

**COUNTY OF GAINES  
INDEPENDENT AUDITOR'S REPORT**

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**FOR THE YEAR ENDED  
SEPTEMBER 30, 2013**

# COUNTY OF GAINES

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**INDEPENDENT AUDITORS' REPORT**

December 11, 2013

To the Honorable Judge and Commissioners' Court  
County of Gaines  
P.O. Box 847  
Seminole, Texas 79360

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Gaines, Seminole, 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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—modified cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Gaines, as of September 30, 2013, and the respective changes in financial position—modified cash basis thereof for the year then ended in accordance with the basis of accounting described in Note 1.

**Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

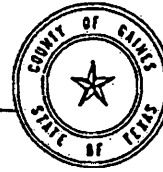
**Disclaimer of Opinion on Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Gaines, Seminole, Texas' basic financial statements. The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 35 through 42, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Davis, Ray & Co.*

Davis, Ray & Co., PC  
Certified Public Accountants

# COUNTY OF GAINES



RICK DOLLAHAN, County Auditor

P. O. Box 847

Seminole, Texas 79360

December 11, 2013

Honorable Carter T. Schildknecht, District Judge, 106<sup>th</sup> Judicial District

Honorable Commissioners Court:

Lance Celander	County Judge		
Danny Yocom	Commissioner, PCT 1	Craig Belt	Commissioner, PCT 2
Blair Tharp	Commissioner, PCT 3	Biz Houston	Commissioner, PCT 4

In accordance with Chapter 114.025(c) VTCA, I submit herewith my report of the financial position of County of Gaines, Texas as of September 30, 2013 together with the results of the operations for the fiscal year of 2013.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Audited Financial Report, the management of County of Gaines, 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 auditors' report and the County's basic financial statements which begin on page 11.

## FINANCIAL HIGHLIGHTS

- At the close of the most recent fiscal year, County of Gaines's overall net position was \$46,518,150;
  - Of this amount, \$25,925,803 was unrestricted net position.
- The County's current position increased approximately 4.711 million dollars as a result of this year's operation.
- The County has no capital long term leases, but does have various operating leases for computer equipment and copiers.
  - Everything else is budgeted and paid for on a cash basis.
- During the year, the County had expenses of \$18,593,857 which were \$4,397,069 less than the \$22,990,926 generated in Program and General Revenues.
  - This compares to last year when revenues exceeded expenses by \$4,222,991.
- The General Fund ended the year with a fund balance of \$7,210,681
  - Last year the General fund's fund balance was \$7,315,954.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to County of Gaines' basic financial statements. County of Gaines' 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 11 and 12). These provide information about the activities of the County as a whole and present a long-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 13) report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the County were sold to departments within the County or to external consumers and how the sales revenues covered the expenses of the goods or services. The remaining statements, 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 position these funds have and who they belong to.

The notes to the financial statements (starting on page 20) 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 11. Its primary purpose is to show whether the County is better or worse off as a result of the year's activities. The Statement of Net Position includes all the County's position 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. The County has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related position and liabilities. Under the County's modified cash basis of accounting, revenues and expenses and related position and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital position in the government-wide financial statements for all activities and in the fund financial statements for proprietary fund activities.

As a result of the use of this modified cash basis of accounting, certain position and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

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 is 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 reports governmental activities:

Governmental activities – Most of the basic services are reported here, including general administration, law enforcement, judicial, road and bridge maintenance, cemetery, parks, airport and library services. Property taxes, courts and services revenue 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 13 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 two categories: governmental 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 cash basis of accounting (a method that measures the receipt and disbursement of cash and all other financial position 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 Position on page 19. 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 Position. All other resources within the fiduciary activities are excluded from the County's other financial reports because the County cannot use those position to finance its operations. The County is responsible for ensuring that the position 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 \$42,121,081 to \$46,518,150. 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 \$25,925,803 at September 30, 2013.

**Table I**  
**County of Gaines, Texas**  
**NET POSITION**

	Governmental Activities 2013	Governmental Activities 2012
<b>Assets:</b>		
Current and Other Assets	25,925,803	21,213,893
Capital Assets	20,592,347	20,907,188
<b>Total Assets</b>	<b>46,518,150</b>	<b>42,121,081</b>
<b>Liabilities:</b>		
Accounts Payable		
Noncurrent Liabilities		
Due in More Than One Year		
<b>Total Liabilities</b>		
<b>Net Position:</b>		
Net Investment in Capital Assets	20,592,347	20,907,188
Unrestricted Net Assets	25,925,803	21,213,893
<b>Total Net Position</b>	<b>46,518,150</b>	<b>42,121,081</b>

**Table II**  
**County of Gaines, Texas**  
**CHANGES IN NET POSITION**

	Governmental Activities 2013	Governmental Activities 2012
<b>Revenues:</b>		
<b>Program Revenues:</b>		
Charges for Services	1,821,019	1,821,513
Operating Grants and Contributions	132,054	177,850
<b>Total Program Revenues</b>	<b>1,953,073</b>	<b>1,999,363</b>
<b>General Revenues:</b>		
Taxes		
Property taxes, Levied for General Purposes	20,832,634	20,605,736
Investment Earnings	28,175	25,718
Miscellaneous Revenue	-	201,378
Gain on sale of Asset	177,044	88,913
<b>Total General Revenue and Special Items</b>	<b>21,037,853</b>	<b>20,921,745</b>
<b>Total Program &amp; General Revenues</b>	<b>22,990,926</b>	<b>22,921,108</b>



Table II (Continued)  
County of Gaines, Texas  
CHANGES IN NET POSITION

	Governmental Activities 2013	Governmental Activities 2012
<b>Expenses:</b>		
General administration	1,831,253	1,656,591
Judicial	1,654,813	1,610,281
Elections	74,255	64,395
Financial Administration	581,336	492,144
Tax Administration	530,219	529,445
Facilities Management	1,324,531	1,934,267
Law Enforcement	1,643,106	1,649,076
Fire Protection	181,380	133,710
Corrections	1,426,883	1,434,330
Civil Defense	50,983	64,036
Road and Bridge	6,339,231	6,361,516
Sanitation	22,519	22,518
Airport	77,202	78,824
Health	720,425	587,623
Human Services	66,216	64,760
Golf Course	709,081	685,433
Parks	366,474	349,558
Museums	120,748	117,254
County Extension Service	233,851	228,064
Libraries	379,139	328,871
Senior Citizens	260,212	251,311
<b>Total Expenses</b>	<b>18,593,857</b>	<b>18,698,117</b>
<b>Change in Net Position</b>	<b>4,397,069</b>	<b>4,222,991</b>
<b>Net Position at Beginning of Year</b>	<b>42,121,081</b>	<b>37,898,090</b>
Prior period adjustments		
<b>Net Position at End of Year</b>	<b>46,518,150</b>	<b>42,121,081</b>

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

1. Mineral and related taxable values increased more than 1.1 billion dollars from the prior year.
2. As is the case with property value swings, the tax rate for the county decreased by 4.8 cents. However the rate was well aligned with the 15 year average of the county tax rate.
3. The ad valorem property tax revenue levy was up by 4.1% compared to the prior year. Revenues in most other categories increased as well.
4. The county began planning for a new 72 bed jail this year, with an estimated cost of around 8 million dollars. To support that decision monies were transferred from the general fund to allow the county to save about 5.4 million dollars toward that cost by year end. The county also renovated the Loop Community Building and made some improvements to the courthouse and courthouse square.

The cost of all governmental activities this year was \$18,593,857 which was a .056% decrease from the prior year. However, as shown in the Statement of Activities on page 11, the amount that our taxpayers ultimately financed for these activities was \$16,640,784 because some of the costs were paid with charges for services of \$1,821,019, essentially the same as the year before and operating grants and contributions of \$132,054 a \$45,796 decrease.

## THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as reported on the balance sheet on page 13-14) reported a combined fund balance of \$25,925,803 which is \$4,711,910 more than last year's total of \$21,213,893. Included in this year's total change in fund balance is an increase of \$3,364,391 in the County's Capital Project Fund.

For fiscal year 2013, actual disbursement and transfers out of the General Fund were \$15,153,214 compared to the originally budgeted disbursements of \$14,803,917. Actual receipts on a budgetary basis were \$15,047,941 compared to the original budget of \$14,803,917. Reasons for the actual numbers varying from the budget follow:

- The various categories of receipts varied but overall were generally up from the prior year budget.
  - Property tax was higher than budgeted because the Court only budgets 97% of the levy.
- Interest earnings received was slightly higher than budgeted, but still a reflection of the slow economy.
- Total disbursements were less than budgeted as all spending was carefully monitored with the express idea of transferring left over amounts at year end to the Capital Projects Fund for future renovation projects.
- General government including fuel, utility and road repair costs were less than budgeted amounts.
  - Judicial expenses were less than budgeted
- Corrections expenses were also less than originally budgeted. However expenditures for prisoner housing/ medical care, and capital costs for fleet replacement vehicles remain very high.

Over the course of the year, the County's Commissioners' Court revised the County budget over 87 times as compared to 225 times last year. These revisions include amendments and supplemental appropriations that were approved during the year to address mid-year situational changes and amendments moving funds from programs that did not need all the resources originally appropriated to programs with resource needs. The primary amendments included:

- Moving contingency/reserve budgeted amounts to amend other lines to allow:
  - Increasing several line items in a variety of departments to purchase or replace various items
  - To fund much needed facility upgrade, repair and remodeling projects
- Upgrading or replacing office computers and hardware as they wore out
- Purchasing furniture and equipment

Page 35 provides a comparison of these changes as they relate to the General Fund.

## CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Position – At the end of fiscal year 2013, the County had \$20,592,347 invested in a broad range of capital position, including land, buildings and equipment. The County's fiscal year 2013 capital outlay expenditures in all funds totaled \$1,490,129.

- Facility remodeling repair, vehicles and some equipment purchases were the drive in the General Fund.
- Fleet modernization was the driver in the precincts.

More detailed information about the County's capital position is presented in Note III, Item D to the financial statements.

At year end, the County had \$179,468 in commitments under operating leases.

More detailed information about the County's long-term liabilities is presented in Note III, Item F to the financial statements.

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

The County Judge and Commissioners' Court members considered many factors when setting the FY 2014 budget and tax rates. Some key items that should be noted are as follows:

1. Mineral and related taxable values decreased significantly in tax year 2013. Additionally, local property tax values increased slightly. Overall, there was an approximate 11 % decrease in valuations from last year's figures.
2. The Court undertook a dramatic change in the way the expenditure budget was funded in 2008. As can be seen from these financial statements it is working. The Court continues to develop true undesignated reserves, while still keeping the tax rate low and funding all of the necessary things that take place each day. It is recommended that the Court not deviate from the "zero based budgeting concept" that they have adopted. This will ensure that they have sufficient revenues to fully fund the expenditure budget that they want to adopt or cause them to cut the expenditure budget to match the projected revenues.
3. The Court again decided to fully fund a capital projects line in the General Fund to allow necessary capital upgrades to County facilities. In the end, the Court adopted a tax rate of \$0.361102, some 0.057481 cents above the adopted tax rate for FY2013.
4. Elected official/employee base pay raised by 3% and the Court did allow longevity increases for the employees. There were no changes to the retirement system or other employee benefits.
5. A new position of Investigator was created in the Sheriff's department and a new position was created to assist the Elections Administrator and the County Clerk. This position works half a day in each department. An employee now covers 911 addressing for the county and the Emergency Management aspect of county operation saw a sizeable increase in the budget to allow two individuals to handle this important function.
6. Most of the other special revenue funds are projecting no major changes with the exception of the Capital Projects fund. This fund will be used specifically to document all of the costs of a new 72 bed detention facility. There will be two substantial transfers in to this fund, one is slightly over 2.9 million dollars from a budgeted line in the general fund and the other is a GASB 54 transfer from excess general fund, fund balance to the Capital Projects fund later in the year to help fund this endeavor.
7. The oil and agriculture industries in our area have had successful years but continue to be very unpredictable. These two industries remain the largest parts of our local business activity, and the uncertainty that goes along with them makes it a challenge to accurately predict long-term economic and population numbers for County of Gaines. 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 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 the County of Gaines' 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 County Auditor, County of Gaines, Texas, PO Box 847, Seminole, Texas 79360.

## ACKNOWLEDGMENTS

For their assistance and cooperation already and during the upcoming year, we thank the District Judge, County Judge, Commissioners' Court, Treasurer's Office and other elected officials, department heads, foremen and employees in the various departments. The interest and involvement of the Commissioners' Court in planning and conducting the financial operations of the County is appreciated.

Kudos also to the Auditor's staff for their hard work, knowledge and willingness to help the great folks serving the County of Gaines. Please remember that County Auditor's Office is here to help, and looks forward to the opportunity of working with anyone who calls upon them.

Respectfully submitted,

*Rick Dollahan*  
County of Gaines Auditor

**BASIC FINANCIAL STATEMENTS**

**COUNTY OF GAINES**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**SEPTEMBER 30, 2013**

	Governmental Activities
<b><u>ASSETS</u></b>	
Current Assets:	
Cash and cash equivalents	\$ 25,392,977
Inventory	532,826
Capital assets:	
Land	116,298
Infrastructure, net	6,671,314
Buildings, net	9,432,766
Machinery and equipment, net	4,371,969
<b>Total Assets</b>	<b>46,518,150</b>
<b><u>NET POSITION</u></b>	
Net investment in capital assets	20,592,347
Unrestricted	25,925,803
<b>Net Position</b>	<b>\$ 46,518,150</b>

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

**COUNTY OF GAINES**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental
<b>Governmental Activities:</b>				
General administration	\$ 1,831,253	\$ 868	\$ 7,196	\$ (1,823,189)
Judicial	1,654,813	647,133	72,415	(935,265)
Elections	74,255	8,435	-	(65,820)
Financial administration	581,336	-	-	(581,336)
Tax administration	530,219	129,926	-	(400,293)
Facilities management	1,324,531	-	-	(1,324,531)
Law enforcement	1,643,106	53,734	-	(1,589,372)
Fire protection	181,380	-	-	(181,380)
Corrections	1,426,883	109,332	-	(1,317,551)
Civil defense	50,983	-	-	(50,983)
Road and bridge	6,339,231	576,063	38,020	(5,725,148)
Sanitation	22,519	-	-	(22,519)
Airport	77,202	6,433	-	(70,769)
Health	720,425	-	-	(720,425)
Human services	66,216	-	-	(66,216)
Golf course	709,081	227,345	13,613	(468,123)
Parks	366,474	37,551	-	(328,923)
Museums	120,748	342	-	(120,406)
County extension	233,851	-	-	(233,851)
Libraries	379,139	23,857	810	(354,472)
Senior citizens	260,212	-	-	(260,212)
<b>Total Primary Government</b>	<u>\$ 18,593,857</u>	<u>\$ 1,821,019</u>	<u>\$ 132,054</u>	<u>\$ (16,640,784)</u>
<b>General Revenues:</b>				
Property taxes				\$ 20,832,634
Interest income				28,175
Gain on sale of assets				177,044
<b>Total General Revenues</b>				<u>21,037,853</u>
<b>Changes in Net Position</b>				<u>4,397,069</u>
Net Position - Beginning				42,121,081
Net Position - Ending				<u>\$ 46,518,150</u>

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

**COUNTY OF GAINES**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**MODIFIED CASH BASIS**  
**SEPTEMBER 30, 2013**

	General Fund	Road & Bridge Fund	Precinct #1
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 7,210,681	\$ 64,563	\$ 3,198,229
Inventory	-	-	125,634
<b>Total Assets</b>	<b><u>\$ 7,210,681</u></b>	<b><u>\$ 64,563</u></b>	<b><u>\$ 3,323,863</u></b>
<b>Fund Balances:</b>			
<b>Non-Spendable:</b>			
Inventory	\$ -	\$ -	\$ 125,634
<b>Assigned:</b>			
Road and bridge	-	64,563	3,198,229
Capital projects	-	-	-
Special revenue funds	-	-	-
<b>Unassigned:</b>	<b>7,210,681</b>	<b>-</b>	<b>-</b>
<b>Total Fund Balances</b>	<b><u>7,210,681</u></b>	<b><u>64,563</u></b>	<b><u>3,323,863</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 7,210,681</u></b>	<b><u>\$ 64,563</u></b>	<b><u>\$ 3,323,863</u></b>

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



Precinct #2	Precinct #3	Precinct #4	Farm to Market Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 2,380,986	\$ 2,593,894	\$ 3,844,767	\$ -	\$ 5,389,828	\$ 710,029	\$ 25,392,977
97,971	110,048	199,173	-	-	-	532,826
<u>\$ 2,478,957</u>	<u>\$ 2,703,942</u>	<u>\$ 4,043,940</u>	<u>\$ -</u>	<u>\$ 5,389,828</u>	<u>\$ 710,029</u>	<u>\$ 25,925,803</u>
\$ 97,971	\$ 110,048	\$ 199,173	\$ -	\$ -	\$ -	\$ 532,826
2,380,986	2,593,894	3,844,767	-	-	-	12,082,439
-	-	-	-	5,389,828	-	5,389,828
-	-	-	-	-	710,029	710,029
-	-	-	-	-	-	7,210,681
<u>2,478,957</u>	<u>2,703,942</u>	<u>4,043,940</u>	<u>-</u>	<u>5,389,828</u>	<u>710,029</u>	<u>25,925,803</u>
<u>\$ 2,478,957</u>	<u>\$ 2,703,942</u>	<u>\$ 4,043,940</u>	<u>\$ -</u>	<u>\$ 5,389,828</u>	<u>\$ 710,029</u>	<u>\$ 25,925,803</u>

**COUNTY OF GAINES**  
**RECONCILIATION OF THE GOVERNMENTAL**  
**FUNDS BALANCE SHEET - MODIFIED CASH BASIS**  
**SEPTEMBER 30, 2013**

**Reconciliation of Governmental Fund Balances to Net Position of Governmental Activities:**

Governmental Fund Balances	\$ 25,925,803
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>20,592,347</u>
Net Position of Governmental Activities	<u>\$ 46,518,150</u>

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

**COUNTY OF GAINES**  
**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	General Fund	Road & Bridge Fund	Precinct #1
<b><u>REVENUES</u></b>			
Property taxes	\$ 14,084,180	\$ -	\$ -
Intergovernmental revenue and grants	-	-	-
Charges for services	735,244	461,505	-
Fines	209,460	114,558	-
Investment income	19,057	-	-
Contributions & donations from private sources	-	-	-
<b>Total Revenues</b>	<b>15,047,941</b>	<b>576,063</b>	<b>-</b>
<b><u>EXPENDITURES</u></b>			
General administration	1,025,397	-	-
Judicial	1,586,968	-	-
Elections	54,473	-	-
Financial administration	573,936	-	-
Tax administration	530,219	-	-
Facilities management	1,199,551	-	-
Public safety:			
Law enforcement	1,542,264	-	-
Fire protection	181,380	-	-
Corrections	1,404,508	-	-
Civil defense	50,983	-	-
Road and bridge	1,700	52,327	1,336,616
Sanitation	22,519	-	-
Airport	-	-	-
Health	596,767	-	-
Human services	66,216	-	-
Culture and recreation:			
Golf course	-	-	-
Parks	265,095	-	-
Museums	120,748	-	-
County extension	202,782	-	-
Libraries	374,939	-	-
Senior citizens	251,064	-	-
Capital outlay	494,084	-	225,048
<b>Total Expenditures</b>	<b>10,545,593</b>	<b>52,327</b>	<b>1,561,664</b>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
Sale of real and personal property	16,912	-	2,574
Transfers in(out)	(4,624,533)	(523,736)	1,914,776
<b>Total Other Financing Sources (Uses)</b>	<b>(4,607,621)</b>	<b>(523,736)</b>	<b>1,917,350</b>
<b>Net Change in Fund Balance</b>	<b>(105,273)</b>	<b>-</b>	<b>355,686</b>
Fund Balances - Beginning	7,315,954	64,563	2,968,177
Fund Balances - Ending	<b>\$ 7,210,681</b>	<b>\$ 64,563</b>	<b>\$ 3,323,863</b>

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

Precinct #2	Precinct #3	Precinct #4	Farm to Market Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 6,748,454	\$ -	\$ -	\$ 20,832,634
-	-	-	38,020	-	86,028	124,048
-	-	-	-	-	288,644	1,485,393
-	-	-	-	-	11,608	335,626
-	-	-	9,101	-	17	28,175
-	-	-	-	-	8,006	8,006
-	-	-	6,795,575	-	394,303	22,813,882
-	-	-	-	434,757	10,915	1,471,069
-	-	-	-	-	65,176	1,652,144
-	-	-	-	-	12,238	66,711
-	-	-	-	-	7,400	581,336
-	-	-	-	-	-	530,219
-	-	-	-	-	89,115	1,288,666
-	-	-	-	-	4,676	1,546,940
-	-	-	-	-	-	181,380
-	-	-	-	-	-	1,404,508
-	-	-	-	-	-	50,983
1,521,739	1,351,895	1,045,259	-	-	-	5,309,536
-	-	-	-	-	-	22,519
-	-	-	-	-	69,036	69,036
-	-	-	-	-	123,658	720,425
-	-	-	-	-	-	66,216
-	-	-	-	-	628,051	628,051
-	-	-	-	-	-	265,095
-	-	-	-	-	-	120,748
-	-	-	-	-	-	202,782
-	-	-	-	-	-	374,939
-	-	-	-	-	-	251,064
269,138	164,253	155,917	-	96,568	85,121	1,490,129
1,790,877	1,516,148	1,201,176	-	531,325	1,095,386	18,294,496
77,706	87,455	-	-	-	7,877	192,524
1,816,281	1,809,547	1,778,708	(6,795,575)	3,895,716	728,816	-
1,893,987	1,897,002	1,778,708	(6,795,575)	3,895,716	736,693	192,524
103,110	380,854	577,532	-	3,364,391	35,610	4,711,910
2,375,847	2,323,088	3,466,408	-	2,025,437	674,419	21,213,893
\$ 2,478,957	\$ 2,703,942	\$ 4,043,940	\$ -	\$ 5,389,828	\$ 710,029	\$ 25,925,803

**COUNTY OF GAINES**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT**  
**OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS**  
**SEPTEMBER 30, 2013**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities:**

Net changes in Governmental Fund Balances	\$	4,711,910
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized		1,490,129
Depreciation expense		(1,789,490)
Net book value of assets disposed of		(15,480)
		(15,480)
Change in Net Position of Governmental Activities	\$	4,397,069

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

**COUNTY OF GAINES**  
**STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS -**  
**FIDUCIARY FUNDS**  
**SEPTEMBER 30, 2013**

<u><b>ASSETS</b></u>	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
Cash and cash equivalents	\$ 16,560	\$ 676,769
Total Assets	<u>\$ 16,560</u>	<u>\$ 676,769</u>
 <u><b>LIABILITIES</b></u>		
Current Liabilities:		
Intergovernmental payable	\$ -	\$ 220,284
Due to others	<u>-</u>	<u>456,485</u>
Total Liabilities	<u>-</u>	<u>676,769</u>
 <u><b>NET POSITION</b></u>		
Restricted for cemetery use	<u>16,560</u>	<u>-</u>
Total Net Position	<u>\$ 16,560</u>	<u>\$ -</u>

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

**COUNTY OF GAINES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note I.C, these financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

**A. REPORTING ENTITY**

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

**B. BASIS OF PRESENTATION**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. They report information in all of Gaines County, Texas with most of the interfund activities removed. Governmental activities include programs supported primarily by taxes, intergovernmental revenues, and other non-exchange revenues.

**FUND FINANCIAL STATEMENTS**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the County or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

**Governmental Funds**

**The General Fund**-The General Fund is the County's primary operating fund and is always classified as a major fund. It accounts for all financial resources except those required to be accounted for in another fund. This fund is operated and maintained separately by the Commissioners' Court decision. There are not any outside requirements for the self-imposed separation, and the funds can be used for general County operations.

**COUNTY OF GAINES**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. BASIS OF PRESENTATION (CONTINUED)**

**Governmental Funds (Continued)**

Other Major Governmental Funds-The Road & Bridge Fund is designated to receive the road and bridge taxes. A portion of these monies is expended in the fund, but the bulk (99%) is transferred to the four precinct funds. All of the precincts' funds have been presented as major funds to obtain a more meaningful presentation. The Farm to Market Fund and Capital Projects Fund are also major special revenue 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. 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 Private Purpose Trust Fund is the Memorial Cemetery Fund and is restricted to cemetery use.

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, District Clerk's funds, Golf Course fund, State Fee fund, Appellate Judicial fund, County Wide Equalization fund, Employee Flexible Spending fund, Employee Insurance fund and the Probation funds.

**Proprietary Funds**

The County has no proprietary funds at this time.

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

**MEASUREMENT FOCUS**

In the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined on page 22.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.



**COUNTY OF GAINES**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)**

MEASUREMENT FOCUS (CONTINUED)

- b. Proprietary funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position. The County currently has no proprietary funds.

BASIS OF ACCOUNTING

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

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

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

**D. ASSETS, LIABILITIES, AND EQUITY**

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts or investments if they are in bank money market accounts, certificates of deposits maturing within 90 days or money market investment pools.

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 I, F and Note III, C for additional discussion of interfund receivables, payables and transfers.

CONSUMABLE MATERIAL AND SUPPLIES/INVENTORY

Inventories consist of consumable materials and supplies held for future consumption. Inventory is accounted for under the purchases method. The cost is recorded as an expenditure at the time inventory is purchased. Quantities on hand at year-end are recorded at cost on a first-in, first-out basis with an offsetting nonspendable fund balance.

**COUNTY OF GAINES**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. ASSETS, LIABILITIES, AND EQUITY (CONTINUED)**

CAPITAL ASSETS

The County's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over infrastructure, land, buildings, furniture and equipment, depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

**Government-Wide Statements**

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable.

Depreciation on all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided on the assets' estimated useful lives using the straight-line method of depreciation. 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. The range of estimated useful lives by type of asset is as follows:

<u>Assets</u>	<u>Years</u>
Roads	40
Buildings	40-50
Building Improvements	15-25
Vehicles	5-10
Other Equipment	5-10

**Fund Financial Statements**

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

EQUITY CLASSIFICATION

**Government-Wide Statements**

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets—Consists of capital assets including restricted capital assets, net of accumulated depreciation.
- b. Restricted net position—Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulation of other governments; or (2) law through constitutional provisions or enabling legislation. The County has no restricted net position.
- c. Unrestricted net position—Consists of all other net position that does not meet the definition of restricted or net investment in capital assets.

**COUNTY OF GAINES**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. ASSETS, LIABILITIES, AND EQUITY (CONTINUED)**

**EQUITY CLASSIFICATION (CONTINUED)**

**Fund Financial Statements**

The Commissioner's Court meets regularly to manage and review cash financial activities and to ensure compliance with established policies. It is the County's policy to keep adequate fund balance to provide a stable financial foundation. The target level for the County's unassigned General Fund balance is set at 120 days of the budgeted General Fund expenditures, considering the annual budget, as amended, for any given fiscal year. Any shortfalls or excess fund balance shall be considered and remedied as set forth in the policy by the Commissioner's Court.

In accordance with GASB Statement No. 54, fund balances are required to be reported according to the following classifications:

- a. Nonspendable fund balance—Includes amounts that cannot be spent because they are either not spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories.
- b. Restricted fund balance—Constraints placed on the use of these resources are either externally imposed by creditors, grantors, contributors or other governments; or are imposed by law (through constitutional provisions or enabling legislation).
- c. Committed fund balance—Includes amounts designated only by formal action of Commissioners Court.
- d. Assigned fund balance—Includes amounts that are constrained by the County's intent to use for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be determined by the County Judge, with assistance of the County Auditor and County Attorney, as needed. The Governmental Funds Balance Sheet provides details of the amounts that have been assigned for specific purposes.
- e. Unassigned fund balance—This is the residual classification for the general fund. The general fund is the only governmental fund that can report a positive unassigned fund balance. Other governmental funds might have a negative unassigned fund balance as a result of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

**E. REVENUES, EXPENDITURES, AND EXPENSES**

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the County's taxpayers are reported as program revenues. The Statement of Activities demonstrates how other people or entities that participate in programs the County operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use or directly benefit from goods or services provided by a given function or segment of the County such as vehicle registrations. 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 a revenue is not program revenue, it is general revenue used to support all of the County's functions. Taxes are always general revenues.

The Fund financial statements provide reports on the financial condition and results of operations for three fund categories-governmental, proprietary and fiduciary. Since the resources in the fiduciary funds cannot be used for County operations, they are not included in the government-wide statements. The County considers some governmental funds major and reports their financial condition and results of operations in a separate column. Grants and similar items are recognized as revenue when collected and all eligibility requirements imposed by the provider have been met.

**COUNTY OF GAINES**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES**

In the process of aggregating the financial information for the government-wide Statement of Net Position and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

**FUND FINANCIAL STATEMENTS**

Interfund activity, if any, within and among the governmental category is reported as follows in the fund financial statements:

1. Interfund loans—Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
2. Interfund services—Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
3. Interfund reimbursements—Repayments from funds responsible for certain expenditures/adjustments to expenditures/expenses in the respective funds.
4. Interfund transfers—Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal balances—Amounts reported in the fund financial statement as interfund receivables and payables are eliminated in the governmental columns of the Statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
2. Internal activities—Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount between governmental and business-type activities, which are reported as Transfers—Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

**G. USE OF ESTIMATES**

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the County requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. BUDGETARY COMPLIANCE**

The Commissioners' Court adopts an "appropriated budget" for the General Fund and all other funds. The adopted and final amended budgeted revenues and expenditures for the General Fund are presented in the Required Supplementary Information.

**COUNTY OF GAINES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**A. BUDGETARY COMPLIANCE (CONTINUED)**

The following procedures are used in establishing the budgetary data reflected in the general purpose financial statements:

- a. In July, the County Judge, with the 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.
- b. 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.
- c. Prior to October 1, the budget is legally enacted through passage of a resolution by the Commissioners' Court. Once a budget is approved, it can only be amended at the 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 routine budget amendments during the year. The largest was to move General Fund reserves into a Capital Projects Fund for upcoming capital improvements/purchases. The remaining amendments were mainly to purchase capital items, fund miscellaneous projects throughout the County, and absorb higher fuel costs, insurance increases and road materials.
- d. Each budget is controlled at the revenue and expenditure function 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.

**B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The following funds had expenditures in excess of revenues with the resulting reduction of fund balance:

General Fund	\$ 105,273
Sheriff Forfeiture Fund	982
Judicial Supplement Fund	25,833
Higginbotham Community Fund	1,104
Unclaimed Property Fund	2,910
Appellate Judicial Fund	270
Family Protection Fund	6,518
Election Fund	3,694
Leose Sheriff Fund	890

**COUNTY OF GAINES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS (CONTINUED)**

The following funds had planned deficit spending as reflected by budgeted expenditures in excess of expected revenue:

General Fund	\$ 2,300,713
Precinct #2	2,800
Sheriff Forfeiture Fund	5,990
Memorial Cemetary Fund	100
(RPF) County Clerk Fund	19,974
Courthouse Security Fund	3,000
911 - Addressing Fund	5,985
Court Reporter Service Fund	7,800
(RAF) Record Archive-County Clerk Fund	11
Unclaimed Property Fund	1,995
Fire Truck Fund	219,995
Sheriff Commissary Fund	2,995
Capital Projects Fund	242,825

**III. NOTES ON FUNDS AND ACCOUNTS**

**A. DEPOSITS AND INVESTMENTS**

County Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits (cash and savings accounts)-The funds of the County must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository banks place approved pledged securities for safekeeping and trust with the County's agent bank in an amount sufficient to protect County funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository banks' dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

The County's depository during the year was Commercial State Bank. The District's largest balance of \$11,092,298 occurred in June 2013. There were no instances of uninsured or uncollateralized deposits during the year.

At September 30, 2013, the carrying amount of the County's deposits (cash, certificates of deposits and interest-bearing savings accounts) was \$10,325,573, and the bank balance was \$10,924,990. The County's cash deposits as of September 30, 2013 were fully covered by FDIC insurance or by pledged collateral held by the County's agent bank in the County's name.

**COUNTY OF GAINES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**III. NOTES ON FUNDS AND ACCOUNTS (CONTINUED)**

**A. DEPOSITS AND INVESTMENTS (CONTINUED)**

A Summary of the County's cash and cash equivalents and investments at September 30, 2013 is shown below:

	Checking and Savings Accounts	Certificate of Deposit	Investment Pools	Total
General	\$ 3,548,947	\$ -	\$ 3,661,734	\$ 7,210,681
Road & Bridge	-	-	64,563	64,563
Precinct #1	-	-	3,198,229	3,198,229
Precinct #2	-	-	2,380,986	2,380,986
Precinct #3	-	-	2,593,894	2,593,894
Precinct #4	-	-	3,844,767	3,844,767
Capital Projects	5,389,828	-	-	5,389,828
Other Governmental Funds	710,029	-	-	710,029
Total Governmental Funds	<u>\$ 9,648,804</u>	<u>\$ -</u>	<u>\$ 15,744,173</u>	<u>\$ 25,392,977</u>
Fiduciary Fund	-	16,560	-	16,560
Agency Funds	676,769	-	-	676,769
Total	<u>\$ 10,325,573</u>	<u>\$ 16,560</u>	<u>\$ 15,744,173</u>	<u>\$ 26,086,306</u>

**Legal and Contractual Provisions Governing Investments**

The Public Funds Investments 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 staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the County to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

The County's investments at September 30, 2013, are shown below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Yield</u>	<u>Days until Maturity</u>
Certificate of Deposit-			
Commercial State Bank	\$ 16,560	0.40%	37
Tex Pool Investment Pool	7,871,766	0.04%	On demand
Tex Star Investment Pool	7,872,407	0.04%	On demand
Total	<u>\$ 15,760,733</u>		

**COUNTY OF GAINES**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

**III. NOTES ON FUNDS AND ACCOUNTS (CONTINUED)**

**A. DEPOSITS AND INVESTMENTS (CONTINUED)**

The County's investments in pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless there is a 2a7-like, in which case they are reported at share value. A 2a7-like pool is a pool which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Policies Governing Deposits and Investments

**Interest Rate Risk**-Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The County invests in certificates of deposit and securities with short-term maturity dates to limit the interest rate risk.

**Custodial Credit Risk for Deposits** (cash, savings account and certificates of deposit)-This is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County's policy regarding types of deposits allowed and collateral requirements is that all deposits must be insured by FDIC or secured by another manner provided by law.

**Custodial Credit Risk for Investments**-To limit the risk that an issuer or other counter-party to an investment will not fulfill its obligations, the County limits investments to certificates of deposit and public funds investment pools.

Public funds investment pools in Texas are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the Act). In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires pools to (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; (2) maintain a continuous rating no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; (3) maintain market value of it's underlying investment portfolio within one half of one percent of the value of its shares.

The public fund investment pool invests only in securities issued or backed by the U.S. Government or its agencies. An investment in these securities is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the issuer seeks to preserve the value of an investment at \$1.00 per share, it is possible to lose money by investing in the security. At September 30, 2013, the County had approximately \$7,871,766 uninsured with Tex Pool Investment Pool and \$7,872,407 uninsured with Tex Star Investment Pool.

**B. PROPERTY TAXES**

In accordance with State Law, The Gaines County Appraisal District makes all appraisals for tax purposes. Assessed values are based upon 100 percent of market value and 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 personal property located in the County in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 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 not considered available in the funds until the County collects them.



**COUNTY OF GAINES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**III. NOTES ON FUNDS AND ACCOUNTS (CONTINUED)**

**B. PROPERTY TAXES (CONTINUED)**

The tax rate for the fiscal year ended September 30, 2013, (2012 tax levy) was \$.205 per \$100 assessed value for County General Fund operations and \$.098 for Farm-Market Lateral Road maintenance and operations for a total rate of \$.303. The County is subject to tax rate rollback if the total amount of the property taxes imposed in any year, as defined by statute, exceeds the total amount of property taxes imposed in the preceded year by 8 percent.

**C. INTERFUND BALANCES AND TRANSFERS**

The interfund transfers reflected on the Statements of Revenues and Expenditures were for routine purposes except for specific transfers totaling \$3,895,716 from the General Fund to the Capital Projects Fund. Transfers from the Road and Bridge and the Farm to Market funds were to the corresponding precinct funds for precinct operations. Transfers from the General Fund were for operations of the Special Revenue Fund for indigent health care, airport operations, cemetery maintenance, and golf course operations.

**D. CAPITAL ASSET ACTIVITY**

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

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities:</b>				
Land	\$ 116,298	\$ -	\$ -	\$ 116,298
Infrastructure	13,988,864	-	-	13,988,864
Buildings and Improvements	19,022,996	386,530	-	19,409,526
Furniture and Equipment	14,708,913	1,103,599	(1,062,087)	14,750,425
Construction in Progress	-	-	-	-
<b>Totals at Historic Cost</b>	<b>\$ 47,837,071</b>	<b>\$ 1,490,129</b>	<b>\$ (1,062,087)</b>	<b>\$ 48,265,113</b>
<b>Less Accumulated Depreciation for:</b>				
Infrastructure	\$ (6,967,828)	\$ (349,722)	\$ -	\$ (7,317,550)
Buildings and Improvements	(9,511,104)	(465,656)	-	(9,976,760)
Furniture and Equipment	(10,450,951)	(974,112)	1,046,607	(10,378,456)
<b>Total Accumulated Depreciation</b>	<b>\$ (26,929,883)</b>	<b>\$ (1,789,490)</b>	<b>\$ 1,046,607</b>	<b>\$ (27,672,766)</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 20,907,188</b>	<b>\$ (299,361)</b>	<b>\$ (15,480)</b>	<b>\$ 20,592,347</b>

**COUNTY OF GAINES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**III. NOTES ON FUNDS AND ACCOUNTS (CONTINUED)**

**D. CAPITAL ASSET ACTIVITY (CONTINUED)**

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 360,184
Justice System	2,669
Elections	7,544
Facilities Management	35,865
Law Enforcement	96,166
Corrections	22,375
Roads and Bridges	1,029,695
Airport	8,166
Golf Course	81,030
Parks	101,379
County Extension Service	31,069
Libraries	4,200
Senior Citizens	9,148
Total Depreciation Expense	<u>\$ 1,789,490</u>

**E. COMMITMENTS UNDER OPERATING LEASES**

Commitments under operating (noncapitalized) lease agreements for several copiers, a postage machine and software provide for minimum future rental payments as of September 30, 2013, as follows:

2014	\$ 88,488
2015	56,105
2016	32,940
2017	1,935
2018	-
Total Minimum Rentals	<u>\$ 179,468</u>

**IV. OTHER NOTES**

**A. HEALTH CARE COVERAGE**

During the current fiscal year, the employees of Gaines County were covered by a health insurance plan. The coverage is purchased through Blue Cross Blue Shield. The County's cost per employee per month was \$598. The employees, at their option, authorized payroll withholdings to pay contributions for dependents.

**B. CAFETERIA PLAN**

The County entered into a Pre-Tax Premium Plan that 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.

**COUNTY OF GAINES**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

**IV. OTHER NOTES (CONTINUED)**

**C. 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.*** Gaines 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 641 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, P.O. Box 2034, Austin, Texas 78768-0234.

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.

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.

***Funding Policy.*** The employer has elected the annually determined contribution rate (variable-rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. It was 11.15% for the year ending September 30, 2013. The deposit rate payable by the employee members is 7% as adopted by the governing body of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

***Annual Pension Cost.*** The required contribution was determined as part of the December 31, 2012 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2012 included (a) 8.0 percent investment rate of return (net of administrative expenses), and (b) projected salary increase of 5.4 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2012 was 20 years.

**COUNTY OF GAINES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**IV. OTHER NOTES (CONTINUED)**

**D. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)**

For fiscal year 2013, the County's annual pension cost of \$754,677 was equal to the County's required and actual contributions. The three-year trend information is as follows:

<u>Accounting Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2011	689,936	100%	-
September 30, 2012	720,225	100%	-
September 30, 2013	754,677	100%	-

**Funded Status and Funding progress.** As of December 31, 2012, the most recent actuarial valuation date, the plan was 79.13% funded. The actuarial accrued liability for benefits was \$18,610,245, and the actuarial value of assets was \$14,726,147, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,884,098. The covered payroll (annual payroll of active employees covered by the plan) was \$6,658,084, and the ratio of the UAAL to the covered payroll was 58.34%. The schedule of pension funding progress is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (AVA) (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c)</u>
12/31/10	13,893,573	17,406,311	3,512,738	79.82%	6,275,541	55.98%
12/31/11	14,774,900	18,601,367	3,826,467	79.43%	6,582,833	58.13%
12/31/12	14,726,147	18,610,245	3,884,098	79.13%	6,658,084	58.34%

**DEFERRED COMPENSATION PLAN**

The County offers a deferred compensation plan for employees who elect to participate. In a plan set up under Section 457 of the Internal Revenue Code, Participants may defer up to \$17,500 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.

**E. RISK MANAGEMENT**

The County is exposed to various risks of loss related to torts, thefts, 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.

**F. JOINT VENTURE ARRANGEMENTS**

The County is involved in joint ventures with the City of Seminole, Northeast Gaines County Emergency Service District and South Plains Public Health District. These shared costs are for fire protection, landfill operations, emergency medical service, and public health services. Many of these agreements result in the County paying approximately half of the budget, but significant accumulations of financial resources or deficits are not generated from these joint ventures.

**COUNTY OF GAINES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**IV. OTHER NOTES (CONTINUED)**

**G. SUBSEQUENT EVENTS**

In May 2009, the Financial Accounting Standards Board issued new guidance on subsequent events, included in ASC 855, *Subsequent Events*. This guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Management has evaluated subsequent events through December 6, 2013, the date the financial statements were issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**COUNTY OF GAINES**  
**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<b>RECEIPTS:</b>				
Taxes-property	\$ 14,043,792	\$ 14,043,792	\$ 14,084,180	\$ 40,388
Charges for services	559,930	559,930	735,244	175,314
Fines	178,195	178,195	209,460	31,265
Investment income	22,000	22,000	19,057	(2,943)
<i>Total receipts</i>	<u>14,803,917</u>	<u>14,803,917</u>	<u>15,047,941</u>	<u>244,024</u>
<b>DISBURSEMENTS:</b>				
Current:				
General administrative	3,425,235	1,635,410	1,025,397	610,013
Judicial	1,785,359	1,787,846	1,586,968	200,878
Elections	133,262	133,262	54,473	78,789
Financial administration	625,203	669,589	573,936	95,653
Tax administration	548,729	548,733	530,219	18,514
Facilities management	1,374,847	1,387,347	1,199,551	187,796
Public safety:				
Law enforcement	1,596,846	1,596,843	1,542,264	54,579
Fire protection	293,710	293,710	181,380	112,330
Corrections	1,747,900	1,747,897	1,404,508	343,389
Civil defense	38,892	55,353	50,983	4,370
Road and bridge	1,700	1,700	1,700	-
Sanitation	22,519	22,519	22,519	-
Health	598,758	599,397	596,767	2,630
Human services	68,406	68,406	66,216	2,190
Culture and recreation:				
Parks	284,233	321,033	265,095	55,938
Museums	134,223	134,222	120,748	13,474
County extension	239,132	239,131	202,782	36,349
Libraries	405,412	405,411	374,939	30,472
Senior citizens	253,941	270,505	251,064	19,441
Capital Outlay	347,615	413,572	494,084	(80,512)
<i>Total disbursements</i>	<u>13,925,922</u>	<u>12,331,886</u>	<u>10,545,593</u>	<u>1,786,293</u>
Excess (deficiency) of receipts over (under) disbursements	<u>877,995</u>	<u>2,472,031</u>	<u>4,502,348</u>	<u>2,030,317</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of real and personal property	5	5	16,912	16,907
Transfers in (out)	(878,000)	(4,772,749)	(4,624,533)	148,216
<i>Total other financing sources (uses)</i>	<u>(877,995)</u>	<u>(4,772,744)</u>	<u>(4,607,621)</u>	<u>165,123</u>
Net change in fund balance	-	(2,300,713)	(105,273)	2,195,440
<i>Fund balance, beginning of year</i>	<u>7,315,954</u>	<u>7,315,954</u>	<u>7,315,954</u>	<u>-</u>
<i>Fund balance, end of year</i>	<u>\$ 7,315,954</u>	<u>\$ 5,015,241</u>	<u>\$ 7,210,681</u>	<u>\$ 2,195,440</u>

**COUNTY OF GAINES**  
**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS**  
**ROAD & BRIDGE FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<b>RECEIPTS:</b>				
Charges for services	\$ 421,740	\$ 421,740	\$ 461,505	\$ 39,765
Fines	105,000	105,000	114,558	9,558
<i>Total receipts</i>	<u>526,740</u>	<u>526,740</u>	<u>576,063</u>	<u>49,323</u>
<b>DISBURSEMENTS:</b>				
Current:				
Road and bridge	64,563	64,563	52,327	12,236
<i>Total disbursements</i>	<u>64,563</u>	<u>64,563</u>	<u>52,327</u>	<u>12,236</u>
Excess (deficiency) of receipts over (under) disbursements	<u>462,177</u>	<u>462,177</u>	<u>523,736</u>	<u>61,559</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (out)	<u>(462,177)</u>	<u>(462,177)</u>	<u>(523,736)</u>	<u>(61,559)</u>
<i>Total other financing sources (uses)</i>	<u>(462,177)</u>	<u>(462,177)</u>	<u>(523,736)</u>	<u>(61,559)</u>
Net change in fund balance	-	-	-	-
<i>Fund balance, beginning of year</i>	<u>64,563</u>	<u>64,563</u>	<u>64,563</u>	<u>-</u>
<i>Fund balance, end of year</i>	<u>\$ 64,563</u>	<u>\$ 64,563</u>	<u>\$ 64,563</u>	<u>\$ -</u>



**COUNTY OF GAINES**  
**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS**  
**PRECINCT #1**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<b>RECEIPTS:</b>				
Miscellaneous	\$ 5	\$ 5	\$ -	\$ (5)
<i>Total receipts</i>	<u>5</u>	<u>5</u>	<u>-</u>	<u>(5)</u>
<b>DISBURSEMENTS:</b>				
Current:				
Road and bridge	1,888,410	1,888,410	1,561,664	326,746
<i>Total disbursements</i>	<u>1,888,410</u>	<u>1,888,410</u>	<u>1,561,664</u>	<u>326,746</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(1,888,405)</u>	<u>(1,888,405)</u>	<u>(1,561,664)</u>	<u>326,741</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of real and personal property	5	5	2,574	2,569
Transfers in (out)	1,888,400	1,888,400	1,914,776	26,376
<i>Total other financing sources (uses)</i>	<u>1,888,405</u>	<u>1,888,405</u>	<u>1,917,350</u>	<u>28,945</u>
Net change in fund balance	-	-	355,686	355,686
<i>Fund balance, beginning of year</i>	<u>2,968,177</u>	<u>2,968,177</u>	<u>2,968,177</u>	<u>-</u>
<i>Fund balance, end of year</i>	<u>\$ 2,968,177</u>	<u>\$ 2,968,177</u>	<u>\$ 3,323,863</u>	<u>\$ 355,686</u>

**COUNTY OF GAINES**  
**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS**  
**PRECINCT #2**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<b>RECEIPTS:</b>				
Miscellaneous	\$ 5	\$ 5	\$ -	\$ (5)
<i>Total receipts</i>	<u>5</u>	<u>5</u>	<u>-</u>	<u>(5)</u>
<b>DISBURSEMENTS:</b>				
Current:				
Road and bridge	1,791,272	1,794,072	1,790,877	3,195
<i>Total disbursements</i>	<u>1,791,272</u>	<u>1,794,072</u>	<u>1,790,877</u>	<u>3,195</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(1,791,267)</u>	<u>(1,794,067)</u>	<u>(1,790,877)</u>	<u>3,190</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of real and personal property	5	5	77,706	77,701
Transfers in (out)	1,791,262	1,791,262	1,816,281	25,019
<i>Total other financing sources (uses)</i>	<u>1,791,267</u>	<u>1,791,267</u>	<u>1,893,987</u>	<u>102,720</u>
Net change in fund balance	-	(2,800)	103,110	105,910
<i>Fund balance, beginning of year</i>	<u>2,375,847</u>	<u>2,375,847</u>	<u>2,375,847</u>	<u>-</u>
<i>Fund balance, end of year</i>	<u>\$ 2,375,847</u>	<u>\$ 2,373,047</u>	<u>\$ 2,478,957</u>	<u>\$ 105,910</u>

**COUNTY OF GAINES**  
**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS**  
**PRECINCT #3**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<b>RECEIPTS:</b>				
Miscellaneous	\$ 5	\$ 5	\$ -	\$ (5)
<i>Total receipts</i>	<u>5</u>	<u>5</u>	<u>-</u>	<u>(5)</u>
<b>DISBURSEMENTS:</b>				
Current:				
Road and bridge	1,784,631	1,784,631	1,516,148	268,483
<i>Total disbursements</i>	<u>1,784,631</u>	<u>1,784,631</u>	<u>1,516,148</u>	<u>268,483</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(1,784,626)</u>	<u>(1,784,626)</u>	<u>(1,516,148)</u>	<u>268,478</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of real and personal property	5	5	87,455	87,450
Transfers in (out)	1,784,621	1,784,621	1,809,547	24,926
<i>Total other financing sources (uses)</i>	<u>1,784,626</u>	<u>1,784,626</u>	<u>1,897,002</u>	<u>112,376</u>
Net change in fund balance	-	-	380,854	380,854
<i>Fund balance, beginning of year</i>	<u>2,323,088</u>	<u>2,323,088</u>	<u>2,323,088</u>	<u>-</u>
<i>Fund balance, end of year</i>	<u>\$ 2,323,088</u>	<u>\$ 2,323,088</u>	<u>\$ 2,703,942</u>	<u>\$ 380,854</u>

**COUNTY OF GAINES**  
**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS**  
**PRECINCT #4**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<b>RECEIPTS:</b>				
Miscellaneous	\$ 5	\$ 5	\$ -	\$ (5)
<i>Total receipts</i>	<u>5</u>	<u>5</u>	<u>-</u>	<u>(5)</u>
<b>DISBURSEMENTS:</b>				
Current:				
Road and bridge	1,754,214	1,754,214	1,201,176	553,038
<i>Total disbursements</i>	<u>1,754,214</u>	<u>1,754,214</u>	<u>1,201,176</u>	<u>553,038</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(1,754,209)</u>	<u>(1,754,209)</u>	<u>(1,201,176)</u>	<u>553,033</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of real and personal property	5	5	-	(5)
Transfers in (out)	1,754,204	1,754,214	1,778,708	24,494
<i>Total other financing sources (uses)</i>	<u>1,754,209</u>	<u>1,754,219</u>	<u>1,778,708</u>	<u>24,489</u>
Net change in fund balance	-	10	577,532	577,522
<i>Fund balance, beginning of year</i>	<u>3,466,408</u>	<u>3,466,408</u>	<u>3,466,408</u>	<u>-</u>
<i>Fund balance, end of year</i>	<u>\$ 3,466,408</u>	<u>\$ 3,466,418</u>	<u>\$ 4,043,940</u>	<u>\$ 577,522</u>

**COUNTY OF GAINES**  
**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS**  
**FARM TO MARKET FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<b>RECEIPTS:</b>				
<b>Taxes:</b>				
Property Taxes	\$ 6,704,566	\$ 6,802,058	\$ 6,748,454	\$ (53,604)
Investment income	15,000	15,000	9,101	(5,899)
Other revenue	36,784	36,784	38,020	1,236
<i>Total receipts</i>	<u>6,756,350</u>	<u>6,853,842</u>	<u>6,795,575</u>	<u>(58,267)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (out)	(6,756,350)	(6,853,842)	(6,795,575)	(58,267)
<i>Total other financing sources (uses)</i>	<u>(6,756,350)</u>	<u>(6,853,842)</u>	<u>(6,795,575)</u>	<u>(58,267)</u>
Net change in fund balance	-	-	-	-
<i>Fund balance, beginning of year</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balance, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**COUNTY OF GAINES**  
**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS**  
**CAPITAL PROJECTS FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<b>DISBURSEMENTS:</b>				
Current:				
General government	\$ 1,000,010	\$ 1,000,010	\$ 434,757	\$ 565,253
Capital outlay	500,000	500,000	96,568	403,432
<i>Total disbursements</i>	<u>1,500,010</u>	<u>1,500,010</u>	<u>531,325</u>	<u>968,685</u>
Excess (deficiency) of receipts over (under) disbursements	<u>1,500,010</u>	<u>1,500,010</u>	<u>531,325</u>	<u>968,685</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of real and personal property	15	15	-	(15)
Transfers in (out)	1,500,000	1,500,000	3,895,716	2,395,716
<i>Total other financing sources (uses)</i>	<u>1,500,015</u>	<u>1,500,015</u>	<u>3,895,716</u>	<u>2,395,701</u>
Net change in fund balance	5	5	3,364,391	3,364,386
<i>Fund balance, beginning of year</i>	<u>2,025,437</u>	<u>2,025,437</u>	<u>2,025,437</u>	<u>-</u>
<b><i>Fund balance, end of year</i></b>	<u><u>\$ 2,025,442</u></u>	<u><u>\$ 2,025,442</u></u>	<u><u>\$ 5,389,828</u></u>	<u><u>\$ 3,364,386</u></u>

December 11, 2013

County Commissioners  
Gaines County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Gaines, Seminole, Texas for the year ended September 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 1, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for selection and use of appropriate accounting policies. The significant accounting policies used by the County of Gaines, Seminole, Texas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the County of Gaines, Seminole, Texas during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We do not believe there are any particularly sensitive estimates.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the County's financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 11, 2013.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County of Gaines, Seminole, Texas' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the County Commissioners of the County of Gaines, Seminole, Texas and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Davis, R & Co.*

Davis, Ray & Co., PC  
Certified Public Accountants



# *DAVIS, RAY & CO., PC*

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CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 309, 2100 Hobbs Hwy.  
Seminole, Texas 79360  
(432) 758-3226

December 11, 2013

County Commissioners  
Gaines County  
Seminole, Texas 79360

In planning and performing our audit of the financial statements of the County of Gaines, Seminole, Texas for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. During our audit we became aware of the following matter that is an opportunity for strengthening internal controls and operating efficiency.

## The Reserve Account

The reserve account is a budgeted account within the general fund and in each of the precincts. This account is to be used for unforeseen contingencies. During the audit year, we noted that this account had been used for additional supplies, repairs and capital outlays. Because this account could be used for anything, it is important for the County Commissioners to approve the use of these funds prior to the funds being spent or obligated. We would recommend that prior to the reserve account being spent or obligated that it be approved by the County Commissioners and that the budget be amended to remove the expenditure from the reserve account and record it in the proper general ledger account, i.e. supplies, repairs, capital outlays, etc.

Sincerely,



Davis, Ray & Co., PC  
Seminole, Texas

# *DAVIS, RAY & CO., PC*

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CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 309, 2100 Hobbs Hwy.  
Seminole, Texas 79360  
(432) 758-3226

December 11, 2013

County Commissioners  
Gaines County  
Seminole, Texas 79360

In planning and performing our audit of the financial statements of the County of Gaines, Seminole, 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 the County of Gaines, Seminole, 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 County of Gaines, Seminole, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the County of Gaines' 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, material weaknesses may exist that have not been identified.

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

Sincerely,

*Davis, Ray & Co.*

Davis, Ray & Co., PC  
Seminole, Texas