

Dawson County
Annual Financial Report
For the Year Ended September 30, 2013

GARY, BOWERS & MILLER



CERTIFIED PUBLIC ACCOUNTANTS

Steve Gary, C.P.A., PC
James Bowers, C.P.A., PC
Eric Miller, C.P.A., PC
Melvin Eaker, C.P.A., PC

A Partnership of
Professional Corporations

To Honorable Judge O'Brien and Commissioners' Court
Dawson County, Texas

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dawson County, Texas, as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered Dawson County, Texas' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Dawson County, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the Dawson County, Texas' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that need to be addressed.

In the Tax Assessor's office, while reconciliations of the bank account were being performed, a reconciliation of the amounts to be paid out to the amount in the bank was not being performed. Money collected by the Tax Assessor's office is only held in trust until paid to the appropriate entity. We recommend that a reconciliation be performed between the money held in the bank account to amounts to be paid out.

In our review of the cash receipts function of the County Treasurer's office, it was noticed that at times, there is a lag in time between the receipt date and the date that the monies are deposited to the bank account. We recommend that monies received be promptly deposited, especially cash, to help strengthen controls over the receipt function.

Also in the County Treasurer's office, it was noted that there is not a formal written policy of internal controls. A written policy is important to insure employees are aware of their responsibilities and of the County's expectations. We recommend that a written policy be prepared and adopted by the Treasurer's office.

This communication is intended solely for the information and use of management, the County Commissioners, others within the organization, granting agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

Gary, Bowers & Miller
Lubbock, Texas
February 28, 2014

**DAWSON COUNTY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>EXHIBIT</u>	<u>PAGE</u>
Independent Auditor's Report		1
Management's Discussion and Analysis (Unaudited)		3
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Position	A-1	10
Statement of Activities	B-1	11
Government Fund Financial Statements:		
Balance Sheet	C-1	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	C-2	13
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	C-3	14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	C-4	15
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Position	D-1	16
Statement of Changes in Fiduciary Fund Net Position	D-2	17
Notes to the Financial Statements		18
Required Supplemental Information:		
Budgetary Comparisons:		
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual-General Fund	E-1	34
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual-Precinct	E-2	35
Other Required Supplemental Information:		
Schedule of Funding Progress – Texas County and District Retirement System	E-3	36
Information About Infrastructure Assets Reported Using the Modified Approach	E-4	37
Compliance and Internal Controls Section		
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		39
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 and the <i>State of Texas Single Audit Circular</i>		41
Schedule of Findings and Questioned Costs		43
Federal Financial Assistance Section		
Schedule of Expenditures of Federal and State Awards		44
Notes to Schedule of Expenditures of Federal and State Awards		45

Steve Gary, C.P.A., PC
James Bowers, C.P.A., PC
Eric Miller, C.P.A., PC
Melvin Eaker, C.P.A., PC



A Partnership of
Professional Corporations

INDEPENDENT AUDITOR'S REPORT

To the Honorable Judge O'Brien and the Commissioner's Court
Dawson County, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dawson County, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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 Dawson County, Texas, as of September 30, 2013, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-9 and 34-35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dawson County, Texas' basic financial statements. The 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 the *State of Texas Single Audit Circular*, and is not a required part of the basic financial statements.

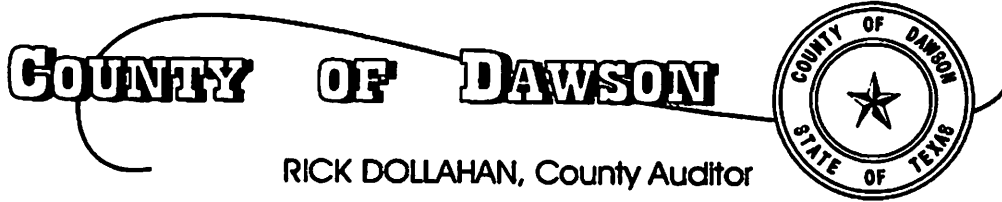
The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2014, on our consideration of Dawson County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the *State of Texas Single Audit Circular* in considering Dawson County, Texas' internal control over financial reporting and compliance.

Gary, Bowers & Miller

Gary, Bowers & Miller
Lubbock, Texas
February 28, 2014



RICK DOLLAHAN, County Auditor
P.O. Box 1268
Lamesa, Texas 79331

March 4, 2014

Honorable Carter T. Schildknecht, District Judge, 106th Judicial District

Honorable Commissioners Court:

Foy O'Brien	County Judge		
Ricky Minjarez	Commissioner, PCT 1	Tony Hernandez	Commissioner, PCT 2
Nicky Goode	Commissioner, PCT 3	Russell Cox	Commissioner, PCT 4

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, the management of Dawson County, Texas, discusses and analyzes the County's financial performance for the fiscal year ended September 30, 2013. Please read it in conjunction with the independent auditor's report on page 1 and the County's basic financial statements which begin on page 10.

FINANCIAL HIGHLIGHTS

- At the close of the most recent fiscal year, Dawson County's assets exceeded its liabilities by \$14,041,936. Of this amount, \$5,911,154 was unrestricted net position.
- The County's net position increased \$1,648,118 because of this year's operation.
- The County had expenses of \$9,277,115 as compared to FY 2012 expenses of \$8,605,086.
- The County had revenues of \$10,925,233 as generated in tax and other revenues for governmental programs (before special items). This compares to last year when revenues were \$9,851,424 an increase of 10.9%.
- The General Fund ended the year with a fund balance of \$5,451,852 as compared to last year's fund balance of \$5,012,129. The fund balance of the General Fund is unreserved and undesignated.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Dawson County's basic financial statements. Dawson County's basic financial statements comprise three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements.

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

The Road to Excellence is Built with Vision

Fund financial statements (starting on page 12) report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. The fiduciary statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of other county funds or those outside of the County. They show what assets these funds have and who they belong to.

The notes to the financial statements (starting on page 18) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

REPORTING THE COUNTY AS A WHOLE – THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The analysis of the County's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the County is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the County's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the County's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies as opposed to the modified accrual basis used in the prior reporting model.

All changes in net position are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods (e.g. uncollected taxes). The County's revenues are divided into those provided by outside parties who share the costs of some programs such as grants provided by the Texas State Library and Archives Commission to improve the County's libraries and fees for services such as commissions received for property tax collection and revenues provided by the taxpayers and other general revenues. All the County's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

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

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

- I. Governmental activities – Most of the basic services are reported here, including general administration, law enforcement, judicial, road and bridge maintenance, cemetery, parks, and airport and library services. Property taxes and fines, fees and vehicle registration fees finance most of these activities.

REPORTING THE COUNTY'S MOST SIGNIFICANT FUNDS – THE FUND FINANCIAL STATEMENTS

The fund financial statements begin on page 12 and provide detailed information about the most significant funds—not the County as a whole. A fund is a group 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. Laws and contracts require the County to establish some funds. The County's administration can establish many other funds to help it control and manage money for particular purposes (e.g. capital projects). All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. Each category uses a different accounting approach.

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 statements, governmental funds focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements. These funds use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) to reflect that focus. The governmental fund statements provide a detailed near-term view of the County's general operations and the basic services it provides.

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

Fiduciary funds – The County is the trustee, or fiduciary, for money received in numerous offices. All of the County's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 16. We report the resources these activities produce that are due to County operating funds as an interfund receivable in those funds and as an interfund payable in the Statement of Fiduciary Net Assets. All other resources within the fiduciary activities are excluded from the County's other financial reports because the County cannot use those assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the County's governmental and business-type activities.

Net position of the County's governmental activities increased from \$12,393,818 to \$14,041,936. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – was \$5,911,154 at September 30, 2013 as compared to \$5,246,022 at September 30, 2012. This increase in governmental net position was mainly the result of a combination of an increase in capital equipment on hand, higher sales tax revenue than in the previous few years, and a gain on the disposal of assets.

Table I
Dawson County, Texas
NET POSITION

	Governmental Activities	
	2013	2012
Assets:		
Current and Other Assets	8,787,872	7,828,722
Restricted Assets: Cash	434,391	840,472
Capital Assets	6,315,899	5,482,077
Total Assets	15,538,162	14,151,271
Liabilities:		
Current Liabilities	1,003,692	1,218,109
Noncurrent Liabilities	492,534	539,344
Total Liabilities	1,496,226	1,757,453
Net Position:		
Capital Assets, Net of Debt	5,904,509	5,016,300
Restricted	2,224,309	2,131,496
Unrestricted	5,911,154	5,246,022
Total Net Position	14,041,936	12,393,818

Table II
Dawson County, Texas
CHANGES IN NET POSITION

	Governmental Activities	
	2013	2012
Revenues:		
Program Revenues:		
Charges for Services	2,211,644	2,040,058
Grants and Contributions	804,170	674,069
Capital Grants	406,516	104,040
Total, Program Revenues:	3,422,330	2,818,167
General Revenues:		
Property Taxes, General Purposes	6,321,328	5,864,322
Property Taxes, Debt Purposes	0	0
Sales Taxes	929,732	944,151
Mixed Beverage Tax	3,632	3,514
Penalty and Interest	69,482	77,187
Miscellaneous Revenue	435	13,956
Investment Earnings	6,488	6,457
Gain on Disposal of Assets	171,806	123,670
Total General Revenue and Special Items:	7,502,903	7,033,257
Total Revenue	10,925,233	9,851,424

	Table II (Cont.) Dawson County, Texas CHANGES IN NET POSITION	
	Governmental Activities	
Expenses	2013	2012
General Government	1,692,385	1,271,422
Judicial	1,565,829	1,676,876
Elections	34,753	24,925
Financial Administration	270,172	256,111
Tax Administration	312,147	318,980
Facilities Management	799,330	567,874
Public Safety	687	849
Law Enforcement	761,592	726,399
Fire Protection	162,105	350,202
Corrections	856,835	858,101
Public Works	5,959	18,474
Roads & Bridges	2,091,771	1,643,632
Sanitation	65,340	59,400
Public Transportation	6,837	5,000
Health Care	167,104	354,042
Human Services	61,310	60,523
Parks & Recreation	40,016	43,921
Museums	1,000	1,000
County Extension Service	74,395	76,635
Libraries	307,548	290,720
Total Expenses	9,277,115	8,605,086
Change in Net Position	1,648,118	1,246,338
Net Position at Beginning of Year	12,393,818	11,147,480
Net Position at End of Year	14,041,936	12,393,818

Key factors related to the County's financial performance over the last year include the following:

1. Mineral and Related taxable values decreased about 12 percent. Local Property taxable values were up slightly but were consistent with values over the last several years. Sales tax numbers were level.
2. County personnel numbers remained the same as the previous year.
3. The County recorded a gain on the disposal of capital assets (trade-ins) of \$171,806 which helped reduce the cost of new machinery.

The cost of all governmental activities this year was \$9,277,115. However, as shown in the Statement of Activities Exhibit B-1, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$6,321,328 because some of the costs were paid with charges for services of \$2,211,644, grants and contributions of \$645,505, capital grants of \$565,181, sales tax of \$929,732 and other various general revenues of \$80,037. All of these categories increased from the prior year.

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as reported on the Statement of Revenues, Expenditures, and changes in Fund Balance, Exhibit C-3) showed a combined fund balance of \$7,988,921 as compared to last year's total of \$7,207,441. Included in this year's total change in fund balance is an increase of \$439,723 in the County's General Fund.

For fiscal year 2013, actual revenue on a budgetary basis was \$7,566,290 compared to the original revenue budget of \$6,533,207. Reasons for the actual numbers varying from the budget follow:

- In virtually every revenue category, receipts were higher than budgeted.
- Sales tax revenues were significantly higher
- Interest earnings received were higher than budgeted.

For fiscal year 2013, actual expenditures on a budgetary basis for the General Fund were \$6,594,932, compared to the original expenditure budget of \$6,533,202. The actual expenditures were \$689,649 more than the prior year. The Commissioners' Court revised the County budget several times. These revisions include amendments and supplemental appropriations that were approved during the year to address mid-year situational changes. The primary amendments include:

- Paying cash instead of incurring debt for much needed repairs to several county facilities
- Paid cash for several items of equipment for the Road and Bridge precinct
- Completed a major renovation to make a facility handicap accessible
- Resurfaced approximately 18 miles of asphalt roads to make them safer to drive on
- Purchased a new Sheriff's patrol vehicle, a K-9 vehicle, and a 2012 pickup for the County Agent,
- Purchased a much needed 2012 Dodge Ambulance for the EMS department

Exhibit E-1 provides a detailed comparison of these changes as they relate to the General Funds. This General Fund presentation reflects a combination of the General, Jury and the Road & Bridge funds.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At the beginning of fiscal year 2013, the County had \$5,482,077 invested in a broad range of capital assets, including land, buildings and equipment. By the end of fiscal year 2013 the County added to that total by \$833,822 and ended the year with \$6,315,899 in Capital Assets. More detailed information about the County's capital assets is presented in Note IV, Item F to the financial statements.

As has been the case for the last few years, the County had no Debt. It does lease various pieces of equipment and at year end had \$603,454 in Capital and Operating leases. More detailed information about the County's long-term liabilities is presented in Note IV, Items H and I to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2014 budget and tax rates. Some key items that should be noted are as follows:

1. Mineral taxable values decreased 12% this year. The new valuation methodology adopted by the Texas legislature has produced a much fairer representation of the value of minerals and stabilized revenue planning for the entities that rely on minerals so heavily. Minerals account for over 60% of the total property value of Dawson County now, a significant uptick from just a few years ago.
2. The Commissioner's Court made it a point to do all that they could to keep the tax rate for the citizens as low as possible. For the fifth year in a row, the court set the tax rate at or below the effective tax rate. Additionally, the officials and department heads did not ask for large increases in their operating budgets. However, the reserve line was increased after being minimized in the last several budgets.
3. The Court also authorized a three percent increase in pay for all county officials and employees and fully funded their benefits at the same levels as last year. The budget will allow for approximately the same number of employees in 2014. The net result was that the adopted tax rate was set at \$0.525828 cents per \$100 of valuation, an increase of 4.63 cents from the prior year.
4. The Road and Bridge combined precinct's performance is exceeding expectations. Most of the precincts vehicle needs were met in the prior year. However, the court budgeted for the lease purchase of two new maintainers contingent upon meeting the requirement for the FEMA money to be transferred in to the precinct to pay for them. In addition, the county resolved to permanently maintain approximately 2.7 miles of streets within the City of Lamesa that are county owned and anticipate substantial costs maintaining these streets to county standards.
5. The oil and agriculture industries in our area have had successful years but continue to be very unpredictable. There is a dramatic increase in oil and gas exploration in a five county area of which Dawson County is included. Significant technique changes have made oil that was virtually unavailable just a few years ago within reach.

There is the potential for a significant increase in mineral valuations in this County if production begins on a large scale basis. However, it is still difficult to accurately predict long-term economic numbers for Dawson County. Possibilities that will help strengthen and expand existing business and industry remain a focal point for economic development, along with seeking and pursuing opportunities not directly linked to oil, wind, and agriculture to help create stability and diversification for our local economy.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, consumers, investors and creditors with a general overview of Dawson County's finances and to show the County's accountability for the money it receives. For questions concerning any information provided in this report or requests for additional financial information, contact the County Auditor, Dawson County, Texas, PO Box 1268, Lamesa, Texas, 79331.

Respectfully submitted,

Rick Dallahan

Dawson County Auditor

**DAWSON COUNTY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

	<u>Primary Government Governmental Activities</u>
Assets	
Cash and Cash Equivalents	\$ 8,353,368
Investments - Current	21,345
Receivables (net of allowance for uncollectibles)	384,926
Due from Agency Funds	28,233
Restricted Assets:	
Cash	434,391
Capital Assets	
Land	91,208
Buildings, net	3,092,496
Machinery and Equipment, net	3,132,195
Total Assets	<u><u>\$ 15,538,162</u></u>
Liabilities	
Accounts Payable	\$ 571,266
Non-Current Liabilities	
Due Within One Year	181,764
Due in More Than One Year	310,770
Total Liabilities	<u><u>\$ 1,063,800</u></u>
Deferred Inflows of Resources	<u><u>\$ 432,426</u></u>
Net Position	
Invested in Capital Assets, Net of Related Debt	\$ 5,904,509
Restricted for:	
Federal or State Grants	1,844
Judicial	1,035,067
Road & Bridge	870,256
Community Improvement	4,385
Other Purposes	314,721
Unrestricted Net Position	5,911,154
Total Net Position	<u><u>\$ 14,041,936</u></u>

The notes to the Financial Statements are an integral part of this statement.

**DAWSON COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants</u>	<u>Governmental Activities</u>
Primary Government:					
Governmental Activities:					
General Government	\$ 1,692,385	\$ 182,992	\$ 10,000	\$ -	\$ (1,499,393)
Judicial	1,565,829	921,206	602,170	-	(42,453)
Elections	34,753	4,600	-	-	(30,153)
Financial Administration	270,172	1,830	-	-	(268,342)
Tax Administration	312,147	363,647	-	-	51,500
Facilities Management	799,330	49,368	-	-	(749,962)
Public Safety	687	600	-	-	(87)
Law Enforcement	761,592	43,889	-	-	(717,703)
Fire Protection	162,105	-	-	-	(162,105)
Corrections	856,835	11,398	-	-	(845,437)
Public Works	5,959	-	-	158,665	152,706
Road and Bridges	2,091,771	610,221	25,023	406,516	(1,050,011)
Sanitation	65,340	-	-	-	(65,340)
Public Transportation	6,837	-	-	-	(6,837)
Health Care	167,104	264	-	-	(166,840)
Human Services	61,310	2,830	-	-	(58,480)
Parks & Recreation	40,016	3,875	752	-	(35,389)
Museums	1,000	-	-	-	(1,000)
County Extension Service	74,395	-	-	-	(74,395)
Libraries	307,548	14,924	7,560	-	(285,064)
Total Primary Government:	<u>\$ 9,277,115</u>	<u>\$ 2,211,644</u>	<u>\$ 645,505</u>	<u>\$ 565,181</u>	<u>\$ (5,854,785)</u>
General Revenue:					
Taxes:					
Property Taxes, Levied for General Purposes					\$ 6,321,328
Sales Taxes					929,732
Mixed Beverage Tax					3,632
Penalty and Interest					69,482
Miscellaneous Revenue					435
Investment Earnings					6,488
Gain on Disposal of Assets					171,806
Total General Revenues and Special Items					<u>\$ 7,502,903</u>
					Change in Net Position
					\$ 1,648,118
					Net Position - Beginning
					<u>\$ 12,393,818</u>
					Net Position - Ending
					<u>\$ 14,041,936</u>

The notes to the Financial Statements are an integral part of this statement.

**DAWSON COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

	<u>General Fund</u>	<u>Precinct</u>	<u>FEMA</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and Cash Equivalents	\$ 5,645,741	\$ 775,087	\$ -	\$1,932,540	\$ 8,353,368
Investments - Current	-	-	-	21,345	21,345
Taxes Receivable	388,505	40,367	-	-	428,872
Allowance for Uncollectible Taxes	(114,218)	(19,769)	-	-	(133,987)
Receivables (Net)	90,041	-	-	-	90,041
Due from Agency Funds	28,233	-	-	-	28,233
Restricted Assets					
Cash	-	-	434,391	-	434,391
Total Assets	<u>\$ 6,038,302</u>	<u>\$ 795,685</u>	<u>\$ 434,391</u>	<u>\$1,953,885</u>	<u>\$ 9,222,263</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 377,398	\$ 151,123	\$ -	\$ 42,745	\$ 571,266
Total Liabilities	<u>\$ 377,398</u>	<u>\$ 151,123</u>	<u>\$ -</u>	<u>\$ 42,745</u>	<u>\$ 571,266</u>
Deferred Inflows of Resources	<u>\$ 209,052</u>	<u>\$ 20,598</u>	<u>\$ 432,426</u>	<u>\$ -</u>	<u>\$ 662,076</u>
Fund Balances					
Restricted Fund Balance:					
Grant Restriction	\$ -	\$ -	\$ -	\$ 1,844	\$ 1,844
Judicial	-	-	-	1,035,067	1,035,067
Road & Bridge	241,903	623,964	1,965	2,424	870,256
Community Improvement	-	-	-	4,385	4,385
Other Restricted Fund Balance	-	-	-	314,721	314,721
Assigned Fund Balance:					
Community Improvement	-	-	-	548	548
Unassigned Fund Balance	5,209,949	-	-	552,151	5,762,100
Total Fund Balances	<u>\$ 5,451,852</u>	<u>\$ 623,964</u>	<u>\$ 1,965</u>	<u>\$1,911,140</u>	<u>\$ 7,988,921</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 6,038,302</u>	<u>\$ 795,685</u>	<u>\$ 434,391</u>	<u>\$1,953,885</u>	<u>\$ 9,222,263</u>

The notes to the Financial Statements are an integral part of this statement.

**DAWSON COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

Total Fund Balances - Governmental Funds \$ 7,988,921

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$10,076,500 and the accumulated depreciation was \$4,594,423. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position. 4,942,733

Current year capital outlays and long-term debt principal payments are expenditures in the fund statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2013 capital outlays and debt principal payments is to increase (decrease) net position. 1,491,663

The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. (603,454)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred inflows of resources as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position. 222,073

Net Position of Governmental Activities \$ 14,041,936

The notes to the Financial Statements are an integral part of this statement.

DAWSON COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	General Fund	Precinct	FEMA	Other Funds	Total Governmental Funds
Revenues					
Taxes:					
Property Taxes	\$ 5,447,772	\$ 942,886	\$ -	\$ -	\$ 6,390,658
General Sales and Use Taxes	929,732	-	-	-	929,732
Mixed Beverage Tax	3,632	-	-	-	3,632
Licenses and Permits	-	570,707	-	-	570,707
Intergovernmental Revenue and Grants	53,480	-	406,516	750,690	1,210,686
Charges for Services	644,128	-	-	75,178	719,306
Fines	251,689	-	-	23,138	274,827
Forfeits	-	-	-	8,895	8,895
Investment Earnings	6,334	-	-	154	6,488
Rents and Royalties	3,000	-	-	-	3,000
Contributions & Donations from Private Sources	-	-	-	1,064	1,064
Other Revenue	226,523	1,177	435	420,290	648,425
Total Revenues	<u>\$ 7,566,290</u>	<u>\$ 1,514,770</u>	<u>\$ 406,951</u>	<u>\$ 1,279,409</u>	<u>\$ 10,767,420</u>
Expenditures					
General Government	\$ 1,176,836	\$ -	\$ -	\$ 477,159	\$ 1,653,995
Judicial	1,381,165	-	-	560,894	1,942,059
Elections	22,077	-	-	4,835	26,912
Financial Administration	270,058	-	-	-	270,058
Tax Administration	311,961	-	-	-	311,961
Facilities Management	593,083	-	-	210,328	803,411
Public Safety	-	-	-	687	687
Law Enforcement	735,613	-	-	-	735,613
Fire Protection	158,828	-	-	-	158,828
Corrections	967,449	-	-	5,971	973,420
Public Works	-	-	-	5,959	5,959
Road and Bridges	85,600	2,119,372	-	-	2,204,972
Sanitation	65,340	-	-	-	65,340
Public Transportation	6,837	-	-	-	6,837
Health and Welfare:					
Health Care	313,986	-	-	-	313,986
Human Services	54,790	-	-	6,520	61,310
Culture and Recreation:					
Parks and Recreation	36,393	-	-	-	36,393
Museums	1,000	-	-	-	1,000
County Extension Service	95,107	-	-	-	95,107
Libraries	318,809	-	-	-	318,809
Total Expenditures	<u>\$ 6,594,932</u>	<u>\$ 2,119,372</u>	<u>\$ -</u>	<u>\$ 1,272,353</u>	<u>\$ 9,986,657</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 971,358</u>	<u>\$ (604,602)</u>	<u>\$ 406,951</u>	<u>\$ 7,056</u>	<u>\$ 780,763</u>
Other Financing Sources (Uses)					
Sale of Real and Personal Property	\$ -	\$ 717	\$ -	\$ -	\$ 717
Transfers In	-	584,245	-	531,635	1,115,880
Transfers Out	(531,635)	-	(406,516)	(177,729)	(1,115,880)
Total Other Financing Sources (Uses)	<u>\$ (531,635)</u>	<u>\$ 584,962</u>	<u>\$ (406,516)</u>	<u>\$ 353,906</u>	<u>\$ 717</u>
Net Change in Fund Balances	<u>\$ 439,723</u>	<u>\$ (19,640)</u>	<u>\$ 435</u>	<u>\$ 360,962</u>	<u>\$ 781,480</u>
Fund Balance, Beginning of Year	<u>\$ 5,012,129</u>	<u>\$ 643,604</u>	<u>\$ 1,530</u>	<u>\$ 1,550,178</u>	<u>\$ 7,207,441</u>
Fund Balance, End of Year	<u>\$ 5,451,852</u>	<u>\$ 623,964</u>	<u>\$ 1,965</u>	<u>\$ 1,911,140</u>	<u>\$ 7,988,921</u>

The notes to the Financial Statements are an integral part of this statement.

DAWSON COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Net Change in Fund Balances - Total Governmental Funds **\$ 781,480**

Amounts reported for governmental activities in the statement of activities
are different because:

Current year capital outlays and long-term debt principal payments are expenditures in the fund statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the fiscal year September 30, 2013, capital outlays and debt principal payments is to increase (decrease) net position. 1,491,663

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position. (603,454)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred inflows of resources as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position. (21,571)

Change in Net Position of Governmental Activities \$ 1,648,118

The notes to the Financial Statements are an integral part of this statement.

DAWSON COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2013

	Private Purpose Trust Fund	Agency Funds
Assets		
Cash and Cash Equivalents	\$ 95,008	\$ 900,317
Investments - Current	13,602,776	-
Receivables (Net)	4,644,161	90,041
Total Assets	\$ 18,341,945	\$ 990,358
Liabilities		
Accounts Payable	\$ -	\$ 10
Due to Others	-	149,324
Intergovernmental Payable	5,913	750,983
Total Liabilities	\$ 5,913	\$ 900,317
Deferred Inflows of Resources	\$ -	\$ 90,041
Net Position		
Restricted for Community Improvement	\$ 18,336,032	\$ -
Total Net Position	\$ 18,336,032	\$ -

The notes to the Financial Statements are an integral part of this statement.

DAWSON COUNTY, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Private Purpose Trust Fund</u>
Additions	
Investment Earnings	\$ 240,903
Rents and Royalties	1,090,697
Other Revenue	-
Total Additions	<u>\$ 1,331,600</u>
Deductions	
Ad Valorem Taxes	\$ 66,182
Transfers to County Schools	6,828,126
Total Deductions	<u>\$ 6,894,308</u>
Change in Net Assets	\$ (5,562,708)
 Total Net Position, Beginning of Year	 <u>\$ 23,898,740</u>
Total Net Position, End of Year	<u><u>\$ 18,336,032</u></u>

The notes to the Financial Statements are an integral part of this statement.

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Dawson County, Texas (the "County"), was created in 1905 by the Texas Legislature. The County operates under the authority of the elected Commissioners' Court (the "Court") and provides the following services: Law Enforcement, Judicial, Health, Safety, Welfare, Culture, Road & Bridge Maintenance, and General Administrative services.

A. REPORTING ENTITY

The Commissioners' Court (the "Court") consists of four County Commissioners and the County Judge who are elected by the public. The Court has the primary accountability for fiscal matters, and is therefore, a financial reporting entity. As required by accounting principles generally accepted in the United States of America, these financial statements present Dawson County, Texas.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of Dawson County, Texas, with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants, and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support. The County currently has no business-type activities. The *primary government* would be reported separately from certain legally separate *component units* for which the primary government is financially accountable. However, there are currently no component units.

The Statement of Activities demonstrates how other people or entities that participate in programs the County operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services, such as vehicle registrations, provided by a given function or segment of the County. The "grants and contributions" column includes amounts paid by organizations outside the County to help meet the operational or capital requirements of a given function. If revenue is not program revenue, it is general revenue used to support all of the County's functions. The County's taxes are always reported as general revenues.

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

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

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013**

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

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

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

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

The fiduciary funds are accounted for on a flow of economic resources measurement focus and utilize the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the Fund Statement of Net Position. The net position is segregated into restricted and unrestricted net position.

D. FUND ACCOUNTING

The County reports the following major governmental funds:

The General Fund – The General Fund is the County's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. For this presentation, the General Fund and Road and Bridge Fund have been combined. These funds are operated and maintained separately by the Commissioners' Court decision, but there are not any outside requirements for the self-imposed separation, and the funds can be used for general County operations.

Other Major Governmental Funds – Farm to Market and Lateral Road Fund and the Precinct Funds are the County's Special Revenue Funds designated to receive and expend the farm to market taxes and lateral road monies that are used for precinct road operations.

DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013

Other Governmental Funds:

Special Revenue Funds – The County accounts for resources restricted to, or designated for, specific purposes by the County or a grantor in special revenue funds. Most federal and some State financial assistance is accounted for in a special revenue fund and sometimes unused balances must be returned to the grantor at the close of specified project periods. Most of the County’s special revenue funds are not from grants but simply have restrictions on their use.

Fiduciary Funds:

Private Purpose Trust Funds - The County accounts for funds that both the principal and the income must be used for purposes that benefit parties other than the County. The only Private Purpose Trust Fund is the Permanent School Fund.

Agency Funds – The County accounts for resources held for others in a custodial capacity in agency funds. The County’s agency funds are the County Attorney’s funds, Sheriff’s funds, Justice of the Peace’s funds, County Clerk’s funds, Tax Assessor Collector’s funds, and District Clerk’s funds.

E. OTHER ACCOUNTING POLICIES

Cash Equivalents – The County considers investments to be cash equivalents if they have maturity of six months or less when purchased.

Consumable Materials and Supplies – Disbursements for the purchase of consumable materials and supplies are recorded as expenditures. Therefore, inventories of such items are not included in the balance sheet.

Due From (To) Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded in the affected funds in the period in which transactions are executed. See Note IV, E for additional discussion of interfund receivables, payables, and transfers.

Capital Assets – Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental activities columns in the Government-Wide Financial Statements. The County defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Land is not depreciated.

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

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Building Improvements	15-50
Vehicles	5-10
Other Equipment	5-10

DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013

Infrastructure Assets – The County has elected to use the modified approach in accounting for its street network (pavement). The modified approach allows governments to report as expenses in lieu of depreciation, infrastructure expenditures which maintain the asset but do not add to or improve the asset. Additions and improvements to the street network are capitalized. The County uses a pavement rating system to rate street condition and quantify the results of maintenance efforts. The rating system uses a measurement scale that is based on a condition index rating from zero for failed pavement to 10 for pavement in perfect condition. The condition index is used to classify roads and streets in five categories: very good (9-10), good (7-8), fair (5-6), poor (3-4), and very poor (0-2). It is the County’s desire to maintain 100% of its street system in good or very good condition. See Exhibit E-3 on page 36 for additional information.

Long-Term Debt and Bond Issue Costs - In the Government-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Compensated Absences – The County has a policy of paying for unused vacation, compensatory and holiday time. Sick time is allowed to accumulate to a maximum of 480 hours, but the County does not pay for unused sick time. The liability for these items has been estimated at approximately \$81,144 as of September 30, 2013. They are recorded as expenditures when they are paid but are reflected in the Government-Wide Financial Statements.

Deferred Inflows of Resources – Deferred Inflows of Resources in all fund statements represents the delinquent property taxes and fines expected to be collected in some future period and the FEMA funds received and discussed in Note IV, O.

Net Position and Fund Balance –

Government-Wide Financial Statements:

Investment in Capital Assets, Net of Related Debt – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction, or improvement of these capital assets.

Restricted Net Position – The component of net position that is restricted by a constraint placed on the use of assets that is either imposed externally or by law through constitutional provisions or enabling legislation. The Private Purpose Trust Fund restricted net position consists of the Permanent School Fund and is used for Dawson County schools.

Unrestricted Net Position – The difference between the assets and liabilities that is not reported in Net Position Invested in Capital Assets, Net of Related Debt and Net Position Restricted for the Private Purpose Trust Fund.

Governmental Fund Financial Statements:

In the fund financial statements, governmental funds report fund balances as Nonspendable, Restricted, Committed, Assigned or Unassigned. These are discussed further in Note F below.

Management’s Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013**

liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

F. FUND BALANCE CLASSIFICATION

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The County has classified Fixed Assets as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year. Since Fixed Assets are not included in fund financial statements, the Nonspendable classification does not appear on the balance sheet.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The County has restricted resources.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the County Commissioners (the highest level of decision-making authority). These amounts cannot be used for any other purpose unless the County Commissioners remove or change the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The County does not currently have committed funds.
- **Assigned:** This classification includes amounts that are constrained by the County Commissioners' intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the County Commissioners or through the County Commissioners delegating this responsibility to another individual through the budgetary process. This classification is used in the Clean Up Cemetery Fund.
- **Unassigned:** This classification includes the residual fund balance for the General Fund except for a portion of the General Fund Fund Balance that is classified as Restricted.

The County would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013**

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENT FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total government funds on the Governmental Fund Balance Sheet and the net position for governmental activities as reported in the Government-Wide Statement of Net Position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

Capital Assets at the Beginning of the Year	Historic Cost	Accumulated Depreciation	Net Value at the Beginning of the Year	Adjustments to Changes in Net Position
Land	\$ 56,019	\$ -	\$ 56,019	
Buildings	4,741,623	2,147,822	2,593,801	
Furniture and Equipment	5,278,858	2,446,601	2,832,257	
Change in Net Position				\$ 5,482,077
Long-Term Liabilities at the Beginning of the Year			Payable at the Beginning of the Year	
Compensation Payable			\$ 73,567	
Capital Leases Payable			465,777	
Change in Net Position				\$ 539,344
Net Adjustment to Net Position				\$ 4,942,733

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES.

Exhibits C-2 and C-4 provide a reconciliation between the net changes in fund balance as shown on the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the changes in net position of governmental activities as reported on the Government-Wide Statement of Activities. One element of the reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net position.

DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013

The details of this adjustment are as follows:

	Amount	Adjustments to Net Position	Adjustments to Changes in Net Position
Current Year Capital Activity			
Land	\$ 35,189		
Buildings and Improvements	597,938		
Furniture and Equipment	871,559		
Basis in Assets Retired	(67,410)		
Total Capital Outlay	\$ 1,437,276	\$ 1,437,276	\$ 1,437,276
Debt Principal Activity			
Capital Lease Payments	\$ 356,747		
Capital Lease Proceeds	(302,360)		
Total Principal Payments	\$ 54,387	54,387	54,387
Total Adjustment to Net Position		\$ 1,491,663	\$ 1,491,663

Another element of the reconciliation on Exhibit C-2 and C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	Amount	Adjustments to Net Position	Adjustments to Changes in Net Position
Adjustments to Revenue and Deferred Inflows			
Uncollected Taxes (assumed collectible) from Current Year Levy	\$ 152	\$ 152	\$ 152
Uncollected Taxes (assumed collectible) from Prior Year Levy	139,457	139,457	
Uncollected Fees of Office from Prior Year	104,187	104,187	
Uncollected Fees of Office, Current Year Increase	(14,146)	(14,146)	(14,146)
Reclassify Certain Expenditures:			
Increase in Compensated Absences	(7,577)	(7,577)	(7,577)
Total		\$ 222,073	\$ (21,571)

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Commissioners' Court adopts an "appropriated budget" for the General Fund and Special Revenue Funds. The budgets are prepared on the modified accrual basis to comply with the Constitution of the State of Texas. The adopted and final amended budgeted revenues and expenditures for the General Fund and the Precinct Fund are presented in Exhibit E-1 through E-2.

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013**

The following procedures are used in establishing the budgetary data reflected in the Required Supplemental Information Budgetary Comparisons:

1. In July, the County Judge, with assistance of the County Auditor, prepares a budget for the succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is filed with the County Clerk and is open to public inspection. The Commissioners' Court is required to hold at least one public hearing on the budget no less than 15 days subsequent to the filing by the County Judge.
3. Prior to October 1, the Commissioners' Court legally enacts the budget through passage of a resolution. Once a budget is approved, it can only be amended at object, department, and fund level by approval of a majority of the members of the Commissioners' Court. The law requires that such amendments are made before the fact, are reflected in the official minutes of the Commissioners' Court, and are not made after fiscal year end. The County had several budget amendments during the year.
4. Each Budget is controlled at the revenue and expenditure function/object level in accordance with Texas statutory guidance. The County Auditor audits and approves legal expenditures. The Commissioners' Court audits and settles claims against the County but can spend money only in accordance with the adopted budget. The Treasurer disburses money after ordered by the Court if the expenditure is in accordance with Texas statutes. All budget appropriations lapse at year end.

IV. OTHER NOTES ON FUNDS AND ACCOUNTS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the County to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act.

Policies Governing Deposits and Investments

In compliance with the Public Fund Investment Act, the County has adopted a deposit and investment policy. That policy is updated as necessary and addresses the following risk:

Custodial Credit Risk – Cash and investment deposits: This is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The County's policy regarding types of deposits allowed and collateral requirements states that all deposits must be insured by FDIC or secured in another

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013**

manner provided by law. All deposits of the County are held at First United Bank of Lamesa. At September 30, 2013, the total amount on deposit was \$23,202,365. Collateral for deposits consists of numerous security bonds, held in the name of First United Bank and marked as pledged to Dawson County, with a market value of \$33,770,452 as of September 30, 2013.

Cash deposits held at financial institutions can be categorized according to three levels of risk. These levels of risk are:

- | | |
|------------|---|
| Category 1 | Deposits that are insured or collateralized with securities held by the entity or by its agent in the entity's name. |
| Category 2 | Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. |
| Category 3 | Deposits that are not collateralized. |

Based on the three levels of risk, all of the County's cash deposits are classified as category 2. The County's deposits were covered by depository insurance or pledged securities held by the pledging financial institution's trust department or agent at all times during the year.

The County's investments consisted completely of certificates of deposit and interest bearing checking accounts at First United Bank, Lamesa, Texas. Though all the certificates were written with one-month maturities, the rates provided by the depository were consistent to jumbo certificates of one year duration.

B. PROPERTY TAXES

In accordance with State law, the Dawson County Central Appraisal District makes all appraisals for tax purposes. Assessed values are based upon 100 percent of appraised market value and are reviewed every three years. Taxpayers have the right to challenge the assessed value.

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business property located in the County in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon 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 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

The tax rate for the fiscal year ended September 30, 2013, (2012 tax levy) was \$0.434352 per \$100 assessed value for County General Fund operations and \$0.075177 for farm-market lateral maintenance and operations for a total rate of \$0.509529. The County is subject to a tax rate rollback if the total amount of property taxes imposed in any year, as defined by statute, exceeds the total amount of property taxes imposed in the preceding year by 8 percent.

C. DELINQUENT TAXES RECEIVABLE

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

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013**

D. OTHER ACCOUNTS RECEIVABLE

County accounts receivable at September 30, 2013, were:

	<u>September 30, 2013</u>
County Clerk fines	\$ 82,357
District Clerk fines	293,257
Justice of the Peace fines	224,597
	600,211
Allowance for doubtful collection	(510,170)
Net receivables	\$ 90,041

E. INTERFUND BALANCES AND TRANSFERS

Interfund balances at September 30, 2013, consisted of the following individual fund balances:

	Due from Other Funds	Due to Other Funds
General Fund:		
Agency Fund	\$ 28,233	
Total General Fund	\$ 28,233	
Agency Fund		\$ 28,233
Total		\$ 28,233

The interfund transfers reflected on the Statements of Revenues and Expenditures were for routine purposes. Transfers from the Farm to Market & Lateral Road Fund of \$25,023 were to the Precinct Fund for Precinct operations. \$152,706 was a transfer from the Community Development Block Grant to the Precinct Fund to cover the costs incurred carrying out the purpose of the grant. \$495,635 was transferred from the General Fund to the Capital Repair Fund for capital repairs in the County. \$406,516 was transferred from the FEMA Funds to the Precinct to cover road improvement costs as covered by the FEMA Grant. \$36,000 was transferred from the General Fund to the County Attorney Check Collection Fund.

F. CAPITAL ASSET ACTIVITY

Capital assets have been combined into an accumulating account over an extended period. Since 1993, the costs have been maintained in sufficient detail to calculate depreciation, but the costs before 1993 were commingled into totals. Estimates have been used to establish prior year recordings and costs.

DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013

Capital asset activity for the County for the year ended September 30, 2013, was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirement	
Governmental Activities:				
Land	\$ 56,019	\$ 35,189	\$ -	\$ 91,208
Buildings and Improvements	4,741,623	597,938	-	5,339,561
Equipment	3,900,385	637,067	202,378	4,335,074
Transportation Equipment	1,289,436	234,492	110,632	1,413,296
Furniture and Fixtures	89,037	-	-	89,037
Totals at Historical Cost	<u>\$ 10,076,500</u>	<u>\$ 1,504,686</u>	<u>\$ 313,010</u>	<u>\$ 11,268,176</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	2,147,822	99,243	-	2,247,065
Equipment	1,647,145	354,753	134,968	1,866,930
Transportation Equipment	752,706	140,076	110,632	782,150
Furniture and Fixtures	46,750	9,382	-	56,132
Total Accumulated Depreciation	<u>\$ 4,594,423</u>	<u>\$ 603,454</u>	<u>\$ 245,600</u>	<u>\$ 4,952,277</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,482,077</u>	<u>\$ 901,232</u>	<u>\$ 67,410</u>	<u>\$ 6,315,899</u>

Capital assets purchased through capital leases are included in the above amounts. The gross amounts included in the ending balances above are Equipment of \$1,989,087 and Accumulated Depreciation on Equipment of \$527,929.

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 49,042
Justice System	26,468
Elections	7,841
Facilities Management	1,148
Law Enforcement	59,716
Fire Protection	2,478
Corrections	55,262
Roads and Bridges	332,114
Health Care	44,329
Parks and Recreation	3,623
County Extension Service	18,260
Libraries	3,173
Total Depreciation Expense	<u>\$ 603,454</u>

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013**

G. LONG-TERM LIABILITIES

A summary of changes in general long-term debt for the year ended September 30, 2013, is as follows:

Description	Interest Rate Payable	Interest Current Year	Payable Amounts Outstanding 10/01/12	Issued	Retired	Payable Amounts Outstanding 9/30/13	Due Within One Year
Compensated Absences							
Various Funds	None	None	\$ 73,567	\$ 7,577	\$ -	\$ 81,144	\$ 81,144
Capital Lease Precinct	2.38%	\$ 2,612	-	130,014	22,755	107,259	25,396
Capital Lease Precinct	3.20%	1,358	-	172,346	7,995	164,351	32,628
Capital Lease Precinct	3.20%	5,283	181,013	-	41,233	139,780	42,596
Capital Lease Precinct	3.50%	1,927	68,948	-	68,948	-	-
Capital Lease Precinct	4.40%	2,953	77,555	-	77,555	-	-
Capital Lease Precinct	4.75%	6,032	138,261	-	138,261	-	-
Total		\$ 20,165	\$ 539,344	\$ 309,937	\$ 356,747	\$ 492,534	\$ 181,764

Interest charged to expense in the Precinct Fund for the current fiscal year was \$20,165.

H. DEBT SERVICE REQUIREMENTS – CAPITAL LEASES

The County has entered into lease agreements as lessee to finance the acquisition of six road graders. Three of these contracts were completed during the year. The County also entered into two new contracts. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is a schedule of the capital lease commitments as of September 30, 2013.

	Present Value of Minimum Lease Payments	Interest	Total Minimum Lease Payments
Caterpillar – 140 M2 Grader – Precinct	\$ 139,780	\$ 7,521	\$ 147,301
Caterpillar – 140 H Grader – Precinct	107,259	5,386	112,645
Caterpillar – 140 M Grader – Precinct	164,351	13,000	177,351
Total	\$ 411,390	\$ 25,907	\$ 437,297

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013**

These total minimum lease payments are payable as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 100,620	\$ 10,981	\$ 111,601
2015	103,698	7,902	111,600
2016	106,873	4,727	111,600
2017	70,906	1,931	72,837
2018	29,293	366	29,659
Total Capital Lease Payments	<u>\$ 411,390</u>	<u>\$ 25,907</u>	<u>\$ 437,297</u>

I. COMMITMENTS UNDER NONCAPITALIZED LEASES

The future minimum rental commitments under operating (non-capitalized) lease agreements were for several copiers. The minimum future rental payments as of September 30, 2013, were as follows:

<u>Year Ending September 30,</u>	
2014	\$ 11,044
2015	10,236
2016	5,705
2017	2,709
Total Minimum Rental	<u>\$ 29,694</u>
Rental Expenditures in Fiscal Year 2013	\$ 10,840

J. EMPLOYEE RETIREMENT BENEFITS

The County provides two separate retirement benefit plans. One plan is the defined benefit plan that is provided through the Texas County and District Retirement System. The County also offers a deferred compensation plan to its employees.

Texas County and District Retirement System Plan

Plan Description. Dawson County, Texas, provides retirement, disability, and death 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 602 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the 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 deposits in the plan to receive any employer-financed benefit. Members who withdraw their personal deposits in a lump sum are not entitled to any amounts contributed by their employer.

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013**

Benefit amounts are determined by the sum of the employee's deposits to the plan with interest and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer 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 deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

GASB 27 Calculation Information

	<u>2012</u>	<u>2013</u>
GASB 27 compliant contribution rate	12.18%	12.36%
Assumed return on employer funds	9.00%	9.00%
Actuarial amortization factor	12.4298	12.4298
Contribution rate	12.18%	12.36%

Actuarial Information

Actuarial valuation date	12/31/10	12/31/11	12/31/12
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, closed	level percentage of payroll, closed	level percentage of payroll, closed
Amortization period in years	20	20	20
Asset valuation method			
Subdivision Accumulation Fund	10-yr Smoothed value	10-yr Smoothed value	10-yr Smoothed value
Employees Saving Fund	Fund Value	Fund Value	Fund Value
Actuarial Assumptions:			
Investment return*	8.00%	8.00%	8.00%
Projected salary increases*	5.40%	5.40%	5.40%
Inflation	3.50%	3.50%	3.50%
Cost-of-living adjustments	0.00%	0.00%	0.00%

*Includes inflation at the stated rate

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

1. The annual covered payroll is based on the employee contributions received by TCDRS for the year ending with the valuation date.
2. Revised economic and demographic assumptions due to an experience review were reflected in this valuation.

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013**

Note Disclosure Variables

1. Plan Description	2012*	2013*
Number of participating subdivisions	624	641
Years required for vesting and retirement at age 60	8	8
Rule of Dawson County for retirement eligibility	80	80
Service years for retirement at any age	30	30
Partial Lump-sum payment option	Yes	Yes
 2. Funding Policy		
Contribution rate for employer	12.18%	12.36%
Deposit rate for employees	7.00%	7.00%
 3. Other		
Elected rate in effect	No	No

(*) - relates to the plan year

Trend Information for the Retirement Plan for the Employees of Dawson County, Texas

Accounting Year End	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/11	378,452	100%	-
9/30/12	397,433	100%	-
9/30/13	404,529	100%	-

Deferred Compensation Plan. The County offers a deferred compensation plan for employees who elect to participate. Participants may defer up to 25% of gross income not to exceed \$7,500 per year. Withdrawals are permitted because of death, emergency as defined by the Internal Revenue Service, termination of employment or retirement. The County does not contribute to the plan, and all assets in the plan belong to the employees.

K. CAFETERIA PLAN

The County entered into a Pre-Tax Premium Plan which qualifies as a “cafeteria plan.” The insurance premiums that qualify for the plan are medical, life, and accidental death and dismemberment. The individuals who are eligible to participate are all employees who are covered or who are eligible to be covered under the County’s group health plan.

L. HEALTH CARE COVERAGE

The County provides group health insurance coverage to all full time employees. Employees may elect to cover dependents at their own expense. County employee premiums are paid with County funds.

Coverage includes a \$500 annual deductible or \$1,500 for the family. Medical expenses exceeding the deductible are paid at 90% in plan and 70% out of plan. The maximum out of pocket cost to the employee should be \$2,000 per person or \$6,000 per family.

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013**

M. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2013, the County purchased commercial insurance to cover these risks. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

N. JOINT VENTURE ARRANGEMENTS

The County is involved in the following joint ventures with the City of Lamesa:

The County has a 50% financial interest in the municipal airport. The County provides \$5,000 annually for working capital. No significant accumulations of financial resources or deficits are in this joint venture.

The County has a 50% financial interest in the city swimming pool. The County is billed annually by the City for its share of the loss. Financial records reflecting the operations are available at the City of Lamesa offices.

O. FEMA FUNDS

The County received federal funds from the Federal Emergency Management Agency (FEMA) to assist with the costs of road repairs needed due to damages caused by Hurricane Alex in 2010. During the fiscal year ended September 30, 2013, expenditures amounting to \$406,516 had been made related to the FEMA Grant Funds. At this time, it is unclear what the plans for the remaining funds are. As a result, only the funding expended was included as revenue of the current period. The unexpended funding was included as a Deferred Inflow of Resources on the Governmental Funds Balance Sheet. If the County uses the remaining funding for the intended purpose, the revenue will be recognized as earned (i.e. as expended). If the County decides to return the money to FEMA, the revenue will not be recognized as a current source of funding.

P. CLAIMS AND ASSESSMENTS

During the fiscal year ended September 30, 2012, certain claims against the County arose. These claims were asserted against the County stemming from a civil suit filed by a former Dawson County Jail inmate. During the fiscal year ended September 30, 2013, the County settled the civil suit. The amount of loss to the County was not in excess of the County's liability coverage. The only amount recorded in the current year financial statements is the amount of the deductible that was required to be paid by the County.

Q. CORRECTION OF AN ERROR

According to the County's revenue recognition policy, revenues are considered available if collectible within 60 days after year end. However, sales tax revenues received were not accrued in the prior year. The net effect to the prior period was an understatement of sales tax revenue and an understatement of ending fund equity of the General Fund by \$185,157. The effect on the current year financial statements is an increase of the beginning fund balance of the General Fund of \$185,157 and a net decrease in the current year sales tax revenue of \$29,881 after the current year accrual of sales tax revenue of \$155,276.

DAWSON COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Taxes				
Property Taxes	\$ 5,338,282	\$ 5,338,282	\$ 5,447,772	\$ 109,490
General Sales and Use Taxes	525,000	525,000	929,732	404,732
Mixed Beverage Tax	2,100	2,100	3,632	1,532
Intergovernmental Revenue and Grants	43,965	43,965	53,480	9,515
Charges for Services	385,870	385,870	644,128	258,258
Fines	194,095	194,395	251,689	57,294
Investment Earnings	5,160	5,160	6,334	1,174
Rents and Royalties	3,000	3,000	3,000	-
Other Revenue	35,735	35,735	226,523	190,788
Total Revenues	<u>\$ 6,533,207</u>	<u>\$ 6,533,507</u>	<u>\$ 7,566,290</u>	<u>\$ 1,032,783</u>
Expenditures				
Current:				
General Government	\$ 792,625	\$ 1,186,931	\$ 1,176,836	\$ 10,095
Judicial	1,557,926	1,628,802	1,381,165	247,637
Elections	22,475	29,885	22,077	7,808
Financial Administration	350,114	350,114	270,058	80,056
Tax Administration	322,558	322,558	311,961	10,597
Facilities Management	584,891	620,501	593,083	27,418
Public Safety:				
Law Enforcement	700,497	734,658	735,613	(955)
Fire Protection	174,349	174,349	158,828	15,521
Corrections	966,388	971,586	967,449	4,137
Public Works:				
Road and Bridges	83,712	89,637	85,600	4,037
Sanitation	67,400	67,400	65,340	2,060
Public Transportation	5,005	5,005	6,837	(1,832)
Health and Welfare:				
Health Care	327,728	328,561	313,986	14,575
Human Services	53,866	55,516	54,790	726
Culture and Recreation				
Parks & Recreation	38,942	38,942	36,393	2,549
Museums	1,000	1,000	1,000	-
County Extension Service	159,677	159,677	95,107	64,570
Libraries	324,049	324,049	318,809	5,240
Total Expenditures	<u>\$ 6,533,202</u>	<u>\$ 7,089,171</u>	<u>\$ 6,594,932</u>	<u>\$ 494,239</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 5</u>	<u>\$ (555,664)</u>	<u>\$ 971,358</u>	<u>\$ 1,527,022</u>
Other Financing Sources (Uses)				
Sale of Real and Personal Property	\$ -	\$ -	\$ -	\$ -
Transfers In	10	10	-	(10)
Transfers Out	(15)	(531,645)	(531,635)	10
Total Other Financing Sources (Uses)	<u>\$ (5)</u>	<u>\$ (531,635)</u>	<u>\$ (531,635)</u>	<u>\$ -</u>
Change in Fund Balance	<u>\$ -</u>	<u>\$ (1,087,299)</u>	<u>\$ 439,723</u>	<u>\$ 1,527,022</u>
Fund Balance, Beginning of Year			<u>\$ 5,012,129</u>	
Fund Balance, End of Year			<u>\$ 5,451,852</u>	

The notes to the Financial Statements are an integral part of this statement.

DAWSON COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - PRECINCT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Taxes				
Property Taxes	\$ 923,896	\$ 923,896	\$ 942,886	\$ 18,990
Licenses and Permits	536,400	536,400	570,707	34,307
Other Revenue	400	400	1,177	777
Total Revenues	<u>\$ 1,460,696</u>	<u>\$ 1,460,696</u>	<u>\$ 1,514,770</u>	<u>\$ 54,074</u>
Expenditures				
Current:				
Public Works:				
Road and Bridges	\$ 1,823,217	\$ 2,227,344	\$ 2,119,372	\$ 107,972
Total Expenditures	<u>\$ 1,823,217</u>	<u>\$ 2,227,344</u>	<u>\$ 2,119,372</u>	<u>\$ 107,972</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (362,521)	\$ (766,648)	\$ (604,602)	\$ 162,046
Other Financing Sources (Uses)				
Sale of Real and Personal Property	\$ 5	\$ 5	\$ 717	\$ 712
Transfers In	362,546	584,245	584,245	-
Total Other Financing Sources (Uses)	<u>\$ 362,551</u>	<u>\$ 584,250</u>	<u>\$ 584,962</u>	<u>\$ 712</u>
Change in Fund Balance	<u>\$ 30</u>	<u>\$ (182,398)</u>	<u>\$ (19,640)</u>	<u>\$ 162,758</u>
Fund Balance, Beginning of Year			<u>\$ 643,604</u>	
Fund Balance, End of Year			<u>\$ 623,964</u>	

The notes to the Financial Statements are an integral part of this statement.

**DAWSON COUNTY, TEXAS
SCHEDULE OF FUNDING PROGRESS
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Actuarial Valuation Date	December 31, 2010	December 31, 2011	December 31, 2012
Actuarial Value of Assets	\$ 7,978,336	\$ 8,735,064	\$ 9,712,043
Actuarial accrued liability (AAL) - Entry Age	10,729,264	11,574,151	12,659,222
Unfunded or (overfunded actuarial accrued liability [UAAL or (OAAL)] - Entry Age	2,750,928	2,839,087	2,947,179
Funded Ratio	74.36%	75.47%	76.72%
Annual covered payroll (actuarial)	3,665,764	3,697,744	3,711,091
UAAL or (OAAL) as percentage of covered payroll	75.04%	76.78%	79.42%

The notes to the Financial Statements are an integral part of this statement.

DAWSON COUNTY, TEXAS
INFORMATION ABOUT INFRASTRUCTURE ASSETS
REPORTED USING THE MODIFIED APPROACH
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT E-4

As allowed by GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, the County has adopted an alternative method for reporting costs associated with certain infrastructure assets. Under this alternative method, referred to as the “modified approach,” infrastructure assets are not depreciated, and maintenance and preservation costs are expensed. The County capitalizes costs related to new construction, major replacements, and improvements that increase the capacity and/or efficiency of infrastructure assets reported under the modified approach.

In order to use the modified approach, the County is required to:

Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.

Perform and document replicable condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale.

Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the County.

Document that the infrastructure assets are being preserved approximately at or above the condition level established by the County.

Roads

The County applies the modified approach only to the 62.65 miles of paved roads that are owned by the County and maintained by the County’s Precinct. The goal of the County in conjunction with adopting the modified approach is to develop and provide a cost effective pavement maintenance and rehabilitation program that preserves the County’s investment in its road network and enhances public transportation and safety.

Measurement Scale

The condition of road pavement is measured using the County Pavement Measurement System. This system uses a measurement scale that considers the condition of the highways and roads as denoted by a Pavement Condition Index (PCI), ranging from 0 to 10. The PCI is used to classify roads into categories as follows:

Category	PCI Rating Range	Description
Very Good	9 – 10	New or nearly new pavement which provides a very smooth ride and is mainly free of distress. (No maintenance work needed.)
Good	7 – 8	Pavement which provides an adequate ride and exhibits few, if any, visible signs of distress. (Minor maintenance may be needed.)
Fair	5 – 6	Surface defects such as cracking, rutting, and raveling are affecting the ride. (Major maintenance is likely needed.)

DAWSON COUNTY, TEXAS
INFORMATION ABOUT INFRASTRUCTURE ASSETS
REPORTED USING THE MODIFIED APPROACH
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT E-4

Measurement Scale (Continued)

Poor	3 – 4	These roadways have deteriorated to such an extent that they are in need of resurfacing and the ride is noticeably rough. (Structural improvements, in addition to major maintenance, are likely needed.)
Very Poor	0 – 2	Pavement in this category is severely deteriorated and the ride quality is unacceptable. (Complete road reconstruction is likely needed.)

Established Condition Level

It is the County’s desire to maintain at least 100% of its roads at or above the “good” condition level, and none at a “very poor” condition. Condition assessments are performed at least every three years with the most recent occurring in 2011.

Assessed Conditions

The following table reports the percentage of pavement meeting the “very good” and “good” condition ratings, as well as those falling into the “fair” category, as assessed in 2011. There were no roads in the “Poor” or “Very Poor” category. The assessment takes into account if any of the three graded categories, Ride, Surface, and Structure, fell into the respective category. For instance, if the Ride graded a 6, but the Surface and Structure were both 8, the road is still considered to be in the “Fair” category.

Category	2011
Very Good / Good	73%
Fair	27%

The County has performed maintenance and repairs to approximately 80% of the County’s paved roads over the past three years and plans to finish maintenance and repair for the remaining 20% of the County roads over the next year. At that time, all roads will be in the “Good” or “Very Good” categories.

For the fiscal years ending September 30, 2012 and 2013, the County has expended \$340,712 and \$129,195, respectively, to improve County infrastructure assets. This represents repairs on approximately 80% of the County paved roads. The County has plans to complete repairs over the next year.

Steve Gary, C.P.A., PC
James Bowers, C.P.A., PC
Eric Miller, C.P.A., PC
Melvin Eaker, C.P.A., PC



A Partnership of
Professional Corporations

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

To the Honorable Judge O'Brien and the Commissioner's Court
Dawson County, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dawson County, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise Dawson County, Texas' basic financial statements, and have issued our report thereon dated February 28, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Gary, Bowers & Miller

Gary, Bowers & Miller
Lubbock, Texas
February 28, 2014

Steve Gary, C.P.A., PC
James Bowers, C.P.A., PC
Eric Miller, C.P.A., PC
Melvin Eaker, C.P.A., PC



A Partnership of
Professional Corporations

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND
THE STATE OF TEXAS SINGLE AUDIT CIRCULAR**

To the Honorable Judge O'Brien and the Commissioner's Court
Dawson County, Texas

Report on Compliance for Each Major Federal Program

We have audited Dawson County, Texas' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *State of Texas Single Audit Circular* that could have a direct and material effect on each of Dawson County, Texas' major federal programs for the year ended September 30, 2013. Dawson County, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Dawson County, Texas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the *State of Texas Single Audit Circular*. Those standards, OMB Circular A-133, and the *State of Texas Single Audit Circular*, 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 Dawson County, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Dawson County, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and the *State of Texas Single Audit Circular*.

Report on Internal Control Over Compliance

Management of Dawson County, Texas, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Dawson County, Texas' internal control over compliance

with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the *State of Texas Single Audit Circular*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Dawson County, Texas' internal control over compliance.

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

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

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

Gary, Bowers & Miller

Gary, Bowers & Miller
Lubbock, Texas
February 28, 2014

**DAWSON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDING SEPTEMBER 30, 2013**

SUMMARY OF AUDITOR'S RESULTS

Type of Auditor's Report on the financial statements: Unqualified Opinion

Reportable Conditions in Internal Controls: None

Material Instances of noncompliance which are material to the financial statements as required to be reported in accordance with *Governmental Auditing Standards*: None

Reportable conditions in internal controls over major programs: None

Type of Auditor's Report on Compliance for Major Programs: Unqualified Opinion

Identification of Major Programs:

Federal Programs	
Federal Emergency Management Agency	
Hazard Mitigation Grant	97.039

Dollar Threshold Used to Distinguish between Type A and Type B Programs: \$300,000

Dollar Threshold Used to Distinguish between Type A and Type B State Programs: \$300,000

Auditee was not treated as low risk.

FINDINGS AND QUESTIONED COSTS

NONE

SUMMARY OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS

NONE (No single audit in prior year required)

**DAWSON COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDING SEPTEMBER 30, 2013**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
MAJOR PROGRAMS		
Federal Programs		
Federal Emergency Management Agency ARRA-Hazard Mitigation Grant	97.039	\$ 406,516
NON-MAJOR PROGRAMS		
State Programs		
Texas Department of Rural Affairs Community Development Block Grant 771017 ARRA-Hazard Mitigation Pass Through	14.228	\$ 158,665

The notes to the Financial Statements are an integral part of this statement.

DAWSON COUNTY, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDING SEPTEMBER 30, 2013

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal and State awards presents the activity of all federal and state award programs of Dawson County, Texas, for the year ending September 30, 2013. Federal and state awards received directly from federal and state agencies, as well as federal awards passed through state agencies, are included in the schedule.

NOTE B-BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal and State Awards is presented using the modified accrual basis of accounting, which is described in Note 1C to the County's basic financial statements.