

DALLAM COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2012

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FOR YEAR ENDED SEPTEMBER 30, 2012

TABLE OF CONTENTS

	Page
PART I – INTRODUCTORY SECTION	
LIST OF PRINCIPAL COUNTY OFFICIALS	i
PART II – FINANCIAL SECTION	
INDEPENDENT AUDITORS’ REPORT.....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
<u>Government-wide Financial Statements</u>	
Statement of Net Assets – Cash Basis	6
Statement of Activities – Cash Basis	7
<u>Fund Financial Statements</u>	
Statement of Cash Basis Assets and Fund Balances and Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances – Governmental Funds.....	8
Budgetary Comparison Statement – Cash Basis – General Fund	9
Statement of Fiduciary Net Assets – Cash Basis – Agency Funds	10
Notes to Basic Financial Statements	11
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress for the Retirement Plan for the Employees of Dallam County, Texas.....	22
OTHER SUPPLEMENTARY INFORMATION	
Combining Statement of Cash Basis Assets and Fund Balances and Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances – Nonmajor Funds	23
Combining Statement of Fiduciary Net Assets – Agency Funds.....	25
PART III – COMPLIANCE	
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	26
Schedule of Findings	28

PART I

INTRODUCTORY SECTION

DALLAM COUNTY, TEXAS
PRINCIPAL COUNTY OFFICIALS
SEPTEMBER 30, 2012

David D. Field	County Judge
Glenn Reagan	Commissioner, Precinct #1
Corey Crabtree	Commissioner, Precinct #2
Don J. Bowers	Commissioner, Precinct #3
Floyd French	Commissioner, Precinct #4
Ron Enns	Judge, 69 th Judicial District
David Green	District Attorney
Terri Banks	County and District Clerk
Jon King	County Attorney
Kay Howell	County Tax Assessor/Collector
Wes Ritchey	County Treasurer
Bruce Scott	County Sheriff
Rita Little	Justice of the Peace

PART II
FINANCIAL SECTION



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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the major fund and its budgetary comparison, and the aggregate remaining fund information of Dallam 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 Dallam County, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, Dallam County, Texas, prepares its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – cash basis of the governmental activities, the major fund and its budgetary comparison, and the aggregate remaining fund information of Dallam County, Texas at September 30, 2012, and the respective changes in financial position – cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2012, on our consideration of Dallam County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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 and the schedule of funding progress for the retirement plan for the employees of Dallam County, Texas on pages 3 through 5 and 22 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dallam County, Texas' financial statements as a whole. The combining non-major and agency fund financial statements listed under other supplementary information in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The combining non-major and agency fund financial statements 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.

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

DOSHIER, PICKENS & FRANCIS, LLC

November 2, 2012

Dallam County, Texas
Management's Discussion and Analysis
As of September 30, 2012

As management of Dallam County, Texas, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with the financial statements and required supplementary information.

Financial Highlights

Dallam County prepares its financial statements on the cash basis of accounting which is another comprehensive basis of accounting other than Generally Accepted Accounting Principles (GAAP). In addition, the County also omits recording general fixed assets and infrastructure assets on the financial statements which is a departure from GAAP. Management budgets and records receipts and disbursements on a cash basis because it believes this comprehensive basis of accounting is more suitable to the efficient administration of a smaller government. While capital outlays are recorded each year as disbursements are made management has not chosen to maintain an ongoing recording of general fixed assets or infrastructure assets on the financial statements. Management considers cash receipts and disbursements information for operational needs as essential to the decision process and does not believe the maintenance of historical general fixed asset or infrastructure asset cumulative amounts on financial statements are beneficial in decision making.

In recording the information that follows the reader is asked to be aware of the use of cash basis accounting. To facilitate reading, repetitive references to the accounting basis will not be made, but all financial data and financial statements referred to are cash basis, not GAAP.

At September 30, 2012 unassigned fund balance for the general fund is \$880,198 which represents 20% of the current year's total governmental fund disbursements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of Dallam County's basic financial statements. The County's basic financial statements 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 supplementary information in addition to the basic financial statements themselves. This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the County's cash basis of accounting.

Government-Wide Financial Statements

The government-wide financial statements 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 most recent fiscal year. All changes in net assets are reported based on the related cash flows.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental receipts (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the County include General Administration, Judicial, Public Facilities, Public Safety, Road and Bridge, and Public Service.

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. All of the funds of the County are governmental funds or fiduciary funds.

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Fiduciary Funds

Fiduciary funds are funds used to account for the proceeds of specific receipts (other than special assessments, expendable trust, or major capital projects) that are legally restricted to disbursements for specified purposes. The fiduciary funds for Dallam County consist principally of amounts held under various court causes or child support payments received prior to disbursement.

Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the County. As a measure of the general fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund disbursements. Unassigned fund balance represents 20% of total general fund disbursements.

The fund balance of the County's funds increased by \$127,000 during the current fiscal year. Key factors in this were increased revenue from taxes due to levy and valuation as well as tax abatement payments and conservative spending by departments.

Capital Asset and Debt Administration

Capital assets. The County's investment in capital assets for its governmental activities as of September 30, 2012, have not been determined. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and roads and bridges. The total disbursements in the County's capital outlays for the current fiscal year was \$129,674.

Major capital asset events during the current fiscal year included vehicles, machinery and equipment.

The County's capitalization policy is to treat disbursements for assets with an estimated useful life of five or more years and an initial cost in excess of \$3,000 as a capital outlay.

Dallam County's Outstanding Debt

Dallam County has \$526,461 outstanding debt to First National Bank in Dalhart. The loan is payable on demand and has a maturity date of October 30, 2012. The current interest rate is 3.93 percent. Loan proceeds were used for Jail Construction.

Dallam County has \$1,912,436 in Unfunded Actuarial Accrued Liability (UAAL) to the Texas County and District Retirement System (TCDRS) as part of the Dallam County Retirement Plan.

Economic Factors and Next Year's Budgets and Rates

The economy of the County remains strong. The property values remain strong and are expected to increase.

Request for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the County Treasurer, P. O. Box 591, Dalhart, Texas 79022.

BASIC FINANCIAL STATEMENTS

**DALLAM COUNTY, TEXAS
STATEMENT OF NET ASSETS - CASH BASIS
SEPTEMBER 30, 2012**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,071,576
Total assets	1,071,576
LIABILITIES	
Group insurance payable	5,035
Due to other governmental entities	29,238
Cash bonds	38,302
Total liabilities	72,575
NET ASSETS	
Temporarily restricted:	
Restricted by enabling legislation for:	
Special projects	89,646
Unrestricted	909,355
Total net assets	\$ 999,001

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

**DALLAM COUNTY, TEXAS
STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Functions/Programs	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Primary government					
Governmental Activities:					
Administrative	\$ 713,992	\$ 250,425	\$ 12,843	\$ -	\$ (450,724)
Judicial	403,110	183,758	19,577	-	(199,775)
Public facilities	341,081	365	54,850	-	(285,866)
Public safety	1,766,864	536,865	97,908	-	(1,132,091)
Road and bridge	642,809	489,353	19,470	-	(133,986)
Public service	251,201	301	71,638	-	(179,262)
Principal on indebtedness	205,587	-	-	-	(205,587)
Interest on indebtedness	50,095	-	-	-	(50,095)
Capital outlay	129,674	-	-	-	(129,674)
Total	\$ 4,504,413	\$ 1,461,067	\$ 276,286	\$ -	(2,767,060)
General receipts:					
					2,432,327
Property taxes, levied for general purposes					255,683
Property taxes, levied for debt service					4,352
Miscellaneous taxes					149,185
Intergovernmental - Federal land					1,334
Interest earnings					51,164
Miscellaneous					<u>2,894,045</u>
Total general receipts					2,894,045
Change in net assets					126,985
Net assets - beginning					<u>872,016</u>
Net assets - ending					<u>\$ 999,001</u>

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

DALLAM COUNTY, TEXAS
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES AND
CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>General</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
RECEIPTS			
Taxes	\$ 2,688,010	\$ -	\$ 2,688,010
Sales and miscellaneous taxes	4,352	-	4,352
Licenses and fees	1,251,959	35,289	1,287,248
Fines and forfeitures	173,819	-	173,819
Intergovernmental	425,471	-	425,471
Interest	1,334	-	1,334
Miscellaneous	51,164	-	51,164
Total receipts	<u>4,596,109</u>	<u>35,289</u>	<u>4,631,398</u>
DISBURSEMENTS			
Administrative	690,723	23,269	713,992
Judicial	399,230	3,880	403,110
Public facilities	341,081	-	341,081
Public safety	1,766,864	-	1,766,864
Road and bridge	642,809	-	642,809
Public service	251,201	-	251,201
Debt service			
Principal	205,587	-	205,587
Interest	50,095	-	50,095
Capital outlay	129,674	-	129,674
Total disbursements	<u>4,477,264</u>	<u>27,149</u>	<u>4,504,413</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	118,845	8,140	126,985
CASH BASIS FUND BALANCE - Beginning of year	<u>790,510</u>	<u>81,506</u>	<u>872,016</u>
CASH BASIS FUND BALANCE - End of year	<u>\$ 909,355</u>	<u>\$ 89,646</u>	<u>\$ 999,001</u>
CASH BASIS ASSETS - End of year			
Cash, net of liabilities	<u>\$ 909,355</u>	<u>\$ 89,646</u>	<u>\$ 999,001</u>
CASH BASIS FUND BALANCES - End of Year			
Restricted:			
By enabling legislation for special projects	\$ -	\$ 89,646	\$ 89,646
Committed to:			
Friends of the library	29,157	-	29,157
Unassigned	880,198	-	880,198
Total cash basis fund balances - end of year	<u>\$ 909,355</u>	<u>\$ 89,646</u>	<u>\$ 999,001</u>

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

DALLAM COUNTY, TEXAS
BUDGETARY COMPARISON STATEMENT - CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance	\$ 790,510	\$ 790,510	\$ 790,510	\$ -
Resources (Inflows):				
Taxes	2,666,000	2,666,000	2,688,010	22,010
Sales and miscellaneous taxes	3,000	3,000	4,352	1,352
Licenses and fees	1,377,954	1,377,954	1,251,959	(125,995)
Fines and forfeitures	167,500	167,500	173,819	6,319
Intergovernmental	376,608	376,608	425,471	48,863
Interest	1,000	1,000	1,334	334
Miscellaneous	4,000	4,000	51,164	47,164
Total resources	<u>4,596,062</u>	<u>4,596,062</u>	<u>4,596,109</u>	<u>47</u>
Amounts available for appropriation	<u>5,386,572</u>	<u>5,386,572</u>	<u>5,386,619</u>	<u>47</u>
Appropriations (Outflows):				
Administrative	708,543	693,793	690,723	3,070
Judicial	411,840	407,340	399,230	8,110
Public facilities	361,272	341,272	341,081	191
Public safety	1,754,264	1,747,764	1,766,864	(19,100)
Road and bridge	679,483	679,483	642,809	36,674
Public service	229,542	275,292	251,201	24,091
Debt service				
Principal	229,000	229,000	205,587	23,413
Interest and other charges	51,000	51,000	50,095	905
Capital outlay	130,000	130,000	129,674	326
Total appropriations	<u>4,554,944</u>	<u>4,554,944</u>	<u>4,477,264</u>	<u>77,680</u>
Ending Budgetary Fund Balance	<u>\$ 831,628</u>	<u>\$ 831,628</u>	<u>\$ 909,355</u>	<u>\$ 77,727</u>

The accompanying notes are an integral part of these financial statements.

DALLAM COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
SEPTEMBER 30, 2012

ASSETS		
Cash and cash equivalents		\$ 52,987
		<hr/>
Total assets		\$ 52,987
		<hr/> <hr/>
LIABILITIES		
Accounts payable		\$ 2,867
Due to other governments		345
Deposits		49,775
		<hr/>
Total liabilities		\$ 52,987
		<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

DALLAM COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Dallam County's financial statements are prepared on a cash receipts and disbursements basis of accounting. This other comprehensive basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements.

The more significant accounting and reporting policies of the County are described in the following notes to the financial statements.

A. Financial Reporting Entity

The County, incorporated in 1876, is a public corporation and political subdivision of the State of Texas. The Commissioners Court, which is made up of four commissioners and the county judge, is the general governing body of the County in accordance with Article 5, Paragraph 18 of the Texas Constitution. The County provides the following services as authorized by the statutes of the State of Texas: administrative (e.g., tax collection), judicial (courts, juries, district attorney, etc.), public safety (sheriff, jail, etc.), road and bridge, public facilities, and public service (e.g. juvenile services and assistance to indigents).

The accompanying basic financial statements present the government defined according to criteria in GASB Statement No. 14, *The Financial Reporting Entity*. These financial statements do not include the operations of any other organization, because none of the criteria for inclusion as set forth in GASB Statement No. 14 have been met. Component units are legally separate organizations for which the County is financially accountable. The County has no component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Statements

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

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

Continued

DALLAM COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

B. Government-Wide and Fund Financial Statements – Continuation

Fund-Level Statements

Separate **fund financial statements** are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. The General Fund is the only fund meeting the criteria for a **major governmental fund**. The General Fund is reported in a separate column in the fund financial statements. Non-major funds include the other Special Revenue funds. The combined amounts for these funds are reflected in a single column in the fund Statement of Cash Basis Assets and Fund Balances and Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances.

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

The **government-wide financial statements** are reported using the economic resources measurement focus, within the limitations of the cash receipts and disbursements basis of accounting, as defined below.

Revenues are classified as *program revenues* and *general revenues*. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, investment earnings, and other miscellaneous revenues.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund level financial statements are reported using current financial resources measurement focus and the cash receipts and disbursements basis of accounting.

Interfund eliminations have not been made in the fund financial statements.

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental activities are presented using the cash receipts and disbursements basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this cash receipts and disbursements basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the County utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use a modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

The County reports the following major governmental funds:

The **General Fund** is the general operating fund of the County and always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

Continued

DALLAM COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

Fiduciary fund level financial statements include fiduciary funds which are classified into private purpose trust and agency funds. The County has only agency funds which are used to account for assets held by the County as an agent for individuals, private organizations, other governments and other funds. Agency funds do not involve a formal trust agreement. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Use of Restricted Assets

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

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The County's cash and cash equivalents are considered to be cash on hand and demand deposits. Statutes authorize the County to keep funds in demand deposits, time deposits, or securities of the United States. The County's custodial banks are required to pledge for the purpose of securing County funds, securities of the following kind, in an amount equal to the amount of such County funds: bonds and notes of the United States, securities of indebtedness of the United States, bonds of the State of Texas, or of any county, city, or independent school district, and various other bonds as described in Texas Statutes. TexPool is duly chartered and administered by the Texas Treasury Safekeeping Trust Company and the portfolio normally consists of U.S. T-Bills or T-Notes, collateralized certificates of deposit, and repurchase agreements. The carrying value (cost) and market value are equal for these deposits.

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

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

2. Accounts Payable

Payables recorded do not reflect an accrual entry, but are amounts collected and in the process of payment primarily to other governments within 30 days. They are not treated as fiduciary in nature.

3. Property Tax Calendar and Receipts

Property taxes are based on taxable value at January 1 and become due October 1 and past due after January 31 of the following year. Tax collections after February 1 are treated as late payments and are subject to penalties and interest. Uncollected taxes from the current roll become delinquent on July 1 and are subject to additional penalties and interest.

Continued

DALLAM COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. Assets, Liabilities, and Net Assets or Equity – Continuation

4. Capital Assets

The County's cash receipts and disbursements basis of accounting reports capital assets resulting from transactions. The accounting treatment over capital assets, which include land, buildings and improvements, and equipment, depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

5. Compensated Absences

Regular full-time employees are entitled to vacation of up to three weeks per year as earned. Vacation time earned, but not taken, is not allowed to accumulate from year to year unless an employee is unable to take vacation because of the needs of the County. A liability for accrued compensated absences has not been calculated for disclosure because it is immaterial to the financial statements as there is no accumulated value, only the current year's unused vacation is paid.

6. Long-term Obligations

Long-term debt arising from cash receipts and disbursements basis transactions of governmental funds is not reported as liabilities in either the government-wide or fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as disbursements.

7. Fund Balances

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

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

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

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of the County's highest level of decision-making authority, the Commissioners' Court. Commitments may be changed or lifted only by the County taking the same formal action that imposed the constraint originally (for example: resolution or ordinance).

Continued

DALLAM COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. Assets, Liabilities, and Net Assets or Equity – Continuation

7. Fund Balances – Continuation

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

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

8. Net Assets

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

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

Unrestricted Net Assets – This amount includes all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

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

1. Prior to September 1, the proposed budget is submitted to the Commissioners' Court.
2. The Commissioners' Court provides for a public hearing on the County budget subsequent to August 15, and prior to the levy of taxes by the Commissioners' Court.
3. Prior to October 1, the budget is legally adopted by order of the Commissioners' Court for the General Fund.
4. The budget is prepared by fund and department with the legal level of control at the department level. Administrative control is maintained through the establishment of more detailed account or object class budgets within the departments. Emergency expenditures to meet unusual and unforeseen conditions which could not, by reasonable diligent thought and attention, have been included in the original budget, whereby total expenditures of a department have been increased must be authorized by the Court as emergency amendments to the original budget. Management may not amend the budget at any level without approval of the Commissioner's Court. Amounts shown in the financial statements represent the original budget amounts and all supplemental appropriations. Supplemental appropriations to the original adopted budget are in the Final Budget Amounts column of the Budgetary Comparison Schedule for the General Fund.

Continued

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continuation

5. Budgets for the General and Special Revenue Funds are adopted on a cash basis of accounting on an annual basis. The District Clerk Records Management, Archive Records Management, Narcotics Task Force, and the CPS Prosecutor Special Revenue Funds were not included in the annual budget because there were no projected expenditures at the time the budget was prepared.
6. Formal budgetary integration on an annual basis is employed as a management control device during the year for the General Fund.
7. All appropriations, except those in grant funds, lapse at the end of the County's fiscal year and may be re-budgeted the next year.

B. Excess of Disbursements Over Appropriations

For the year ended September 30, 2012, disbursements exceeded appropriations in the Department of the Bi-County Jail and the Department of the Constable by \$25,968 and \$9,660, respectively. The excess in both departments were funded by lower than expected disbursements in the remainder of the County. Actual total disbursements were less than budget by \$77,680.

NOTE 3 – CASH

Following is a reconciliation of the County's cash and deposit balances as of September 30, 2012:

Cash and deposit balances consist of:

Bank deposits	\$ 1,123,173
Temporary investments - TexPool (interest rate .02%)	1,390
	1,124,563
Total	\$ 1,124,563

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

Government-wide Statement of Net Assets - Cash Basis:	
Unrestricted	\$ 1,071,576
Fiduciary Funds Statement of Net Assets - Cash Basis	52,987
	1,124,563
Total	\$ 1,124,563

Custodial credit risk – deposits. As of September 30, 2012, the carrying amount of the County's deposits with financial institutions was \$1,025,014 and the bank's balance was \$1,343,547. Of the bank balance, \$393,792 was insured through the Federal Depository Insurance Corporation (FDIC) and \$949,755 was collateralized with securities held by the pledging institution's agent in the County's name.

Continued

DALLAM COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 3 – CASH – Continuation

As of September 30, 2012, the County had \$1,390 invested in the Texas Treasury Safekeeping Trust Company (TexPool). TexPool is a public funds investment pool created pursuant to the Interlocal Cooperation Act of the State of Texas. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

Interest rate risk is the risk that adverse changes in interest rates will result in an adverse effect on the fair value of an investment. The County manages its exposure to interest rate risk by maintaining its cash in interest-bearing demand accounts, the readily available TexPool shares, or in certificates of deposit with maturities of one year or less.

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. State law and County policy limit investments in local government pools to those rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service.

Concentration of credit risk – Is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of September 30, 2012, .1356% of the County's carrying value of cash was invested in TexPool. All other cash was deposited with the County's depository and was adequately secured as described above.

NOTE 4 – PROPERTY TAX

The State of Texas Constitutional tax rate limit for both operations and debt service is \$.80 on each \$100 of assessed valuation. The tax rate on the 2011 tax roll was \$.5018 per \$100, which means that the County has a tax margin of \$.2982 per \$100 and could raise up to \$1,346,075 additional revenue from the 2011 assessed valuation of \$451,400,166 before the limit is reached.

Real and personal property values are assessed for the period January 1 to December 31, as of January 1 at which date property taxes attach as an enforceable lien on property. Taxes are levied by October 1 of the current year and are collected from October 1 to June 30 of the following year. Payments received after February 1 are considered late and are subject to penalty and interest. Taxes become delinquent on July 1 of the following year.

NOTE 5 – RETIREMENT PLAN

Plan Description

Dallam County provides retirement benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 624 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Continued

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

NOTE 5 – RETIREMENT PLAN – Continuation

Plan Description – Continuation

The plan provisions are adopted by the governing body of the County (employer), within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the County.

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

Funding Policy

The County has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the County based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the County is actuarially determined annually.

The County contributed using the actuarially determined rate of 12.59% and 17.34% for the months of the accounting year in 2011 and 2012, respectively. The contribution rate payable by the employee members is 7.0% for fiscal year 2012 as adopted by the governing body of the County. The County elected to contribute this amount for its employee members. The employee contribution rate and the employer contribution rate may be changed by the governing body of the County within the options available in the TCDRS Act.

Annual Pension Cost

For 2012, the County's annual pension cost of \$330,963 was equal to the County's required and actual contributions.

**TREND INFORMATION FOR THE RETIREMENT PLAN FOR THE EMPLOYEES OF
DALLAM COUNTY, TEXAS**

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2010	\$ 214,473	100%	\$ -
September 30, 2011	251,605	100	-
September 30, 2012	330,963	100	-

Continued

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

NOTE 5 – RETIREMENT PLAN – Continuation

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% investment rate of return (net of administrative expenses), and (b) projected salary increases of 5.4%. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of the assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 10 year period. The unfunded actuarial liability is being amortized over a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2011 was 20 years.

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 71.48% funded. The actuarial accrued liability for benefits was \$6,704,746, and the actuarial value of assets was \$4,792,310, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,912,436. The covered payroll (annual payroll active employees covered by the plan) was \$2,052,916, and the ratio of UAAL to the covered payroll was 93.16%.

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

NOTE 6 – LONG-TERM LIABILITIES

Dallam County has an outstanding note payable to First National Bank in Dalhart with a principal amount as of September 30, 2012 of \$526,461 bearing interest at 3.93% maturing October 30, 2012. The note is secured by County taxes. The County has established an Interest and Sinking Fund tax rate to retire the debt over an extended period of time greater than one year. The budget for the fiscal year ending 2011-2012 does not budget for full retirement of the debt. The County's increasing tax base should allow for retirement of the debt at an accelerated date but no set date can be determined as of the date of these financial statements other than the maturity date.

NOTE 7 – CONCENTRATION OF TAXPAYERS

As of September 30, 2012, the following taxpayers accounted for a significant portion of the County's total tax levy.

<u>Taxpayer</u>	<u>Industry</u>	<u>Tax Amount</u>	<u>Percent of Total Levy</u>
Taxpayer A	Railroad	\$ 119,810	5.28 %
Taxpayer B	Agriculture	105,987	4.67

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

NOTE 8 – RISK MANAGEMENT

The County’s major areas of risk management are: public officials’ liability, automobile liability, airport liability, general comprehensive liability, and property damage, workers compensation, automobile liability and employee health insurance. The County has obtained insurance with an insurance company and a public entity risk pool in which all risk is transferred to those entities for all the above areas. The County pays a deductible per incident except on the employee health insurance in which the deductible is the responsibility of the employee. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded insurance coverage for the current or previous years.

NOTE 9 – PROBATION DEPARTMENTS

Juvenile Probation Department

The Dallam, Hartley and Sherman Counties Juvenile Probation Department (Department) is a joint venture between the Counties. Each County makes a contribution to the Department based on a predetermined percentage of budgeted expenditures. The Department is governed by the Juvenile Probation Board whose members are the District Judge, the three County Judges and one citizen member appointed by the Board.

The Department operates on a fiscal year ending August 31 and issues a statement of revenues, expenditures and changes in fund balance – budget and actual. This financial statement is issued on a regulatory basis of accounting as mandated by the Texas Juvenile Justice Division. This report is solely the TJJD special revenue grant funds and not the Department as a whole.

Summarized information of the Dallam, Hartley and Sherman Counties Juvenile Probation Department for the year ended August 31, 2012 is as follows:

Department revenues:	
TJPC grant revenues - audited	\$ 161,056
Local funding - unaudited	83,000
Other revenues - unaudited	<u>4,481</u>
Total revenues	<u>248,537</u>
Department expenditures:	
Grant expenditures - audited	161,056
Grant and local expenditures - unaudited	<u>38,345</u>
Total expenditures	<u>199,401</u>
Excess of Revenues over Expenditures	<u><u>\$ 49,136</u></u>
Total assets, net - unaudited	<u><u>\$ 64,768</u></u>
Fund balance - unaudited	<u><u>\$ 64,768</u></u>

Continued

DALLAM COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 9 – PROBATION DEPARTMENTS – Continuation

Community Supervision and Corrections (Adult Probation)

The 69th District CSCD is a joint venture between Dallam, Hartley, Sherman and Moore Counties. The County's local funding to this department for the year ended September 30, 2012 was \$4,038. This funding was not audited after it was sent to the CSCD by the County.

REQUIRED SUPPLEMENTARY INFORMATION

DALLAM COUNTY, TEXAS
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREMENT PLAN
FOR THE EMPLOYEES OF DALLAM COUNTY, TEXAS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/09	\$ 4,675,688	\$ 5,750,058	\$ 1,074,370	81.32%	\$ 1,839,457	58.41%
12/31/10	4,536,429	6,261,127	1,724,698	72.45%	1,966,713	87.69%
12/31/11	4,792,310	6,704,746	1,912,436	71.48%	2,052,916	93.16%

OTHER SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds account for the receipts of specific sources that are legally restricted to disbursements for specified purposes.

Archive – The Archive Fund accounts for receipts from fees collected by the County/District Clerk on the filing of documents of official public record and court cases. These receipts are to be used for specific archiving projects of the office.

Courthouse Security – The Courthouse Security Fund accounts for statutory filing fees collected by the County/District Clerk which are dedicated by law to maintain the security of the courthouse.

Jail Immigration and Naturalization – The Jail Immigration and Naturalization Fund accounts for receipts from the State and Federal governments restricted for use with immigrants.

Justice of the Peace Technology – The Justice of the Peace Technology Fund accounts for money charged to a defendant convicted of a misdemeanor in a justice court. It is dedicated by law for purchase of technological enhancements for a justice court.

Records Management – The Records Management Fund accounts for receipts from fees collected by the County/District Clerk on court cases. The receipts are to be used for specific records management projects of the office.

Law Library – The Law Library Fund accounts for statutory fees collected in civil cases filed in County and District Courts. These fees are dedicated by law to provide and maintain a County Law Library.

Records Preservation – The Records Preservation Fund accounts for receipts from fees collected by the County/District Clerk on documents of official public record and court cases. These receipts are to be used for specific preservation projects of the office.

District Clerk Digitizing – The District Clerk Digitizing Fund accounts for receipts from fees collected by the County/District Clerk to be used for restoring and digitizing records.

District Clerk Technology – The District Clerk Technology Fund accounts for receipts from fees collected by the County/District Clerk to be used for purchasing technological enhancements for the office.

DALLAM COUNTY, TEXAS
COMBINING STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES AND
CASH RECEIPTS , DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Archive	Courthouse Security
RECEIPTS		
Licenses and fees	\$ 9,559	\$ 5,333
Total receipts	9,559	5,333
DISBURSEMENTS		
Current:		
Administrative	9,855	-
Judicial	-	-
Total disbursements	9,855	-
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(296)	5,333
CASH BASIS FUND BALANCE - Beginning of Year	20,893	17,572
CASH BASIS FUND BALANCE - End of Year	\$ 20,597	\$ 22,905
CASH BASIS ASSETS - End of Year		
Cash, net of liabilities	\$ 20,597	\$ 22,905
CASH BASIS FUND BALANCE - End of Year		
Restricted:		
By enabling legislation for special projects	20,597	22,905
Total cash basis fund balance - end of year	\$ 20,597	\$ 22,905

<u>Jail Immigration and Naturalization</u>	<u>JP Technology</u>	<u>Records Management</u>	<u>Law Library</u>	<u>Records Preservation</u>	<u>DC Digitizing</u>
\$ -	\$ 3,824	\$ 12,140	\$ 2,882	\$ 5	\$ 1,314
-	3,824	12,140	2,882	5	1,314
-	-	10,464	-	2,664	-
-	2,913	-	967	-	-
-	2,913	10,464	967	2,664	-
-	911	1,676	1,915	(2,659)	1,314
2,615	3,921	30,457	33	4,081	1,810
<u>\$ 2,615</u>	<u>\$ 4,832</u>	<u>\$ 32,133</u>	<u>\$ 1,948</u>	<u>\$ 1,422</u>	<u>\$ 3,124</u>
\$ 2,615	\$ 4,832	\$ 32,133	\$ 1,948	\$ 1,422	\$ 3,124
2,615	4,832	32,133	1,948	1,422	3,124
<u>\$ 2,615</u>	<u>\$ 4,832</u>	<u>\$ 32,133</u>	<u>\$ 1,948</u>	<u>\$ 1,422</u>	<u>\$ 3,124</u>

Continued

DALLAM COUNTY, TEXAS
COMBINING STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES AND
CASH RECEIPTS , DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	District Clerk Technology	Total Non- Major Governmental Funds
Continuation		
RECEIPTS		
Licenses and fees	\$ 232	\$ 35,289
Total receipts	232	35,289
DISBURSEMENTS		
Current:		
Administrative	286	23,269
Judicial	-	3,880
Total disbursements	286	27,149
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(54)	8,140
CASH BASIS FUND BALANCE - Beginning of Year	124	81,506
CASH BASIS FUND BALANCE - End of Year	\$ 70	\$ 89,646
CASH BASIS ASSETS - End of Year		
Cash, net of liabilities	\$ 70	\$ 89,646
CASH BASIS FUND BALANCE - End of Year		
Restricted:		
By enabling legislation for special projects	70	89,646
Total cash basis fund balance - end of year	\$ 70	\$ 89,646

FIDUCIARY

AGENCY FUNDS

The Agency Funds account for assets received in the capacity of trustee or agent for the County, other governmental entity or individual.

County Attorney – The County Attorney Fund accounts for money collected by the County Attorney and remitted to various entities.

County and District Clerk - The County and District Clerk's Fund accounts for money collected that is remitted to various entities and for registry funds held by the County and District Clerk.

Tax Assessor Collector – The Tax Assessor Collector Fund accounts for money collected by the Tax Assessor Collector and remitted to various taxing jurisdictions.

DALLAM COUNTY, TEXAS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
SEPTEMBER 30, 2012

	<u>County and District Clerk</u>	<u>Tax Assessor Collector</u>	<u>County Attorney</u>	<u>Total Agency Funds</u>
ASSETS				
Cash and cash equivalents	\$ 4,895	\$ 45,225	\$ 2,867	\$ 52,987
Total assets	<u>\$ 4,895</u>	<u>\$ 45,225</u>	<u>\$ 2,867</u>	<u>\$ 52,987</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 2,867	\$ 2,867
Due to other governments	-	345	-	345
Deposits	4,895	44,880	-	49,775
Total liabilities	<u>\$ 4,895</u>	<u>\$ 45,225</u>	<u>\$ 2,867</u>	<u>\$ 52,987</u>

PART III
COMPLIANCE



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

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

We have audited the financial statements of the governmental activities, the major fund and its budgetary comparison and the aggregate remaining fund information of Dallam County, Texas as of and for the year ended September 30, 2012, which collectively comprise Dallam County, Texas' basic financial statements and have issued our report thereon dated November 2, 2012. 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

In planning and performing our audit, we considered Dallam County, Texas' internal control over financial reporting as a basis for designing our audit 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 Dallam County, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Dallam County, Texas' 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of Dallam County, Texas, in a separate letter dated November 2, 2012.

This report is intended solely for the information and use of the management, the Commissioners' Court, County Officials and others within the County and is not intended to be and should not be used by anyone other than those specified parties.

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

DOSHIER, PICKENS & FRANCIS, LLC

November 2, 2012

**DALLAM COUNTY, TEXAS
SCHEDULE OF FINDINGS
SEPTEMBER 30, 2012**

INTERNAL CONTROL OVER FINANCIAL REPORTING:

Inadequate segregation of duties within a significant account or accounting process is considered to be a deficiency in your financial reporting controls. The officials of the County, because of the small number of employees in the offices, have not been able to adequately segregate the processes of cash receipts and deposits, cash disbursements and checks, and reconciling the bank accounts. Because of this lack of segregation of duties within these processes of handling cash, there is a risk that a material misstatement could be present in the financial statements or that fraud could occur and would not be detected by management timely. Though the various offices may not be able to adequately segregate these processes within the office, the official should implement compensating controls over these processes such as having the bank reconciliations reviewed by another official of the County outside of their office.

Preparing financial statements in accordance with the cash receipts and disbursements basis of accounting requires specialized skills and knowledge of a technical nature. Responsibility for ensuring that the County's financial statements are prepared in accordance with the cash receipts and disbursements basis of accounting lies with the County's management. As a result, the County's management is responsible for designing and implementing internal controls to ensure the accuracy of the County's financial statements in accordance with the cash receipts and disbursements basis of accounting. This includes ensuring that those responsible for the accounting and reporting function possesses the skills and knowledge to apply the cash receipts and disbursements basis of accounting in recording the County's financial transactions or preparing its financial statements.

During the course of our audit we noted that the County's management was able to prepare the information necessary to prepare the governmental fund financial statements in accordance with the cash receipts and disbursements basis of accounting. However, the adjustments needed to convert the governmental fund statements to the government-wide financial statements per GASB Statement 34, *Basis Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, were still necessary. We are required to notify the County's management that the County does not have an individual who possesses these specialized skills and knowledge to prepare these adjustments and the related financial statements and disclosures.

We have reviewed with the County Treasurer these adjustments, financial statements and disclosures to help him have an understanding of this financial information so that she can assume this responsibility for the accuracy and completeness of the financial statements.