<u>138</u>
<b>FUND BALANCES</b>			
Nonspendable	-	17,600	20,750
Restricted	152,108	-	-
Assigned	-	-	8,445
Unassigned	-	(11,580)	-
	<u>152,108</u>	<u>6,020</u>	<u>29,195</u>
Total fund balances	<u>152,108</u>	<u>6,020</u>	<u>29,195</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 153,695</u>	<u>\$ 18,045</u>	<u>\$ 29,333</u>

<u>District Clerk Records Preservation</u>	<u>County Clerk Vital Records</u>	<u>County Clerk Archives</u>	<u>District Clerk Archives</u>	<u>Co Attorney Pre-trial Intervention</u>	<u>Hot Check Fees</u>
\$ 2,218	\$ 3,760	\$ 60,242	\$ 2,923	\$ 13,268	\$ 62,953
-	-	-	-	-	-
-	-	-	-	-	1,906
90	94	3,396	90	-	-
-	-	-	-	-	-
<u>\$ 2,308</u>	<u>\$ 3,854</u>	<u>\$ 63,638</u>	<u>\$ 3,013</u>	<u>\$ 13,268</u>	<u>\$ 64,859</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 935
14	25	329	17	251	591
-	-	-	-	-	-
-	-	-	-	-	-
<u>14</u>	<u>25</u>	<u>329</u>	<u>17</u>	<u>251</u>	<u>1,526</u>
-	-	-	-	-	-
-	-	-	-	-	-
2,294	3,829	63,309	2,996	13,017	63,333
-	-	-	-	-	-
<u>2,294</u>	<u>3,829</u>	<u>63,309</u>	<u>2,996</u>	<u>13,017</u>	<u>63,333</u>
<u>\$ 2,308</u>	<u>\$ 3,854</u>	<u>\$ 63,638</u>	<u>\$ 3,013</u>	<u>\$ 13,268</u>	<u>\$ 64,859</u>

**HOUSTON COUNTY, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
SEPTEMBER 30, 2012**

	<u>District Attorney Hot Checks</u>	<u>County Attorney Forfeiture</u>	<u>District Attorney Forfeiture</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 350	\$ 2,385	\$ 15,436
Receivables, net			
Grants	-	-	-
Other - miscellaneous	-	-	185
Due from other funds	-	-	-
Prepaid items	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 350</u>	<u>\$ 2,385</u>	<u>\$ 15,621</u>
<b>LIABILITIES</b>			
Deficit in pooled cash	\$ -	\$ -	\$ -
Accounts payable	1	14	467
Due to other funds	-	-	-
Deferred revenues	-	-	-
<b>Total liabilities</b>	<u>1</u>	<u>14</u>	<u>467</u>
<b>FUND BALANCES</b>			
Nonspendable	-	-	-
Restricted	-	2,371	15,154
Assigned	349	-	-
Unassigned	-	-	-
<b>Total fund balances</b>	<u>349</u>	<u>2,371</u>	<u>15,154</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 350</u>	<u>\$ 2,385</u>	<u>\$ 15,621</u>



<u>Sheriff Forfeiture</u>	<u>Permanent Improvement</u>	<u>LEOSE Education Funds</u>	<u>District Attorney Apportionment</u>	<u>Vehicle Inventory Tax Interest</u>	<u>12th Circuit Court of Appeals</u>
\$ 25,458	\$ 118,779	\$ 3,720	\$ 9,167	\$ 1,012	\$ -
-	-	-	-	-	-
-	-	120	-	-	-
-	-	-	-	-	115
-	-	-	-	-	-
<u>\$ 25,458</u>	<u>\$ 118,779</u>	<u>\$ 3,840</u>	<u>\$ 9,167</u>	<u>\$ 1,012</u>	<u>\$ 115</u>
\$ -	\$ -	\$ -	\$ 1,546	\$ -	\$ -
233	860	27	-	-	115
-	-	-	-	-	-
-	-	-	7,621	-	-
<u>233</u>	<u>860</u>	<u>27</u>	<u>9,167</u>	<u>-</u>	<u>115</u>
-	-	-	-	-	-
25,225	-	-	-	-	-
-	117,919	3,813	-	1,012	-
-	-	-	-	-	-
<u>25,225</u>	<u>117,919</u>	<u>3,813</u>	<u>-</u>	<u>1,012</u>	<u>-</u>
<u>\$ 25,458</u>	<u>\$ 118,779</u>	<u>\$ 3,840</u>	<u>\$ 9,167</u>	<u>\$ 1,012</u>	<u>\$ 115</u>

**HOUSTON COUNTY, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
SEPTEMBER 30, 2012**

	<u>Unclaimed Property</u>	<u>Miscellaneous Grants</u>	<u>Senior Fund</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,337	\$ 261	\$ 60
Receivables, net			
Grants	-	4,433	34,441
Other - miscellaneous	-	-	-
Due from other funds	-	-	-
Prepaid items	-	-	112
<b>TOTAL ASSETS</b>	<u>\$ 6,337</u>	<u>\$ 4,694</u>	<u>\$ 34,613</u>
<b>LIABILITIES</b>			
Deficit in pooled cash	\$ -	\$ 4,433	\$ 19,425
Accounts payable	-	238	10,118
Due to other funds	-	-	-
Deferred revenues	-	-	-
<b>Total liabilities</b>	<u>-</u>	<u>4,671</u>	<u>29,543</u>
<b>FUND BALANCES</b>			
Nonspendable	-	-	112
Restricted	-	23	-
Assigned	6,337	-	12,248
Unassigned	-	-	(7,290)
<b>Total fund balances</b>	<u>6,337</u>	<u>23</u>	<u>5,070</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 6,337</u>	<u>\$ 4,694</u>	<u>\$ 34,613</u>

<u>Emergency Management Grant</u>	<u>Homeland Security Grant</u>	<u>Victims Assistance Grant</u>	<u>Summer Programs Grant</u>	<u>HAVA Grant</u>	<u>911 Addressing Grant</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26,659	30,160	3,717	-	25,953	5,363
3,750	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	15,427	-
<u>\$ 30,409</u>	<u>\$ 30,160</u>	<u>\$ 3,717</u>	<u>\$ -</u>	<u>\$ 41,380</u>	<u>\$ 5,363</u>
\$ 20,248	\$ 30,798	\$ 2,871	\$ -	\$ 41,255	\$ 5,363
1,157	-	3	-	125	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>21,405</u>	<u>30,798</u>	<u>2,874</u>	<u>-</u>	<u>41,380</u>	<u>5,363</u>
-	-	-	-	15,427	-
9,004	-	843	-	-	-
-	-	-	-	-	-
-	(638)	-	-	(15,427)	-
<u>9,004</u>	<u>(638)</u>	<u>843</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 30,409</u>	<u>\$ 30,160</u>	<u>\$ 3,717</u>	<u>\$ -</u>	<u>\$ 41,380</u>	<u>\$ 5,363</u>

**HOUSTON COUNTY, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
SEPTEMBER 30, 2012**

	<u>Courthouse Renovation Grant</u>	<u>Jail Construction Fund</u>	<u>Juvenile Probation</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ -	\$ 17,600
Receivables, net			
Grants	-	-	9,635
Other - miscellaneous	-	-	-
Due from other funds	-	-	-
Prepaid items	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,235</u>
<b>LIABILITIES</b>			
Deficit in pooled cash	\$ -	\$ -	\$ 272
Accounts payable	-	-	3,444
Due to other funds	-	-	-
Deferred revenues	-	-	-
<b>Total liabilities</b>	<u>-</u>	<u>-</u>	<u>3,716</u>
<b>FUND BALANCES</b>			
Nonspendable	-	-	-
Restricted	-	-	114
Assigned	-	-	23,405
Unassigned	-	-	-
<b>Total fund balances</b>	<u>-</u>	<u>-</u>	<u>23,519</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,235</u>

<u>TCDP Grant - Berea Water Plant</u>	<u>TCDP Grant - Emerg Generators</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 39	\$ -	\$ 715,514
1,500	-	141,861
-	-	7,717
-	-	15,831
-	-	60,889
<u>\$ 1,539</u>	<u>\$ -</u>	<u>\$ 941,812</u>
\$ -	\$ -	\$ 139,155
1,511	-	22,681
-	-	-
-	-	7,621
<u>1,511</u>	<u>-</u>	<u>169,457</u>
-	-	60,889
28	-	204,870
-	-	541,531
-	-	(34,935)
<u>28</u>	<u>-</u>	<u>772,355</u>
<u>\$ 1,539</u>	<u>\$ -</u>	<u>\$ 941,812</u>

**HOUSTON COUNTY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Hotel Occupancy Tax	Community Development	Justice Court Security
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Selective sales and use taxes	\$ 40,900	\$ -	\$ -
Fees, licenses, and permits	-	-	-
Charges for services	-	-	-
Fines and forfeitures	-	-	1,126
Intergovernmental revenue and grants	-	2,348	-
Contributions and donations from private sources	-	-	-
Investment earnings	104	21	7
Other revenue	6,816	-	-
Total revenues	<u>47,820</u>	<u>2,369</u>	<u>1,133</u>
<b>EXPENDITURES</b>			
General government	8,793	-	-
Judicial and law enforcement	-	-	-
Highways and streets	-	-	-
Health and welfare	-	-	-
Culture and recreation	-	959	-
Pass-through expenditures	-	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>8,793</u>	<u>959</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>39,027</u>	<u>1,410</u>	<u>1,133</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of real and personal property	-	-	-
Proceeds from capital leases	-	-	-
Transfers in	-	-	-
Transfers out	(2,500)	(10,000)	-
Net other financing sources (uses)	<u>(2,500)</u>	<u>(10,000)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	36,527	(8,590)	1,133
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>64,918</u>	<u>24,615</u>	<u>5,434</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 101,445</u>	<u>\$ 16,025</u>	<u>\$ 6,567</u>

<u>Justice Court Technology</u>	<u>County &amp; District Court Technology</u>	<u>Family Protection</u>	<u>Child Abuse Prevention</u>	<u>Right of Way</u>	<u>Road &amp; Bridge Fines</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	678	1,633	307	89,424	-
-	-	-	-	-	-
4,687	-	-	-	-	104,017
-	-	-	-	-	-
-	-	-	-	-	-
47	2	5	-	53	38
-	-	-	-	-	-
<u>4,734</u>	<u>680</u>	<u>1,638</u>	<u>307</u>	<u>89,477</u>	<u>104,055</u>
-	-	-	-	-	-
7,921	-	-	-	-	-
-	-	-	-	-	11,937
-	-	1,200	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>7,921</u>	<u>-</u>	<u>1,200</u>	<u>-</u>	<u>-</u>	<u>11,937</u>
<u>(3,187)</u>	<u>680</u>	<u>438</u>	<u>307</u>	<u>89,477</u>	<u>92,118</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(89,025)	(97,529)
-	-	-	-	(89,025)	(97,529)
(3,187)	680	438	307	452	(5,411)
<u>42,738</u>	<u>1,113</u>	<u>3,694</u>	<u>100</u>	<u>38,709</u>	<u>22,555</u>
<u>\$ 39,551</u>	<u>\$ 1,793</u>	<u>\$ 4,132</u>	<u>\$ 407</u>	<u>\$ 39,161</u>	<u>\$ 17,144</u>

**HOUSTON COUNTY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Timber Fund	Records Management & Preservation	Co Clerk Records Preservation
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Selective sales and use taxes	\$ -	\$ -	\$ -
Fees, licenses, and permits	-	7,611	45,164
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Intergovernmental revenue and grants	755,608	-	-
Contributions and donations from private sources	-	-	-
Investment earnings	352	3	35
Other revenue	-	-	-
Total revenues	<u>755,960</u>	<u>7,614</u>	<u>45,199</u>
<b>EXPENDITURES</b>			
General government	-	23,339	66,082
Judicial and law enforcement	-	-	-
Highways and streets	-	-	-
Health and welfare	-	-	-
Culture and recreation	-	-	-
Pass-through expenditures	377,804	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>377,804</u>	<u>23,339</u>	<u>66,082</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>378,156</u>	<u>(15,725)</u>	<u>(20,883)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of real and personal property	-	-	-
Proceeds from capital leases	-	-	-
Transfers in	-	-	-
Transfers out	(717,135)	-	-
Net other financing sources (uses)	(717,135)	-	-
<b>NET CHANGE IN FUND BALANCE</b>	(338,979)	(15,725)	(20,883)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>491,087</u>	<u>21,745</u>	<u>50,078</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 152,108</u>	<u>\$ 6,020</u>	<u>\$ 29,195</u>



District Clerk Records Preservation	County Clerk Vital Records	County Clerk Archives	District Clerk Archives	Co Attorney Pre-trial Intervention	Hot Check Fees
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,480	1,505	31,918	1,314	-	-
-	-	-	-	-	-
-	-	-	-	7,840	19,217
-	-	-	-	-	-
-	-	-	-	-	-
2	4	55	3	14	69
-	-	-	-	-	-
<u>1,482</u>	<u>1,509</u>	<u>31,973</u>	<u>1,317</u>	<u>7,854</u>	<u>19,286</u>
427	983	-	-	-	-
-	-	-	-	2,285	13,707
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>427</u>	<u>983</u>	<u>-</u>	<u>-</u>	<u>2,285</u>	<u>13,707</u>
<u>1,055</u>	<u>526</u>	<u>31,973</u>	<u>1,317</u>	<u>5,569</u>	<u>5,579</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,055	526	31,973	1,317	5,569	5,579
<u>1,239</u>	<u>3,303</u>	<u>31,336</u>	<u>1,679</u>	<u>7,448</u>	<u>57,754</u>
<u>\$ 2,294</u>	<u>\$ 3,829</u>	<u>\$ 63,309</u>	<u>\$ 2,996</u>	<u>\$ 13,017</u>	<u>\$ 63,333</u>

**HOUSTON COUNTY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	District Attorney Hot Checks	County Attorney Forfeiture	District Attorney Forfeiture
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Selective sales and use taxes	\$ -	\$ -	\$ -
Fees, licenses, and permits	-	-	-
Charges for services	-	-	-
Fines and forfeitures	596	-	5,266
Intergovernmental revenue and grants	-	-	-
Contributions and donations from private sources	-	-	-
Investment earnings	-	4	17
Other revenue	-	-	-
Total revenues	<u>596</u>	<u>4</u>	<u>5,283</u>
<b>EXPENDITURES</b>			
General government	-	-	-
Judicial and law enforcement	265	-	1,372
Highways and streets	-	-	-
Health and welfare	-	-	-
Culture and recreation	-	-	-
Pass-through expenditures	-	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>265</u>	<u>-</u>	<u>1,372</u>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>			
<b>OVER EXPENDITURES</b>	<u>331</u>	<u>4</u>	<u>3,911</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of real and personal property	-	-	-
Proceeds from capital leases	-	-	-
Transfers in	-	-	-
Transfers out	-	(2,000)	(4,091)
Net other financing sources (uses)	-	(2,000)	(4,091)
<b>NET CHANGE IN FUND BALANCE</b>	331	(1,996)	(180)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>18</u>	<u>4,367</u>	<u>15,334</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 349</u>	<u>\$ 2,371</u>	<u>\$ 15,154</u>

<u>Sheriff Forfeiture</u>	<u>Permanent Improvement</u>	<u>LEOSE Education Funds</u>	<u>District Attorney Apportionment</u>	<u>Vehicle Inventory Tax Interest</u>	<u>12th Circuit Court of Appeals</u>
\$ -	\$ -	\$ -	\$ -	\$ 87	\$ -
-	-	-	-	-	1,699
-	-	-	-	-	-
1,639	-	-	-	-	-
-	-	-	26,447	-	-
-	-	-	-	-	-
28	173	6	-	-	-
-	-	-	-	-	-
<u>1,667</u>	<u>173</u>	<u>6</u>	<u>26,447</u>	<u>87</u>	<u>1,699</u>
-	9,526	-	-	55	-
461	-	3,406	19,623	-	1,719
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	23,659	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>461</u>	<u>33,185</u>	<u>3,406</u>	<u>19,623</u>	<u>55</u>	<u>1,719</u>
<u>1,206</u>	<u>(33,012)</u>	<u>(3,400)</u>	<u>6,824</u>	<u>32</u>	<u>(20)</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	17,937	-	-	-	-
-	(9,000)	-	(6,824)	-	-
-	8,937	-	(6,824)	-	-
1,206	(24,075)	(3,400)	-	32	(20)
<u>24,019</u>	<u>141,994</u>	<u>7,213</u>	<u>-</u>	<u>980</u>	<u>20</u>
<u>\$ 25,225</u>	<u>\$ 117,919</u>	<u>\$ 3,813</u>	<u>\$ -</u>	<u>\$ 1,012</u>	<u>\$ -</u>

**HOUSTON COUNTY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Unclaimed Property</u>	<u>Miscellaneous Grants</u>	<u>Senior Fund</u>
<b>REVENUES</b>			
Selective sales and use taxes	\$ -	\$ -	\$ -
Fees, licenses, and permits	-	-	-
Charges for services	-	-	38,195
Fines and forfeitures	215	-	-
Intergovernmental revenue and grants	-	29,364	229,214
Contributions and donations from private sources	-	-	4,953
Investment earnings	-	24	17
Other revenue	-	-	4,502
Total revenues	<u>215</u>	<u>29,388</u>	<u>276,881</u>
<b>EXPENDITURES</b>			
General government	-	-	-
Judicial and law enforcement	-	29,362	-
Highways and streets	-	-	-
Health and welfare	-	-	300,875
Culture and recreation	-	-	-
Pass-through expenditures	-	-	-
Capital outlay	-	-	29,876
Debt service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>-</u>	<u>29,362</u>	<u>330,751</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>215</u>	<u>26</u>	<u>(53,870)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of real and personal property	-	-	-
Proceeds from capital leases	-	-	17,935
Transfers in	-	-	27,000
Transfers out	-	-	-
Net other financing sources (uses)	-	-	44,935
<b>NET CHANGE IN FUND BALANCE</b>	215	26	(8,935)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>6,122</u>	<u>(3)</u>	<u>14,005</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 6,337</u>	<u>\$ 23</u>	<u>\$ 5,070</u>

<u>Emergency Management Grant</u>	<u>Homeland Security Grant</u>	<u>Victims Assistance Grant</u>	<u>Summer Programs Grant</u>	<u>HAVA Grant</u>	<u>911 Addressing Grant</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
49,210	139,119	37,060	-	26,701	23,359
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>49,210</u>	<u>139,119</u>	<u>37,060</u>	<u>-</u>	<u>26,701</u>	<u>23,359</u>
-	-	-	-	26,701	-
72,017	139,757	43,056	-	-	-
-	-	-	-	-	23,359
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>72,017</u>	<u>139,757</u>	<u>43,056</u>	<u>-</u>	<u>26,701</u>	<u>23,359</u>
<u>(22,807)</u>	<u>(638)</u>	<u>(5,996)</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
31,811	-	2,000	-	-	-
-	-	-	-	-	-
<u>31,811</u>	<u>-</u>	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
9,004	(638)	(3,996)	-	-	-
-	-	4,839	-	-	-
<u>9,004</u>	<u>(638)</u>	<u>843</u>	<u>-</u>	<u>-</u>	<u>-</u>

**HOUSTON COUNTY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Courthouse Renovation Grant	Jail Construction Fund	Juvenile Probation
	<u>          </u>	<u>          </u>	<u>          </u>
REVENUES			
Selective sales and use taxes	\$ -	\$ -	\$ -
Fees, licenses, and permits	-	-	-
Charges for services	-	-	-
Fines and forfeitures	-	-	2,065
Intergovernmental revenue and grants	27,167	-	145,837
Contributions and donations from private sources	-	-	-
Investment earnings	-	-	70
Other revenue	-	-	-
Total revenues	<u>27,167</u>	<u>-</u>	<u>147,972</u>
EXPENDITURES			
General government	32,885	-	-
Judicial and law enforcement	-	-	195,973
Highways and streets	-	-	-
Health and welfare	-	-	-
Culture and recreation	-	-	-
Pass-through expenditures	-	-	-
Capital outlay	-	-	22,000
Debt service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>32,885</u>	<u>-</u>	<u>217,973</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(5,718)</u>	<u>-</u>	<u>(70,001)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of real and personal property	-	-	-
Proceeds from capital leases	-	-	-
Transfers in	-	-	69,225
Transfers out	(17,937)	(182,510)	-
Net other financing sources (uses)	(17,937)	(182,510)	69,225
NET CHANGE IN FUND BALANCE	(23,655)	(182,510)	(776)
FUND BALANCE - BEGINNING OF YEAR	<u>23,655</u>	<u>182,510</u>	<u>24,295</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,519</u>

TCDP Grant - Berea Water Plant	TCDP Grant - Emerg Generators	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 40,987
-	-	182,733
-	-	38,195
-	-	146,668
92,906	234,851	1,819,191
-	-	4,953
9	-	1,162
-	-	11,318
<u>92,915</u>	<u>234,851</u>	<u>2,245,207</u>
-	-	168,791
-	-	530,924
-	-	35,296
-	-	302,075
-	-	959
92,629	234,291	704,724
-	-	75,535
-	-	-
-	-	-
<u>92,629</u>	<u>234,291</u>	<u>1,818,304</u>
<u>286</u>	<u>560</u>	<u>426,903</u>
-	-	-
-	-	17,935
-	-	147,973
-	-	(1,138,551)
-	-	(972,643)
286	560	(545,740)
(258)	(560)	1,318,095
<u>\$ 28</u>	<u>\$ -</u>	<u>\$ 772,355</u>

**HOUSTON COUNTY, TEXAS**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**SEPTEMBER 30, 2012**

	<u>County Attorney Hot Check</u>	<u>DA Forfeiture Trust Fund</u>	<u>Sheriff's Inmate Trust Fund</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 11,152	\$ 2,911	\$ 10,548
<b>TOTAL ASSETS</b>	<u>\$ 11,152</u>	<u>\$ 2,911</u>	<u>\$ 10,548</u>
<b>LIABILITIES</b>			
Amounts held for others	\$ -	\$ -	\$ 10,548
Due to other units	11,152	2,911	-
<b>TOTAL LIABILITIES</b>	<u>\$ 11,152</u>	<u>\$ 2,911</u>	<u>\$ 10,548</u>



<u>Sheriff's Commissary Funds</u>	<u>Tax Assessor's Ad Valorem</u>	<u>Tax Assessor's VIT Escrow</u>	<u>Tax Assessor's Boat Registration</u>	<u>Tax Assessor's Mobile Home Mvmt Escrow</u>	<u>Tax Assessor's Farm Fund Fee</u>
\$ 8,097	\$ 38,251	\$ 28,828	\$ 113	\$ 3,258	\$ 500
<u>\$ 8,097</u>	<u>\$ 38,251</u>	<u>\$ 28,828</u>	<u>\$ 113</u>	<u>\$ 3,258</u>	<u>\$ 500</u>
\$ 5,885	\$ -	\$ -	\$ -	\$ -	\$ -
2,212	38,251	28,828	113	3,258	500
<u>\$ 8,097</u>	<u>\$ 38,251</u>	<u>\$ 28,828</u>	<u>\$ 113</u>	<u>\$ 3,258</u>	<u>\$ 500</u>

**HOUSTON COUNTY, TEXAS**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**SEPTEMBER 30, 2012**

	<u>Tax Assessor's Highway Department</u>	<u>Tax Assessor's Hwy Emission Reg Fee</u>	<u>County Clerk Trust Fund</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 204,672	\$ 5,386	\$ 434,302
TOTAL ASSETS	<u>\$ 204,672</u>	<u>\$ 5,386</u>	<u>\$ 434,302</u>
<b>LIABILITIES</b>			
Amounts held for others	\$ -	\$ -	\$ 429,582
Due to other units	204,672	5,386	4,720
TOTAL LIABILITIES	<u>\$ 204,672</u>	<u>\$ 5,386</u>	<u>\$ 434,302</u>

<u>District Clerk Trust Fund</u>	<u>Total Fiduciary Funds</u>
\$ 417,331	\$ 1,165,349
<u>\$ 417,331</u>	<u>\$ 1,165,349</u>
\$ 417,331	\$ 863,346
-	302,003
<u>\$ 417,331</u>	<u>\$ 1,165,349</u>

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**COMPLIANCE SECTION**

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# Todd, Hamaker & Johnson, LLP

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CERTIFIED PUBLIC ACCOUNTANTS

420 S 1<sup>st</sup> Street • PO Box 468 • Lufkin, TX 75902-0468 • (936) 632-8181  
301 N 6<sup>th</sup> Street • PO Box 1249 • Crockett, TX 75835-1249 • (936) 544-2143

Melvin R. Todd, CPA  
Daren Hamaker, CPA  
Kim Johnson, CPA  
Rachel Kennerly, CPA

## 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 Commissioners' Court  
Houston County, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County, Texas, as of and for the year ended September 30, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated June 21, 2013. 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.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Houston County, Texas is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, identified certain deficiencies in internal control over financial reporting, as described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. See findings 2012-01, 2012-02 and 2012-03. 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.

**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 – CONTINUED**

COMPLIANCE AND OTHER MATTERS

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

The County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the responses and, accordingly, we express no opinion on it.

We noted certain other matters that we reported to Houston County management in a separate letter dated June 21, 2013.

This report is intended solely for the information and use by the County Judge, Commissioners' Court, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Todd, Hamaker & Johnson, LLP*

Todd, Hamaker & Johnson, LLP  
Lufkin, Texas

June 21, 2013



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# Todd, Hamaker & Johnson, LLP

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CERTIFIED PUBLIC ACCOUNTANTS

420 S 1<sup>st</sup> Street • PO Box 468 • Lufkin, TX 75902-0468 • (936) 632-8181  
301 N 6<sup>th</sup> Street • PO Box 1249 • Crockett, TX 75835-1249 • (936) 544-2143

Melvin R. Todd, CPA  
Daren Hamaker, CPA  
Kim Johnson, CPA  
Rachel Kennerly, CPA

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable County Judge  
and Commissioners' Court  
Houston County, Texas

COMPLIANCE

We have audited Houston County, Texas' (the County) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended September 30, 2012. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, Houston County, Texas complied, in all material respects, with the compliance requirements referred to above that could have a direct a material effect on each of its major federal programs for the year ended September 30, 2012.

INTERNAL CONTROL OVER COMPLIANCE

Management of Houston County, Texas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
- CONTINUED**

Accordingly, we do not express an opinion on the effectiveness of Houston 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use by the County Judge, Commissioners' Court, management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Todd, Hamaker & Johnson, LLP*

Todd, Hamaker & Johnson, LLP  
Lufkin, Texas

June 21, 2013

**HOUSTON COUNTY, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Section I – Summary of Auditors’ Results

*Financial Statements*

Type of auditors’ report issued: unqualified

- Material weakness(es) identified? \_\_\_\_\_ yes    ✓ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ✓ yes    \_\_\_\_\_ no

Noncompliance material to financial statements noted? \_\_\_\_\_ yes    ✓ no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes    ✓ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes    ✓ no

Type of auditors’ report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_ yes    ✓ no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
16.804	ARRA – Edward Byrne Justice Assistance Program
93.044, 93.045	Aging Cluster
97.036	Disaster Grants – Public Assistance
97.073	State Homeland Security Program

Dollar threshold used to distinguish between type A and type B federal programs:                    \$ 300,000

Auditee qualified as a low-risk auditee?                    ✓ yes    \_\_\_\_\_ no

**HOUSTON COUNTY, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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Section II – Financial Statement Findings

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**2012-01 Significant Deficiency: Check signing controls**

Condition: During extended absences by the Treasurer as a result of illness, personnel in the Treasurer's office were given access to electronic signature passwords and, ultimately, the ability to electronically sign checks.

Criteria: Texas local government code dictates that all checks require the signature of two authorized signers. Checks are signed by the County Treasurer and the County Auditor. The checks are signed electronically, with passwords being used by the Treasurer and Auditor.

Effect: Internal controls are compromised; potential unauthorized expenditures.

Context: Management is ultimately responsible for ensuring that passwords are not used or known by persons other than the authorized user.

Recommendation: Specific policies regarding the prohibition of sharing passwords should be established and enforced. Any specific passwords that have been compromised should be changed immediately. Policies should include guidelines for periodic expiration and changing of passwords.

Management's

Response and

Corrective Action:

The County is currently revising its Employee Handbook, which will include policies regarding information technology security and the restriction of password sharing.

**2012-02 Significant Deficiency: Posting of audit adjustments**

Condition: The September 30, 2011 audit adjustments have not posted to the client records.

Criteria: Adjustments provided by the external auditor should be recorded to the general ledger as soon as possible after the year end audit is performed.

Effect: Fund balances, for funds with adjustments, are misstated.

Context: Fund balances will be misstated in the current year if audit adjustments are not posted.

Recommendation: The September 30, 2011 and 2012 audit adjustments should be posted in the next accounting cycle.

Management's

Response and

Corrective Action:

2011 was the first full year that the County used the new accounting software. Previous software did not provide for prior year adjustments within the software.

**HOUSTON COUNTY, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

The independent auditor's report is the official reference document when stating fund balances. The adjustments will be posted with the 2013 audit adjustments.

**2012-03 Significant Deficiency: Accounting for capital assets**

**Condition:** Historically, the County has maintained an excel spreadsheet that details the County's capital assets, largely for insurance and other tracking purposes. The external auditors maintained a detailed listing of assets, recorded additions and disposals, and calculated depreciation annually. The two lists have not been reconciled with each other.

In fiscal year 2012, the County began using the capital asset module in the County's accounting software system (Hill Country). Because the implementation was incomplete, we were not able to utilize the reports generated from the system to track additions and disposals. We were also unable to tie beginning numbers to prior year reports.

**Criteria:** Proper accounting for capital assets requires the maintenance of an accurate, detailed listing of all capital assets that meet the County's criteria for capitalization and/or tracking.

**Effect:** The inability to rely on this listing could lead to improper tracking and control of fixed asset additions and disposals, as well as potential errors in computing depreciation expense.

**Context:** Capital assets represent the County's single largest asset.

**Recommendation:** The following recommendations should be considered:

- The County Auditor should review and revise, as needed, the policies and procedures in place to ensure that all fixed asset additions and disposals are properly recorded in the general ledger, as well as the fixed asset module of the computer system.
- Reconcile the system generated listing of assets to the detailed listing provided by the external auditor, making note of differences.
- Conduct an inventory of all County assets (by department/location), not less than biannually, to ensure that the data in the system is accurate. After the initial inventory is performed, implement a policy regarding on-going plans to count assets in each department/location on a rotating basis.

**Management's  
Response and  
Corrective Action:**

The County has already begun transitioning from an inventory control system in an Excel spreadsheet to Hill Country's inventory tracking program. During the 2012 audit, both the Excel report and the Hill Country report had to be jointly used together to track equipment, additions and disposals. Since May 2013, all items have been entered into the new accounting software and matched with the independent auditor's reconciliation.

**HOUSTON COUNTY, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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Section III – Federal Award Findings and Questioned Costs

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None

**HOUSTON COUNTY, TEXAS  
STATUS OF PRIOR YEAR'S FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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Financial Statement Findings

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None

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Federal Award Findings and Questioned Costs

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None

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**HOUSTON COUNTY, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Federal Grantor/ Pass-through Grantor/Other Grantor Program Title/Grant Title	Federal CFDA Number	Grant Number	Expenditures
<b>FEDERAL AWARDS</b>			
<u>U.S. Department of Agriculture</u>			
Passed through Texas Comptroller of Public Accounts			
Schools and Roads – Grants to States	10.665	-	\$ <u>755,608</u> <sup>4</sup>
Total U.S. Department of Agriculture:			<u>755,608</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through Texas General Land Office			
Community Development Block Grant/State’s Program and Non-Entitlement Grants in Hawaii	14.228	DRS010071/ 10-5069-000-5046	234,851
Passed through Texas Department of Agriculture			
Community Development Block Grant/State’s Program and Non-Entitlement Grants in Hawaii	14.228	728211	<u>1,500</u>
Total U.S. Department of Housing and Urban Development:			<u>236,351</u> <sup>4</sup>
<u>U.S. Department of Justice</u>			
Passed through Deep East Texas Council of Governments			
ARRA – Public Safety Partnership and Community Policing Grants	16.710	2010CKWX0554	160
Passed through Texas Alcoholic Beverage Commission Criminal Justice Division			
Enforcing Underage Drinking Laws Program	16.727	80010/ 80010-02	14,695
Passed through Texas Office of the Governor – Criminal Justice Division			
ARRA – Edward Byrne Memorial Justice Assistance Program/Grants to Units of Local Government	16.804	2482901	<u>14,666</u>
Total U.S. Department of Justice:			<u>29,521</u>

See accompanying notes to schedule of expenditures of federal awards.

**HOUSTON COUNTY, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Federal Grantor/ Pass-through Grantor/Other Grantor Program Title/Grant Title	Federal CFDA Number	Grant Number	Expenditures
<u>U.S. Department of Transportation</u>			
Passed through Texas Department of Transportation – Aviation Division			
Airport Improvement Program	20.106	1111CROCK 1XXAV067	2,923 <sup>5</sup>
Total U.S. Department of Transportation:			2,923
<u>U.S. Election Assistance Commission</u>			
Passed through Texas Office of the Secretary of State			
Help America Vote Act Requirements Payments	90.401	78588	25,403
Total U.S. Election Assistance Commission:			25,403
<u>U.S. Department of Health and Human Services</u>			
Aging Cluster			
Passed through Deep East Texas Council of Governments, Area Agency on Aging			
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	-	36,000
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	-	91,986
Total Aging Cluster:			127,986
Total U.S. Department of Health and Human Services:			127,986
<u>U.S. Department of Homeland Security</u>			
Federal Emergency Management Agency –			
Passed through Texas Department of Public Safety – Division of Emergency Management			
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	DR-4029 TX/ DR-1999 2011	206,417 <sup>4</sup>

See accompanying notes to schedule of expenditures of federal awards.

**HOUSTON COUNTY, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Federal Grantor/ Pass-through Grantor/Other Grantor Program Title/Grant Title	Federal CFDA Number	Grant Number	Expenditures
Passed through Texas Department of Public Safety – Division of Emergency Management			
Emergency Management Performance Grants	97.042	2012-EP-00011/ 12 TX-EMPG-1243	26,659
State Homeland Security Program	97.073	2010-SS-T0-0008/ 10-GA 48225-03	<u>139,119</u>
Total U.S. Department of Homeland Security:			<u>372,195</u>
<b>Total Federal Awards Expended:</b>			<b><u>\$ 1,549,987</u></b>

See accompanying notes to schedule of expenditures of federal awards.

**HOUSTON COUNTY, TEXAS**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**NOTE 1 – Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Houston County, Texas under programs of the federal government for the year ended September 30, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Houston County, Texas, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Houston County, Texas.

**NOTE 2 – Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting and accordingly, all significant receivables, payables, and other liabilities are included. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 – Presentation of Expenditures**

Expenditures included in the Schedule are reported exclusive of non-federal matching funds.

**NOTE 4 – Subrecipients**

Of the federal expenditures presented in the Schedule, Houston County, Texas provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided To Subrecipients</u>
10.665	Schools and Roads – Grants to States	\$ 377,804
14.228	Community Development Block Grant	236,351
97.036	Disaster Grants – Public Assistance	<u>185,055</u>
	Total federal awards provided to subrecipients:	<u>\$ 799,210</u>

**NOTE 5 – Grants Processed by Pass-Through Grantors**

Amounts identified in the Schedule include expenditures processed on behalf of the County by the pass-through grantor.

**NOTE 6 – Other**

Pass-through entity identifying numbers are presented where available.