

ANNUAL FINANCIAL REPORT

Fiscal Year Ended December 31, 2014

Franklin County, Texas



**FRANKLIN COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014**

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INTRODUCTORY SECTION



FRANKLIN COUNTY, TEXAS

COUNTY OFFICIALS

DECEMBER 31, 2014

County Judge.....Paul Lovier

Commissioner Precinct 1.....Danny Chitsey

Commissioner Precinct 2.....Donnie Surratt

Commissioner Precinct 3.....Deryl Carr

Commissioner Precinct 4.....Sam Young

County Clerk.....Betty Crane

District Clerk.....Ellen Jagers

County Treasurer.....Betty Sue Allen

Tax Assessor-Collector.....Sue Ann Harper

County Auditor.....Tina Phillips

Sheriff.....Ricky Jones

County Attorney.....Gene Stump

Justice of the Peace.....Jim Alford

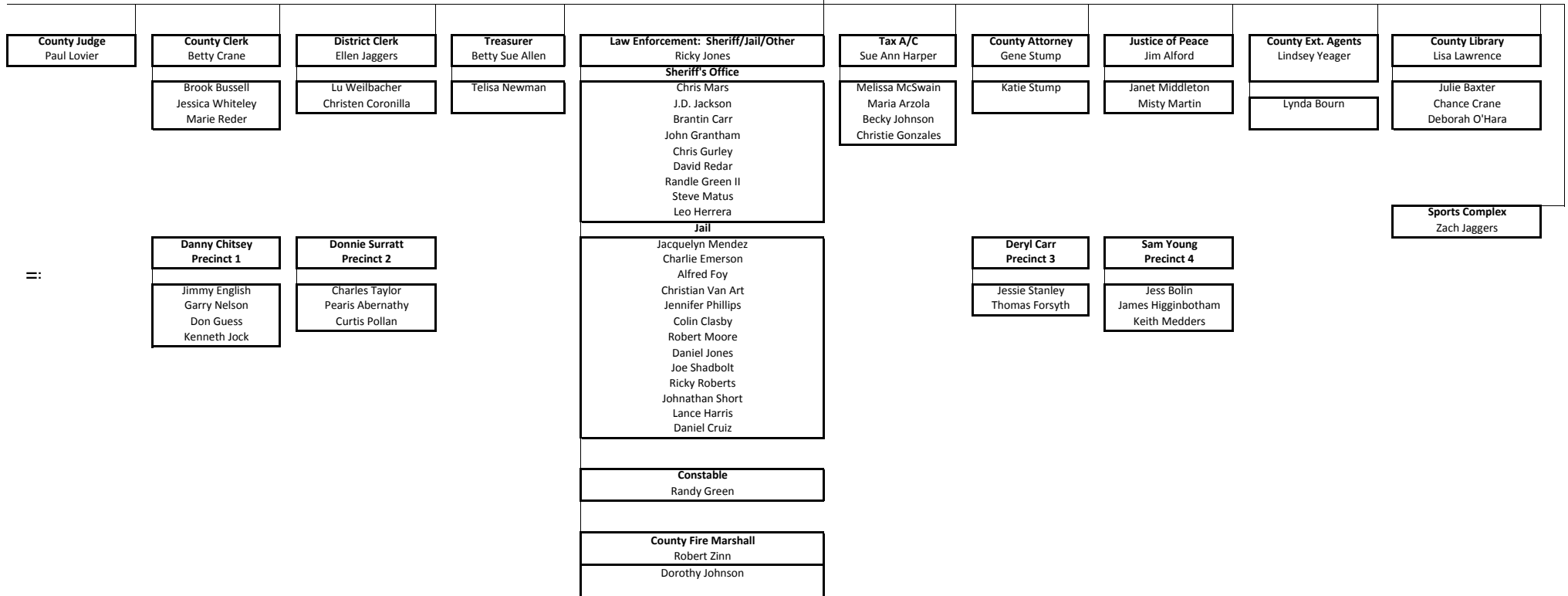
Constable.....Randy Green

Franklin County Organizational Chart

12/31/2014

District Courts
8th / 62nd
County Auditor
Tina R. Phillips, CPA

Commissioner's Court
Judge Paul Lovier, County Judge Danny Chitsey, Precinct 1 Donnie Surratt, Precinct 2 Deryl Carr, Precinct 3 Sam Young, Precinct 4



==:

FINANCIAL SECTION





Michael Conway, CPA
Neil Conway, CPA

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Texas Society of CPAs

July 15, 2015

Independent Auditor's Report

Honorable Judge and Commissioners
Franklin County
200 N. Kaufman Street
Mt. Vernon, Texas 75457

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Franklin County, Texas ("County") as of and for the year ended December 31, 2014, and the related notes to the financial statements which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 opinion. An audit also includes assessing the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Franklin County, Texas as of December 31, 2014, and the respective changes in financial position, where applicable, and cash flows, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 14 and the TCDRS Funding Progress and Contributions on page 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining and individual major and nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Internal Control

In accordance with GOVERNMENT AUDITING STANDARDS, we have also issued our report dated July 15, 2015, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with GOVERNMENT AUDITING STANDARDS in considering the County's internal control over financial reporting and compliance.

Respectfully Submitted,

CONWAY COMPANY CPAs, PC



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FRANKLIN COUNTY, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

DECEMBER 31, 2014

As management of Franklin County ("County"), we offer the readers of Franklin County's financial statements this narrative overview and analysis of the financial activities of Franklin County for the fiscal year ended December 31, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County's financial statements, which follow this narrative.

Financial Highlights

- The assets of Franklin County exceeded its liabilities at the close of the fiscal year by \$19,195,093 (net position). Of this amount, \$16,056,073, or 84%, is net investment in capital assets which do not directly generate revenue and are not available to generate liquid capital. Net position of \$385,091, or 2%, is restricted for specific purposes including library, debt service, court use, and hotel tax use. The remaining \$2,753,929, or 14%, is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$1,482,581, or 8%, due to an increase in both the governmental activities net position and business-type net position.
- As of the close of the current fiscal year, Franklin County's governmental funds reported combined ending fund balances of \$3,244,074, a decrease of (\$1,006,997), or (24%), in comparison with the prior year. A total of \$458,560, or 14%, is available for spending at the government's discretion (unassigned fund balance). In addition, Franklin County reported nonspendable fund balance of \$501,370, or 16%, restricted fund balance of \$103,812, or 3%, committed fund balance of \$750,500, or 23%, and assigned fund balance of \$1,429,832, or 44%.
- At the end of the current fiscal year, unassigned fund balance for the General Fund of \$458,560 was 11% of total General Fund expenditures for this fiscal year.
- Franklin County's long-term debt decreased by (\$501,238), or (53%), during the current fiscal year, which is mainly due to the payoff of the 2012 GO refunding bond during the year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Franklin County's basic financial statements. The County's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the County through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Franklin County.

**FRANKLIN COUNTY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2014**

Basic Financial Statements

The first two statements (pages 17-19) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the County's financial status.

The next statements (pages 20-28) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the proprietary fund statements; and 3) the fiduciary fund statement of assets and liabilities.

The next section of the basic financial statements is the **notes** (pages 29-43). The notes to the financial statements explain in detail the data contained in those statements. After the notes, **required supplemental information** (page 47) is provided to show details about the County's pension plan. **Supplemental information** (pages 50-60) presents combining statements for both the major and nonmajor governmental funds, as well as fiduciary fund information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the County's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the County's financial status as a whole.

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

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Revenues and expenses are reported in these statements for some items that will only result in cash flows in future periods (e.g., uncollected taxes). The Statement of Net Position and Statement of Activities are prepared using the accrual basis of accounting.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the County's basic services such as public safety, judicial, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. These include the leases offered by Franklin County. The government-wide financial statements can be found on pages 17-19.

Fund Financial Statements

The fund financial statements provide a more detailed look at the County's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Franklin County, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the County's budget ordinance. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds – Governmental funds are used to account for functions reported as governmental activities in the government-wide financial statements. Most of the County's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps to determine if there are more or less financial resources available to finance the County's programs. The relationship between

**FRANKLIN COUNTY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2014**

government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation included in the fund financial statements.

The focus of governmental funds is narrower than that of the government-wide financial statements; therefore, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County, and the decisions of the commissioners about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary schedule provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County succeeded in providing the services as planned when the budget was adopted. The Budgetary Comparison Schedule uses the modified accrual basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The schedule shows four columns: 1) the original budget; 2) the final budget as amended by the Commissioner's Court; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. The Governmental Fund financial statements can be found on pages 20-24 of this report.

Proprietary Funds – The County has one type of proprietary fund which is the Airport Fund. The County charges customers for the services it provides. These services are reported in proprietary funds. Proprietary Funds are reported in the same way activities are reported in the Statement of Net Position and the Statement of Activities. Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 25-27 of this report.

Fiduciary Funds – Fiduciary Funds are used to account for amounts held on behalf of others by the County as a trustee, or fiduciary. The County is the trustee, or fiduciary, for certain amounts held on behalf of individuals, other governments, or other funds. All of the County's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. The activities of this fund are excluded from the County's other financial statements because the County cannot use these assets to finance operations. The County is responsible for ensuring that the assets reported in this fund are used for their intended purpose. The basic Fiduciary Fund financial statement can be found on page 28.

Notes to the Financial Statements – The notes provide additional information essential to a full understanding of the data provided in the financial statements and can be found on pages 29-43 of this report.

Required Other Information – In addition to the basic financial statements, this report includes certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to its employees (page 47).

Other Information – The combining statements in connection with the major and non-major governmental funds are presented immediately following the required supplementary information and can be found on pages 50-60 of this report. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Circular A-133 and can be found on page 70.

New GASB Pronouncements - The following statements for the Governmental Accounting Standards Board ("GASB") were effective for the County in the fiscal year ending December 31, 2014.

GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," was implemented by the County as required by GASB during the fiscal year ending December 31, 2014. This statement specifies the items that

**FRANKLIN COUNTY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2014**

were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources.

GASB Statement No. 66, "Technical Corrections – 2012 – an amendment of GASB Statement No. 10 and No. 62", has been implemented by the County as required by GASB during the fiscal year ending December 31, 2014. This statement improves financial reporting by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. This statement amends Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62 by modifying the specific guidance on accounting and operating leases. The implementation of this statement will not result in any changes to the financial statements.

GASB Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25 has been implemented as required by GASB during the fiscal year ending December 31, 2014. The objective of this statement is to improve financial reporting by state and local government pension plans.

The GASB has issued the following statements which will be effective in future years as described below:

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27", will be implemented as required by GASB during the fiscal year December 31, 2015. The objective of this statement is to improve accounting and financial reporting by state and local government pensions and improve the decision-usefulness of information contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. Note disclosure and required supplementary information requirement about pensions also are addressed. This statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. The County is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 69, "Governmental Combinations and Disposals of Government Operations", will be implemented as required by GASB during the fiscal year December 31, 2015. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The County is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees", will be implemented as required by GASB during the fiscal year December 31, 2015. This statement requires a government that extends nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. It is not anticipated that the adoption of the statement will result in any changes to the County's financial statements.

GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date", will be implemented as required by GASB during the fiscal year December 31, 2015. This statement addresses an issue regarding application of the transition provisions of GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The County is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

**FRANKLIN COUNTY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2014**

Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 8,549,776	\$ 9,349,009	\$ (15,619)	\$ (15,260)	\$ 8,534,157	\$ 9,333,749
Capital assets	15,705,793	13,727,194	789,808	777,222	16,495,601	14,504,416
Total assets	<u>24,255,569</u>	<u>23,076,203</u>	<u>774,189</u>	<u>761,962</u>	<u>25,029,758</u>	<u>23,838,165</u>
Current liabilities	188,962	378,220	647	1,005	189,609	379,225
Long-term liabilities	528,316	1,021,199	-	-	528,316	1,021,199
Total liabilities	<u>717,278</u>	<u>1,399,419</u>	<u>647</u>	<u>1,005</u>	<u>717,925</u>	<u>1,400,424</u>
Deferred inflows of resources:						
Unavailable revenue	5,116,740	4,725,229	-	-	5,116,740	4,725,229
	<u>5,116,740</u>	<u>4,725,229</u>	<u>-</u>	<u>-</u>	<u>5,116,740</u>	<u>4,725,229</u>
Net position:						
Net investment in capital assets	15,266,265	13,186,428	789,808	777,223	16,056,073	13,963,651
Restricted	385,091	527,108	-	-	385,091	527,108
Unrestricted	2,770,195	3,238,019	(16,266)	(16,266)	2,753,929	3,221,753
Total net position	<u>\$18,421,551</u>	<u>\$16,951,555</u>	<u>\$ 773,542</u>	<u>\$ 760,957</u>	<u>\$19,195,093</u>	<u>\$17,712,512</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The net position of Franklin County exceeded liabilities by \$19,195,093 as of December 31, 2014. During the year ended December 31, 2014, the County's net position increased by \$1,482,581.

Net investment in capital assets

The largest portion of the County's net position of \$16,056,073, or 84%, reflects the County's investment in capital assets (e.g., land, buildings, machinery and equipment) less any related debt still outstanding that was issued to acquire those items. Franklin County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Franklin County's investment in its capital assets is reported net of the outstanding debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

Restricted net position:

Restricted net position, representing \$385,091, or 2%, is subject to external restrictions on how it may be used, or by enabling legislation. The restricted net position is comprised of (a) \$6,296, or 2%, for debt service, (b) \$97,454, or 25%, for state imposed restrictions, and (c) \$281,341, or 73%, for library use.

Unrestricted net position:

Unrestricted net position in the amount of \$2,753,929, or 14%, is available to fund the County's programs to citizens and creditors.

**FRANKLIN COUNTY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2014**

Franklin County's Changes in Net Position

	Governmental Activities		Business Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues:						
Charges for services	\$ 1,671,196	\$ 1,600,878	\$ 7,265	\$ 7,491	\$ 1,678,461	\$ 1,608,369
Grants and Contributions	2,001,262	1,485,103	-	-	2,001,262	1,485,103
General Revenues:						
Property Taxes	4,754,848	4,595,630	-	-	4,754,848	4,595,630
Sales Taxes	435,103	403,062	-	-	435,103	403,062
Other Taxes	47,026	39,035	-	-	47,026	39,035
Investment Income	90,618	94,858	-	-	90,618	94,858
Miscellaneous	168,613	433,518	-	-	168,613	433,518
Total Revenues	<u>9,168,666</u>	<u>8,652,084</u>	<u>7,265</u>	<u>7,491</u>	<u>9,175,931</u>	<u>8,659,575</u>
Expenses:						
Program Expenses						
General Government	2,258,113	2,345,850	-	-	2,258,113	2,345,850
Public Safety	1,039,085	1,017,890	-	-	1,039,085	1,017,890
Judicial	1,378,287	1,316,242	-	-	1,378,287	1,316,242
Health and Public Welfare	53,240	56,569	-	-	53,240	56,569
Library	189,394	187,838	-	-	189,394	187,838
Public Works	2,609,139	2,449,792	-	-	2,609,139	2,449,792
Parks and Recreations	112,162	96,452	-	-	112,162	96,452
Interest on Long-Term Debt	25,053	24,550	-	-	25,053	24,550
Airport	-	-	28,877	22,100	28,877	22,100
Total Expenses	<u>7,664,473</u>	<u>7,495,183</u>	<u>28,877</u>	<u>22,100</u>	<u>7,693,350</u>	<u>7,517,283</u>
Change in Net Position before Other						
Revenues and Financing Sources (Uses)	1,504,193	1,156,901	(21,612)	(14,609)	1,482,581	1,142,292
Other Revenues & Financing Sources (Uses):						
Transfers	(34,197)	(72,891)	34,197	72,891	-	-
Total Other Financing Sources (Uses)	<u>(34,197)</u>	<u>(72,891)</u>	<u>34,197</u>	<u>72,891</u>	<u>-</u>	<u>-</u>
Total Change in Net Position	1,469,996	1,084,010	12,585	58,282	1,482,581	1,142,292
Net position - January 1	16,951,555	15,867,545	760,957	702,675	17,712,512	16,570,220
Net position - December 31	<u>\$18,421,551</u>	<u>\$16,951,555</u>	<u>\$ 773,542</u>	<u>\$ 760,957</u>	<u>\$19,195,093</u>	<u>\$17,712,512</u>

The Governmental Activities have increased the net position by \$1,469,996 in the current fiscal year. This increase is mainly due to an increase in grants and contributions of \$516,159, or 35%.

The Business-type Activities have increased the net position by \$12,585 in the current fiscal year. This increase is mainly due to incoming transfers from other funds.

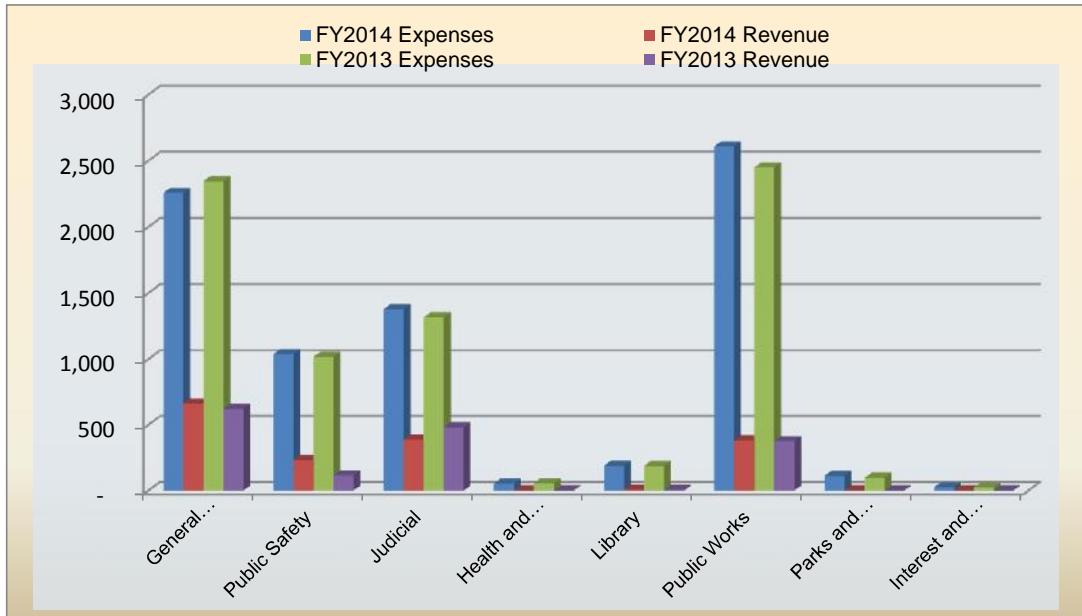
**FRANKLIN COUNTY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2014**

Governmental-type activities - Governmental-type activities increased the County's net position by \$1,469,996. A key element of this increase is as follows:

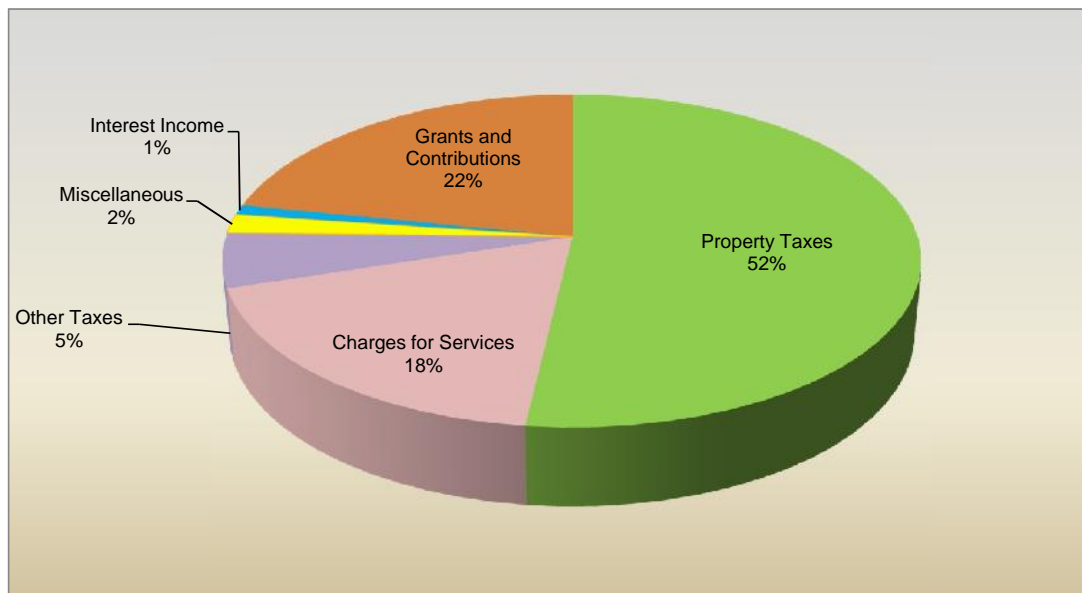
Grant and contribution revenues increased \$516,159, or 35%.

Expenses and Program Revenues - Governmental Activities

(amounts expressed in thousands)



Revenues by Source - Governmental Activities



**FRANKLIN COUNTY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2014**

Financial Analysis of the County's Funds

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

Governmental Funds - The focus of Franklin County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the County's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the governmental funds reported a combined ending fund balance of \$3,244,074, a (24%) decrease from last year. This decrease is mainly due to capital expenditures related to the courthouse asset and principal retirement of the jail loan during the year. Approximately \$458,560, or 14%, of this total amount constitutes unassigned fund balance that is available for spending at the government's discretion.

The County has assigned fund balances of \$1,429,832 for capital projects, monies for specific purposes in parks, library, road and bridge, health care, and other functions, which represents 44% of total fund balance.

A portion of the fund balance is restricted totaling \$103,812, or 3%, indicating that these are restricted for spending for the following: 1) \$32,502, or 31%, for hotel use, 2) \$55,299, or 53%, for court use, 3) \$6,296, or 6%, for debt service, and 4) \$9,715, or 10%, for library. Committed fund balance of \$750,500, or 23% of total fund balance, is set aside for capital projects. The remaining fund balance of \$501,370, or 15%, is nonspendable and is made up of prepaid items, endowment, inventory and notes receivable.

The General Fund is the chief operating fund of Franklin County. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$458,560. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. This represents 11% of total General Fund expenditures.

General Fund Budgetary Highlights: During the fiscal year, the County made revisions to the budget. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and (3) increases in appropriations that become necessary to maintain services.

Revenues were slightly less than budgeted amounts, mainly in the areas of property tax and fines and forfeitures. Expenditures were less than budgeted amounts overall.

Proprietary Funds - Franklin County's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the proprietary funds at the end of the fiscal year amounted to (\$16,266), with an increase in total net position of \$12,585, which is mainly due to transfers of funds during the year.

**FRANKLIN COUNTY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2014**

Capital Asset and Debt Administration

Capital Assets - Franklin County's investment in capital assets for its governmental and business-type activities as of December 31, 2014, totals \$16,495,601 (net of accumulated depreciation). These assets include land, buildings, infrastructure, improvements, machinery & equipment, vehicles and construction in progress. The total increase in Franklin County's capital assets was 14%.

Major capital asset transactions during the year include the following additions:

- Completion of courthouse renovation
- Continued construction of sports fields
- Purchase of various public works vehicles and equipment
- Airport improvements

**Franklin County
Capital Assets
December 31, 2014
(net of accumulated depreciation)**

	Governmental		Business-type		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 713,157	\$ 713,157	\$ 394,372	\$ 394,372	\$ 1,107,529	\$ 1,107,529
Construction in Progress	47,287	4,254,722	107,573	83,269	154,860	4,337,991
Buildings & Improvements	10,401,450	3,998,680	287,863	299,581	10,689,313	4,298,261
Infrastructure	3,361,095	3,544,395	-	-	3,361,095	3,544,395
Machinery & Equipment	1,182,804	1,216,242	-	-	1,182,804	1,216,242
Total	\$ 15,705,793	\$ 13,727,196	\$ 789,808	\$ 777,222	\$ 16,495,601	\$ 14,504,418

More detailed information about the County's capital assets is presented in Note F to the financial statements.

Long-term Debt - As of December 31, 2014, Franklin County had total long-term debt outstanding of \$439,528. This is a decrease of (\$501,238), or (53%), over the previous year.

**Franklin County
Long-Term Debt
December 31, 2014**

	Governmental		Business-type		Total	
	2014	2013	2014	2013	2014	2013
Bonds payable	\$ -	\$ 415,631	\$ -	\$ -	\$ -	\$ 415,631
Notes payable	422,972	431,190	-	-	422,972	431,190
Capital lease	16,556	93,945	-	-	16,556	93,945
Totals	\$ 439,528	\$ 940,766	\$ -	\$ -	\$ 439,528	\$ 940,766

More detailed information about the County's long-term debt is presented in Note G to the financial statements.

**FRANKLIN COUNTY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2014**

Economic Factors and Next Year's Budgets and Rates

In the fiscal year 2015 budget, the General Fund revenues are budgeted to increase \$73,300, or 2.28%, from the 2014 budget year. General Fund property tax revenue makes up about \$3,289,400, or approximately 70.5% of anticipated General Fund revenues. The 2014 adjusted property tax values for the General Fund increased by \$34,000,000 over the prior year. This increase was primarily due to higher appraised values for the real property. For the 2015 tax year, the County Commissioners increased the tax rate by \$0.01958 per \$100 assessed valuation, which was approximately a 6.77% increase over the prior year.

Fees and fines, the second largest revenue source for the General Fund, is budgeted at \$616,750 for 2015, or 13.22% of anticipated General Fund revenue. Sales tax, the third largest revenue source, is budgeted at \$404,615, or 8.67%. The remaining 7.61% of budgeted revenue is made up of delinquent tax penalties, interest earnings, and miscellaneous other income. The fiscal year 2015 budget includes an approximate 3.5% wage increase for hourly employees. Elected and appointed officials' salaries increased \$1,000 each, or 2.04%.

On August 18, 2014, the County paid off the Series 2012 General Obligation Refunding Bonds owed on the 2005 jail expansion project. Payments on the loan in 2014 totaled \$430,066 with \$415,631 applied to the principal and \$14,435 applied to interest expense. Funds to make the 2014 loan payments came from 2013 debt service property taxes and out-of-county inmate housing fees.

Requests for Information

This report is designed to provide an overview of the County's finances for those with an interest in the government's finances. Questions concerning the information found in this report or requests for additional financial information should be directed to Franklin County, 200 N. Kaufman, Mt. Vernon, Texas 75457.

BASIC FINANCIAL STATEMENTS



**FRANKLIN COUNTY, TEXAS
STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,521,671	\$ -	\$ 3,521,671
Receivables (net of allowance for uncollectibles)	3,862,907	-	3,862,907
Notes receivable	183,865	-	183,865
Grant receivable	311,601	-	311,601
Internal Balances	15,619	(15,619)	-
Prepaid expenses	39,554	-	39,554
Inventory	6,325	-	6,325
Restricted assets:			
Cash and cash equivalents	608,234	-	608,234
Non-depreciable capital assets:			
Land	713,157	394,372	1,107,529
Construction in progress	47,287	107,573	154,860
Depreciable capital assets (net):			
Infrastructure	3,361,095	-	3,361,095
Building & improvements	10,401,450	287,863	10,689,313
Machinery & equipment	1,182,804	-	1,182,804
Total Assets	<u>24,255,569</u>	<u>774,189</u>	<u>25,029,758</u>
LIABILITIES			
Accounts payable	177,356	647	178,003
Accrued interest payable	3,980	-	3,980
Accrued expenses	7,626	-	7,626
Noncurrent liabilities:			
Due within one year:			
Compensated absences	41,776	-	41,776
Capital lease payable	16,556	-	16,556
Notes payable	117,379	-	117,379
Due in more than one year:			
Compensated absences	47,012	-	47,012
Note Payable	305,593	-	305,593
Total Liabilities	<u>717,278</u>	<u>647</u>	<u>717,925</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	5,116,740	-	5,116,740
Total Deferred Inflows of Resources	<u>5,116,740</u>	<u>-</u>	<u>5,116,740</u>
NET POSITION			
Net investment in capital assets	15,266,265	789,808	16,056,073
Restricted for:			
Debt Service	6,296	-	6,296
Court use	64,952	-	64,952
Hotel tax	32,502	-	32,502
Library			
Expendable	9,715	-	9,715
Nonexpendable	271,626	-	271,626
Unrestricted	2,770,195	(16,266)	2,753,929
Total Net Position	<u>\$ 18,421,551</u>	<u>\$ 773,542</u>	<u>\$ 19,195,093</u>

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

FRANKLIN COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Function/Program Activities				
Primary Government				
Governmental activities:				
General government	\$ 2,258,113	\$ 663,018	\$ 20,651	\$ 1,684,529
Public safety	1,039,085	233,712	-	-
Judicial	1,378,287	387,615	-	-
Health and public welfare	53,240	-	-	-
Library	189,394	5,469	14,954	-
Public works	2,609,139	381,382	274,376	-
Parks and recreational	112,162	-	6,752	-
Interest on long-term debt	25,053	-	-	-
Total governmental activities	<u>7,664,473</u>	<u>1,671,196</u>	<u>316,733</u>	<u>1,684,529</u>
Business-type activities:				
Airport	28,877	7,265	-	-
Total business-type activities	<u>28,877</u>	<u>7,265</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 7,693,350</u>	<u>\$ 1,678,461</u>	<u>\$ 316,733</u>	<u>\$ 1,684,529</u>

General revenues:

Property taxes
Sales taxes
Other taxes
Investment income
Miscellaneous
Transfers
Total general revenues and transfers
Change in net position
Net position - beginning
Net position - ending

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

**Net (Expense) Revenue
and Changes in Net Position**

Primary Government		
Governmental Activities	Business Activities	Total
\$ 110,085	\$ -	\$ 110,085
(805,373)	-	(805,373)
(990,672)	-	(990,672)
(53,240)	-	(53,240)
(168,971)	-	(168,971)
(1,953,381)	-	(1,953,381)
(105,410)	-	(105,410)
(25,053)	-	(25,053)
<u>(3,992,015)</u>	<u>-</u>	<u>(3,992,015)</u>
-	(21,612)	(21,612)
-	(21,612)	(21,612)
<u>\$ (3,992,015)</u>	<u>\$ (21,612)</u>	<u>\$ (4,013,627)</u>
\$ 4,754,848	\$ -	\$ 4,754,848
435,103	-	435,103
47,026	-	47,026
90,618	-	90,618
168,613	-	168,613
(34,197)	34,197	-
<u>5,462,011</u>	<u>34,197</u>	<u>5,496,208</u>
1,469,996	12,585	1,482,581
16,951,555	760,957	17,712,512
<u>\$ 18,421,551</u>	<u>\$ 773,542</u>	<u>\$ 19,195,093</u>

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

**FRANKLIN COUNTY, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	General Fund	Road & Bridge Funds (Funds 1 - 4)	Road & Bridge County-Wide Fund	Courthouse Restoration Fund	Other Funds	Total
Assets						
Cash and cash equivalents	\$ 1,753,158	\$ 842,443	\$ 545,924	\$ -	\$ 380,146	\$ 3,521,671
Receivables (net of allowance for uncollectible)	2,577,496	197,150	1,029,193	-	59,068	3,862,907
Grant Receivable	-	-	-	311,601	-	311,601
Cash and cash equivalents - restricted	-	-	-	-	608,234	608,234
Due from other funds	252,061	20,000	-	-	350	272,411
Notes receivable	-	-	-	-	183,865	183,865
Inventory	-	-	-	-	6,325	6,325
Prepaid expenses	29,902	-	-	-	9,652	39,554
Total Assets	\$ 4,612,617	\$ 1,059,593	\$ 1,575,117	\$ 311,601	\$ 1,247,640	\$ 8,806,568
Liabilities						
Accounts payable	27,434	29,742	164	74,399	45,617	177,356
Due to other funds	405	19,185	-	237,202	-	256,792
Accrued expenses	5,512	1,508	-	-	606	7,626
Accrued interest payable	-	3,980	-	-	-	3,980
Total Liabilities	33,351	54,415	164	311,601	46,223	445,754
Deferred Inflows of Resources						
Unavailable revenue - property taxes	3,340,304	279,575	1,430,270	-	66,591	5,116,740
Total Deferred Inflows of Resources	3,340,304	279,575	1,430,270	-	66,591	5,116,740
Fund Balance						
Nonspendable:						
Endowment	-	-	-	-	271,626	271,626
Inventory	-	-	-	-	6,325	6,325
Prepaid items	29,902	-	-	-	9,652	39,554
Notes receivable	-	-	-	-	183,865	183,865
Restricted for:						
Library	-	-	-	-	9,715	9,715
Hotel	-	-	-	-	32,502	32,502
Court use	-	-	-	-	55,299	55,299
Debt service	-	-	-	-	6,296	6,296
Committed for:						
Capital improvements	750,500	-	-	-	-	750,500
Assigned for:						
Road & bridge	-	725,603	144,683	-	-	870,286
Library	-	-	-	-	33,007	33,007
General government	-	-	-	-	228,702	228,702
Public safety	-	-	-	-	186,469	186,469
Health care	-	-	-	-	24,410	24,410
Other	-	-	-	-	10,321	10,321
Judicial	-	-	-	-	44,963	44,963
Parks	-	-	-	-	31,674	31,674
Unassigned	458,560	-	-	-	-	458,560
Total Fund Balance	1,238,962	725,603	144,683	-	1,134,826	3,244,074
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 4,612,617	\$ 1,059,593	\$ 1,575,117	\$ 311,601	\$ 1,247,640	\$ 8,806,568

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

**FRANKLIN COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2014**

Total fund balance - governmental fund balance sheet	\$ 3,244,074
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund financial statements.	29,566,846
Accumulated depreciation has not been included in the governmental fund financial statements.	(13,861,053)
Long-term liabilities for compensated absences have not been reflected in the fund financial statements.	(88,788)
Notes payable have not been included in the governmental fund financial statements	(422,972)
Capital leases payable have not been included in the governmental fund financial statements	(16,556)
Net position of governmental activities - statement of net position	<u>\$ 18,421,551</u>

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

**FRANKLIN COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General Fund	Road & Bridge Funds (Funds 1 - 4)	County-Wide Road & Bridge Fund	Courthouse Restoration Fund	Other Funds	Total Governmental Funds
REVENUES						
Taxes:						
Property	\$ 3,077,423	\$ 255,046	\$ 1,307,050	\$ -	\$ 115,329	\$ 4,754,848
Hotel	-	-	-	-	43,015	43,015
Beverage	4,011	-	-	-	-	4,011
Sales and use	435,103	-	-	-	-	435,103
Fines and forfeitures	316,773	-	-	-	184,086	500,859
Licenses and permits	57,510	-	-	-	-	57,510
Charges for services	324,390	125,231	282,800	-	290,100	1,022,521
Sales - commissary	-	-	-	-	46,952	46,952
Grant and contributions	51,918	274,376	-	1,647,213	18,865	1,992,372
Donations	-	-	-	-	6,752	6,752
Intergovernmental revenue	2,137	-	-	-	-	2,137
Investment income	44,197	13,998	9,318	-	23,105	90,618
Miscellaneous	130,850	3,485	-	-	34,278	168,613
Total Revenues	<u>4,444,312</u>	<u>672,136</u>	<u>1,599,168</u>	<u>1,647,213</u>	<u>762,482</u>	<u>9,125,311</u>
EXPENDITURES						
Current:						
General government	1,951,388	-	-	2,223	119,182	2,072,793
Public safety	868,384	-	-	-	37,988	906,372
Judicial	1,194,472	-	-	-	183,815	1,378,287
Health and public welfare	28,121	-	-	-	25,119	53,240
Library	-	-	-	-	189,394	189,394
Public works	-	2,204,836	547	-	-	2,205,383
Parks and recreation	-	-	-	-	110,687	110,687
Debt service:						
Principal retirement	-	122,389	-	-	470,109	592,498
Interest	-	9,878	-	-	20,682	30,560
Capital outlays:						
General government	28,508	-	-	2,400,539	-	2,429,047
Public Safety	118,386	-	-	-	56,818	175,204
Judicial	5,078	-	-	-	-	5,078
Public works	-	68,250	-	-	-	68,250
Parks and recreation	-	-	-	-	15,931	15,931
Total Expenditures	<u>4,194,337</u>	<u>2,405,353</u>	<u>547</u>	<u>2,402,762</u>	<u>1,229,725</u>	<u>10,232,724</u>
Excess (deficiency) of revenues over (under) expenditures	249,975	(1,733,217)	1,598,621	(755,549)	(467,243)	(1,107,413)
OTHER FINANCING SOURCES (USES)						
Transfers	(783,993)	1,579,624	(1,599,168)	355,549	413,791	(34,197)
Note payable proceeds	33,300	57,960	-	-	-	91,260
Sale of assets	-	43,353	-	-	-	43,353
Total other financing sources (uses)	<u>(750,693)</u>	<u>1,680,937</u>	<u>(1,599,168)</u>	<u>355,549</u>	<u>413,791</u>	<u>100,416</u>
Net Change in Fund Balance	(500,718)	(52,280)	(547)	(400,000)	(53,452)	(1,006,997)
Fund Balance, January 1	1,739,680	777,883	145,230	400,000	1,188,278	4,251,071
Fund Balance, December 31	<u>\$ 1,238,962</u>	<u>\$ 725,603</u>	<u>\$ 144,683</u>	<u>\$ -</u>	<u>\$ 1,134,826</u>	<u>\$ 3,244,074</u>

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

**FRANKLIN COUNTY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Net change in fund balances - statement of revenues, expenditures and changes in fund balances - governmental funds	\$ (1,006,997)
Current year capital outlays are expenditures in the fund financial statements but they are shown as an increase in capital assets in the government-wide financial statements.	2,693,510
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of recording the current year's depreciation is to decrease net position.	(714,913)
Current year long-term debt principal payments on contractual obligations, bonds payable, and capital leases are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements.	592,498
Current year debt proceeds are other financing sources in the governmental funds financial statements but are shown as an increase in liabilities in the government-wide financial statements.	(91,260)
Current year changes in compensated absences liabilities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds.	(8,355)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	5,513
Net change in net position - statement of activities	<u><u>\$ 1,469,996</u></u>

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

**FRANKLIN COUNTY, TEXAS
GENERAL FUND - SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET (MODIFIED ACCRUAL BASIS) AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 3,300,169	\$ 3,300,169	\$ 3,077,423	\$ (222,746)
Sales and use	400,000	400,000	435,103	35,103
Beverage	2,500	2,500	4,011	1,511
Fines and forfeitures	405,500	405,500	316,773	(88,727)
Licenses and permits	55,000	55,000	57,510	2,510
Charges for services	257,750	257,750	324,390	66,640
Grant and contributions	7,000	44,316	51,918	7,602
Intergovernmental	-	-	2,137	2,137
Investment income	44,750	44,750	44,197	(553)
Miscellaneous	127,333	109,333	130,850	21,517
Total Revenues	4,600,002	4,619,318	4,444,312	(175,006)
EXPENDITURES				
Current:				
General government	2,050,705	2,117,053	1,951,388	165,665
Public safety	923,943	926,943	868,384	58,559
Judicial	1,194,410	1,177,778	1,194,472	(16,694)
Health and public welfare	34,290	34,290	28,121	6,169
Capital outlay				
General government	10,000	10,000	28,508	(18,508)
Public safety	67,400	100,700	118,386	(17,686)
Judicial	-	-	5,078	(5,078)
Total Expenditures	4,280,748	4,366,764	4,194,337	172,427
Excess of revenues over expenditures	319,254	252,554	249,975	(2,579)
Other Financing Sources (uses)				
Transfers	(1,006,250)	(1,002,750)	(783,993)	218,757
Note payable proceeds	-	33,300	33,300	-
Total other financing sources (uses)	(1,006,250)	(969,450)	(750,693)	218,757
Net Change in Fund Balances	(686,996)	(716,896)	(500,718)	216,178
Fund Balance, January 1	1,739,680	1,739,680	1,739,680	
Fund Balance, December 31	\$ 1,052,684	\$ 1,022,784	\$ 1,238,962	

FRANKLIN COUNTY, TEXAS
STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2014

	<u>Airport Fund</u>
ASSETS	
Noncurrent assets:	
Capital assets:	
Land	\$ 394,372
Construction in progress	107,573
Building & Improvements	631,410
Less: accumulated depreciation	<u>(343,547)</u>
Total capital assets (net of accumulated depreciation)	<u>789,808</u>
Total noncurrent assets	<u>789,808</u>
Total Assets	<u><u>789,808</u></u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	647
Due to Other Funds	15,619
Total Current Liabilities	<u>16,266</u>
Total Liabilities	<u>16,266</u>
NET POSITION	
Net investment in capital assets	789,808
Unrestricted	<u>(16,266)</u>
Total Net Position	<u><u>\$ 773,542</u></u>

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

**FRANKLIN COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Airport Fund</u>
OPERATING REVENUES:	
Charges for services	\$ 7,265
Total Operating Revenues	<u>7,265</u>
OPERATING EXPENSES:	
Supplies and materials	582
Maintenance and repair	9,077
Utilities	7,500
Depreciation	11,718
Total Operating Expenses	<u>28,877</u>
Operating Income (Loss)	<u>(21,612)</u>
NON-OPERATING REVENUES (EXPENSES):	
Transfers	34,197
Total Non-Operating Revenues	<u>34,197</u>
Change in Net Position	12,585
Net Position, January 1	<u>760,957</u>
Net Position, December 31	<u><u>\$ 773,542</u></u>

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

FRANKLIN COUNTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Airport Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 7,265
Cash payments to suppliers for goods and services	<u>(17,159)</u>
Net cash provided by (used in) operating activities	<u>(9,894)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to/from other funds	<u>34,197</u>
Net cash used in noncapital financing activities	<u>34,197</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	<u>(24,303)</u>
Net cash used for capital and related financing activities	<u>(24,303)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	-
Cash and Cash Equivalents at Beginning of Year	-
Cash and Cash Equivalents at End of Year	<u>\$ -</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operation Activities:	
Operating income (loss)	<u>\$ (21,612)</u>
Adjustments to reconcile operating income to net cash	
Provided by operating activities	
Depreciation	<u>11,718</u>
Total adjustments	<u>11,718</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (9,894)</u>

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

FRANKLIN COUNTY, TEXAS
 COMBINING STATEMENT OF ASSETS AND LIABILITIES
 FIDUCIARY FUNDS
 DECEMBER 31, 2014

	<u>Tax Assessor/ Collector</u>	<u>County Clerk</u>	<u>County Attorney</u>	<u>District Clerk</u>	<u>Sheriff</u>	<u>Child Welfare Board</u>	<u>Justice of the Peace</u>	<u>Constable</u>	<u>Total Agency Funds</u>
ASSETS									
Cash and Cash Equivalents	\$1,301,516	\$25,238	\$8,008	\$102,187	\$32,583	\$10,213	\$ 211	\$ 352	\$1,480,308
Total Assets	<u>1,301,516</u>	<u>25,238</u>	<u>8,008</u>	<u>102,187</u>	<u>32,583</u>	<u>10,213</u>	<u>211</u>	<u>352</u>	<u>1,480,308</u>
LIABILITIES									
Due to Other Governments or Individuals	1,301,516	25,238	8,008	102,187	32,583	10,213	211	352	1,480,308
Total Liabilities	<u>1,301,516</u>	<u>25,238</u>	<u>8,008</u>	<u>102,187</u>	<u>32,583</u>	<u>10,213</u>	<u>\$ 211</u>	<u>\$ 352</u>	<u>\$1,480,308</u>

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

**FRANKLIN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

A. Summary of Significant Accounting Policies

Franklin County, Texas ("County") reports in accordance with accounting principles generally accepted in the United States of America ("GAAP") as established by the Governmental Accounting Standards Board ("GASB") and the Financial Accounting Standards Board ("FASB"), when applicable. The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes are organized to provide concise explanation, including required disclosures of budgetary matters, assets, liabilities, fund equity, revenues, expenditures/expenses, and other information considered important to gaining a clear picture of the County's financial activities for the fiscal year ended December 31, 2014.

1. Reporting Entity

The County is a public corporation and a political subdivision of the State of Texas. A Commissioners' Court, composed of four (4) elected County Commissioners and one elected County Judge, governs the County. The County provides a vast number of services, including public safety, administration of justice, health and human services, culture and recreation, public improvements, and general administration.

Under GASB 14, component units are organizations for which the County is financially accountable and all other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the County appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the County. The County may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the County. GASB 39 added clarification to GASB 14 by including entities which meet all three of the following requirements:

1. The economic resources received or held by the separate organization are entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to other access, are significant to the primary government.

In addition, GASB Statement No. 61 considers an organization that does not meet the financial accountability criteria may be included as a component unit if management's professional judgment determines it to be necessary and misleading if omitted. This evaluation includes consideration of whether a financial benefit or burden exists in the relationship between the entities. Management has not identified any additional organizations that fit this criteria.

There are no component units of the County at the end of this current fiscal period.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

The basic financial statements are prepared in conformity with GASB Statement No. 34 which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the County's governmental activities and business-type activities on the Statement of Net Position and Statement of Activities. Significantly, the County's Statement of Net Position includes both noncurrent assets and noncurrent liabilities of the County. In addition, the government-wide Statement of Activities reflects depreciation expense on the County's capital assets, including infrastructure.

In addition to the government-wide financial statements, the County has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resources measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

FRANKLIN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

A. Summary of Significant Accounting Policies

2. Basis of Presentation, Basis of Accounting
 - a. Basis of Presentation (continued)

The County also presents Management's Discussion and Analysis which includes an analytical overview of the County's financial activities. In addition, a budgetary comparison schedule is presented that compares the original adopted budget and final amended General Fund budget with actual results.

The basic financial statements include both government-wide (based on the County as a whole) and fund financial statements. The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a functional category (General Government, Public Works, etc.) or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, b) grants and contributions that are restricted to meeting the operational requirements of a particular function or program, or c) grants and contributions that are restricted to meeting the capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated resources are also reported as general revenues rather than as program services.

The net cost (by function) is normally covered by general revenue (property and sales taxes and interest income).

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the funds financial statements. The major governmental funds are the General Fund, Road and Bridge Funds 1-4, and County-Wide Road and Bridge. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements. There are many non-major funds in the governmental funds type.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal ongoing operations. The principal operating revenues of the Airport Fund is lease revenue. Operating expenses for the proprietary fund includes the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

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

- b. Measurement Focus, Basis of Accounting

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

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

**FRANKLIN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

A. Summary of Significant Accounting Policies

2. Basis of Presentation, Basis of Accounting
 - b. Measurement Focus, Basis of Accounting (continued)

The County reports the following major governmental funds:

Governmental Funds:

The *General Fund* is the general operating fund of the County and is always classified as a major fund. This fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, charges for services, intergovernmental revenues, grant revenue and investment of idle funds.

The *Road & Bridge Funds* are used to account for the revenues restricted for the funding of road repairs and improvements and all expenditures related to the County roads. These funds are broken into two categories: the Road and Bridge Funds 1 - 4 which account for the individual road and bridge accounts of each commissioner and the County-wide Road and Bridge Fund which encompasses the activity for the entire County.

The *Courthouse Restoration Fund* is used to account for the revenues restricted for the funding of the courthouse restoration project and all expenditures related to the project.

Proprietary Funds:

Proprietary funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and changes in cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its Statement of Net Position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal ongoing operations. Operating expenses of the proprietary fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County reports one major proprietary fund: the Airport Fund.

Additionally, the County reports the following fund type:

Fiduciary Fund financial statements include fiduciary funds, which are classified as agency funds used to account for assets held by the County as an agent for individuals, other governments, and other funds. Agency funds do not involve a formal trust agreement. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The following are the County's agency funds:

County Clerk, District Clerk, County Attorney, and Sheriff funds - used to account for funds received with the ultimate disposition of receipts to be determined at a future date.

Tax Assessor/Collector - used to account for initial receipt and distribution to proper parties of taxes and fees collected for various entities of government.

3. Financial Statement Amounts

- a. Cash and Cash Equivalents

Cash of several funds is pooled into a common interest-bearing bank account in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash has equity therein, and interest earned on these monies is allocated based upon relative equity at each month end.

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

**FRANKLIN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

A. Summary of Significant Accounting Policies

3. Financial Statement Amounts (continued)

b. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through contractual provisions or enabling legislation.

c. Receivables and Payables

Property taxes are levied prior to September 30 based on taxable values as of January 1 and become due October 1 and past due after January 31. Accordingly, receivables and revenues for property taxes are reflected in the government-wide financial statements based on the full accrual method of accounting. Property tax receivables for the current year's levy are shown net of an allowance for uncollectible accounts.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the County. Program grants are recorded as receivables and revenues at the time eligibility requirements have been met and reimbursable costs are incurred.

Reimbursements for services performed are recorded as receivables and revenues when they become eligible for accrual in the government-wide statements. Included are fines and costs assessed by court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as deferred revenue in the fund statements.

Lending or borrowing between funds is reflected as "due to" or "due from". Interfund activity reflected in "due to" or "due from" is eliminated on the government-wide statements.

d. Inventories and Prepaid Items

Inventory is valued at market cost. Reported inventories are offset by a restriction of fund balance, which indicates that they do not constitute "available resources" even though they are a component of current net position.

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

e. Capital Assets

Capital assets, which include land, buildings, equipment, and improvements, purchased or acquired, are reported in the applicable governmental or business-like activities columns in the government-wide financial statements and proprietary fund types. 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 three years. Such assets are recorded at historical cost or estimated historical if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-like activities is included as part of the capitalized value of the assets constructed. There was no capitalized interest for this fiscal year.

Management elected not to retroactively report infrastructure assets within the scope of GASB 34.

**FRANKLIN COUNTY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2014**

A. Summary of Significant Accounting Policies

3. Financial Statement Amounts

e. Capital Assets (continued)

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings & Improvements	10-50 years
Machinery & Equipment	5-10 years
Vehicles	5-7 years
Infrastructure	15-40 years

f. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. The separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The County does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has one item that qualifies for reporting in this category. Accordingly, the item *unavailable revenue* is reported in the governmental funds balance sheet and government-wide statement of net position. Deferred revenue from property taxes is shown as deferred inflows of resources. The amount is deferred and recognized as inflows of resources in the period that the amounts become available.

g. Compensated absences

A liability for unused paid time off accruals and compensatory time for all full-time employees is calculated and reported in the government-wide financial statements. For financial reporting, the following criteria must be met to be considered as compensated absences; a) leave or compensation is attributable to services already rendered, and b) leave or compensation is not contingent on a specific event (such as illness).

GASB Interpretation 6 indicates that liabilities for compensated absences should only be recognized in the fund statements to the extent the liabilities have matured and are payable out of current available resources. Compensated absences are accrued in the government-wide statements.

These accrued liabilities are typically paid by the General Fund for the governmental fund-types.

h. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line interest method. This method has been compared to the effective interest method and the difference was found to be immaterial. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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

FRANKLIN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

A. Summary of Significant Accounting Policies

3. Financial Statement Amounts (continued)

i. Net Position Flow Assumption

Sometimes the County will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the County's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

j. Fund Equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the County is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* - represents fund balance associated with inventory, prepaid items, endowments, and notes receivable. The cash outlay for these types of items has already been made and therefore, the resources represented by this fund balance category cannot be spent again.
- *Restricted fund balance* - represents amounts that can be spent only on the specific purposes stipulated by law or by the external providers of those resources.
- *Committed fund balance* - includes amounts that can be used only for the specific purposes determined by a motion and approval of the Commissioners' Court, the highest level of decision-making authority.
- *Assigned fund balance* - represents amounts intended to be used for specific purposes but not meeting the criteria to be reported as committed or restricted fund balance. The governing body or the County Auditor have the authority to assign fund balance.
- *Unassigned fund balance* - represents the residual classification of fund balance and includes all spendable amounts not contained within the other classifications.

It is the County's policy, that restricted fund balances be applied first, then committed and assigned before unrestricted.

The purpose of the County's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unprecedented one-time expenditures.

It is the long-term goal of the County to maintain a minimum fund balance in the General Fund equal to three months of the annually budgeted expenditures. The County is currently in compliance with this policy.

k. Federal and State Grants

Grants and shared revenues are generally accounted for within the fund financed. Federal grants are from various federal agencies, including Homeland Security, which are accounted for in a non-major fund. Most state funded grants, including the Texas Historic Commission, are accounted for in non-major funds as well.

l. Comparative Data/Reclassification

Comparative total data for the current year to budget have been presented in the supplementary section of the financial statements in order to provide an understanding of budget to actual. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

FRANKLIN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

A. Summary of Significant Accounting Policies

3. Financial Statement Amounts (continued)

m. Property Taxes

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the County. Assessed value represents the appraisal value less applicable exemptions authorized by the Commissioners' Court. The Appraisal Board of Review establishes appraised values at 100% for estimated market value. A tax lien attaches to the property on January 1 of each year, to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

Taxes are due October 1 immediately following the levy date and are delinquent after the following January 31st. Additional delinquent property taxes estimated to be collectible within 60 days following the close of the fiscal year have been recognized as a revenue at the fund level.

In Texas, county-wide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five years; however, the County may, at its own expense, require annual reviews of appraisal values. The County may challenge appraised values established by the appraisal district through various appeals, and, if necessary, take legal action. Under this legislation, the County continues to set tax rates on County property. However, if the effective tax rate, including tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the County may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

The Texas Comptroller of Public Accounts Truth-In-Taxation Guide for setting tax rates limits the tax rate for counties to \$1.25 per \$100 value of taxable property.

n. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

o. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

p. Program Revenues

Certain revenues such as charges for services are included in program revenues.

q. Program Expenses

Certain indirect costs such as administrative costs are included in the program expense reported for individual functional activities.

**FRANKLIN COUNTY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2014**

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

<u>Violation</u>	<u>Action Taken</u>
None	N/A

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Action Taken</u>
State Agency Fund	\$ (360)	Deficit covered by fund balance of the General Fund

3. Budgets and Budgetary Accounting

The County prepares its appropriated budget on a basis consistent with generally accepted accounting principles using the organization perspective, that is, the budget follows the formal, usually statutory, patterns of authority and responsibility granted to actually carry out the functions of the government. For example, the County Judge's office has a separate budget from the County Sheriff's office; although, various offices may be subsidized from revenues generated by maintenance and operation ad valorem taxes.

The County Auditor and the County Judge prepare an estimated budget based on recommendations and requests submitted by each department head. This estimated budget is presented to the Commissioners, who then begin the process of reallocating specific items that, in their opinion, need to be modified. The final budget, when approved by the Commissioners' Court, is filed for public inspection with the County Clerk. Public hearings are then held, if required, and the budget is adjusted, if necessary, and approved in its final form by Commissioners' Court. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Revisions to the budget were made throughout the year.

The County does not record encumbrances as part of its accounting records.

C. Deposits and Investments

The County's investment policy is in accordance with the laws of the State of Texas. The policies identify authorized investments and investment terms, collateral requirements and safekeeping requirements for collateral.

The County's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the County's agent bank approved pledged securities 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.

Cash Deposits

At December 31, 2014, the carrying amount of the County's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$4,129,905 and the bank balance was \$4,332,126. The County's cash deposits at December 31, 2014 and during the year ended December 31, 2014, were entirely covered by FDIC insurance or by pledged collateral held by the County's agent bank in the County's name.

FRANKLIN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

C. Deposits and Investments
Cash Deposits (continued)

Cash and investments as of December 31, 2014 consist of and are classified in the accompanying financial statements as follows:

Restricted Cash

General Government		
Justice court	\$	55,299
Endowment		281,340
Hotel use		32,502
Records		228,772
Revolving loan		10,321
	\$	<u>608,234</u>

Investments

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

Investment Accounting Policy

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Act and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investment, other than the following provisions for deposits: the Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledged securities in an undivided collateral pool held by a deposit depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

As of December 31, 2014, the County is not exposed to custodial credit risk for its deposits, as all are covered by depository insurance and pledged securities.

D. Receivables

Receivables as of year end for the government's individual major funds and non-major funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Other Funds</u>	<u>Road & Bridge</u>	<u>Totals</u>
Receivables:				
Taxes	\$ 2,276,897	\$ 66,558	\$ 1,310,288	\$ 3,653,743
Fees and Charges	1,611,707	-	-	1,611,707
Gross Receivables	<u>3,888,604</u>	<u>66,558</u>	<u>1,310,288</u>	<u>5,265,450</u>
Less: allowance for uncollectible	<u>(1,311,108)</u>	<u>(7,490)</u>	<u>(83,945)</u>	<u>(1,402,543)</u>
Net Total Receivables	<u>\$ 2,577,496</u>	<u>\$ 59,068</u>	<u>\$ 1,226,343</u>	<u>\$ 3,862,907</u>

FRANKLIN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

E. Notes Receivable

As of December 31, 2014, six notes receivable were outstanding under a U.S. Department of HUD revolving loan fund program:

	Interest Rate	Original Issue	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
N/R-Impact Printing	4%	\$ 35,531	\$ 28,431	\$ -	\$ (2,786)	\$ 25,645	\$ 3,650
N/R-Party Barn	4%	47,824	39,757	-	(26,261)	13,496	4,479
N/R-Fitness Center	4%	35,000	25,111	-	(4,883)	20,228	4,035
N/R-Mt Vernon Mower	4%	25,000	21,537	-	(2,332)	19,205	3,044
N/R-Cypress Cajun	4%	30,000	25,626	-	(335)	25,291	3,000
N/R-Family Health Ctr	1%	80,000	-	80,000	-	80,000	5,382
		<u>\$ 253,355</u>	<u>\$ 140,462</u>	<u>\$ 80,000</u>	<u>\$ (36,597)</u>	<u>\$ 183,865</u>	<u>\$ 23,590</u>

F. Capital Assets

Capital asset activity for the period ended December 31, 2014 was as follows:

	Beginning Balances	Transfers	Additions	Decreases	Ending Balances
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 713,157	\$ -	\$ -	\$ -	\$ 713,157
Construction-In-Progress	4,254,722	(4,223,366)	15,931	-	47,287
Total capital assets, not being depreciated:	<u>4,967,879</u>	<u>(4,223,366)</u>	<u>15,931</u>	<u>-</u>	<u>760,444</u>
Capital assets, being depreciated:					
Infrastructure	9,165,000	-	-	-	9,165,000
Buildings and Improvements	7,067,451	4,223,366	2,357,579	-	13,648,396
Machinery & Equipment	5,844,876	-	320,000	(171,870)	5,993,006
Total capital assets being depreciated:	<u>22,077,327</u>	<u>4,223,366</u>	<u>2,677,579</u>	<u>(171,870)</u>	<u>28,806,402</u>
Total Fixed Assets	<u>27,045,206</u>	<u>-</u>	<u>2,693,510</u>	<u>(171,870)</u>	<u>29,566,846</u>
Less accumulated depreciation for:					
Infrastructure	(5,620,605)	-	(183,300)	-	(5,803,905)
Buildings and Improvements	(3,068,772)	-	(178,174)	-	(3,246,946)
Machinery & Equipment	(4,628,633)	-	(353,439)	171,870	(4,810,202)
Total accumulated depreciation:	<u>(13,318,010)</u>	<u>-</u>	<u>(714,913)</u>	<u>171,870</u>	<u>(13,861,053)</u>
Total capital assets, being depreciated, net	<u>8,759,317</u>	<u>4,223,366</u>	<u>1,962,666</u>	<u>-</u>	<u>14,945,349</u>
Governmental activities capital assets, net	<u>\$ 13,727,196</u>	<u>\$ -</u>	<u>\$ 1,978,597</u>	<u>\$ -</u>	<u>\$ 15,705,793</u>
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 394,372	\$ -	\$ -	\$ -	\$ 394,372
Construction-In-Progress	83,269	-	24,304	-	107,573
Total capital assets, not being depreciated:	<u>477,641</u>	<u>-</u>	<u>24,304</u>	<u>-</u>	<u>501,945</u>
Capital assets, being depreciated:					
Buildings and Improvements	631,410	-	-	-	631,410
Total capital assets being depreciated:	<u>631,410</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>631,410</u>
Total Fixed Assets	<u>1,109,051</u>	<u>-</u>	<u>24,304</u>	<u>-</u>	<u>1,133,355</u>
Less accumulated depreciation for:					
Buildings and Improvements	(331,829)	-	(11,718)	-	(343,547)
Total accumulated depreciation:	<u>(331,829)</u>	<u>-</u>	<u>(11,718)</u>	<u>-</u>	<u>(343,547)</u>
Total capital assets, being depreciated, net	<u>299,581</u>	<u>-</u>	<u>(11,718)</u>	<u>-</u>	<u>287,863</u>
Business-type activities capital assets, net	<u>\$ 777,222</u>	<u>\$ -</u>	<u>\$ 12,586</u>	<u>\$ -</u>	<u>\$ 789,808</u>

**FRANKLIN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

F. Capital Assets (continued)

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

Governmental activities:		
General Government		\$ 155,766
Public Safety		132,715
Judicial		22,675
Public Works		403,757
Total depreciation expense - governmental activities		<u>\$ 714,913</u>
Business-type activities:		
Airport		\$ 11,718
Total depreciation expense - business-type activities		<u>\$ 11,718</u>

G. Long-Term Obligations

A summary of long-term debt transactions, including the current portion, for the year ended December 31, 2014, is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities					
Bonds payable	\$ 415,631	\$ -	\$ (415,631)	\$ -	\$ -
Total bonds payable	415,631	-	(415,631)	-	-
Note payable	431,190	91,260	(99,478)	422,972	117,379
Capital lease payable	93,945	-	(77,389)	16,556	16,556
Compensated absences	80,433	75,294	(66,939)	88,788	41,776
Governmental activity					
Long-term liabilities	<u>\$ 1,021,199</u>	<u>\$ 166,554</u>	<u>\$ (659,437)</u>	<u>\$ 528,316</u>	<u>\$ 175,711</u>

Changes in Governmental Long-term Debt

Description	Interest Rate Payable	Amounts Issued	Amounts Outstanding December 31,		Retired	Amounts Outstanding December 31,		Due Within One Year
			2013	Increase		2014		
2012 GO Refunding	2.65%	\$ 547,084	\$ 415,631	\$ -	\$ (415,631)	\$ -	\$ -	\$ -
Total bonds payable		547,084	415,631	-	(415,631)	-	-	-
Limited tax note	1.70%	400,000	386,190	-	(54,478)	331,712	55,392	
Note Payable-dump truck	1.65%	45,000	45,000	-	(45,000)	-	-	
Note Payable-TADC	2.05%	57,960	-	57,960	-	57,960	28,687	
Note Payable-Caprice	1.95%	33,300	-	33,300	-	33,300	33,300	
Total notes payable		536,260	431,190	91,260	(99,478)	422,972	117,379	
Capital Lease-road equip	3.55%	190,000	47,921	-	(47,921)	-	-	
Capital Lease-dump truck	1.65%	75,488	46,024	-	(29,468)	16,556	16,556	
Total capital lease		265,488	93,945	-	(77,389)	16,556	16,556	
Total Long Term Obligations		1,348,832	940,766	91,260	(592,498)	439,528	133,935	
Compensated Absences		-	80,433	75,294	(66,939)	88,788	41,776	
Totals		<u>\$ 1,348,832</u>	<u>\$ 1,021,199</u>	<u>\$ 166,554</u>	<u>\$ (659,437)</u>	<u>\$ 528,316</u>	<u>\$ 175,711</u>	

Compensated absences represent the estimated liability for employees' accrued vacation leave for which employees are entitled to be paid upon termination. The retirement of this liability is paid from the General Fund.

Bonds Payable

\$547,084 Series 2012 General Obligation Refunding bonds issued in February 2012 for the purpose of providing funds for the discharge and final payment of certain outstanding obligations of the County. This bond was paid off during fiscal year 2014.

**FRANKLIN COUNTY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2014**

G. Long-Term Obligations (continued)

Notes Payable

The County entered into a note payable with Guaranty Bond Bank on August 13, 2013 for the purchase of a 2014 HINO Dump truck in the amount of \$45,000. The note has a 1.65% interest rate and a maturity date of October 30, 2015. This note was paid off during fiscal year 2014.

The County issued Limited Tax Notes, Series 2013 thru Guaranty Bond Bank on September 15, 2013 in the amount of \$400,000. The purpose of the note is to fund a portion of the Courthouse renovation. The interest rate is 1.70% and the maturity date is September 15, 2020.

The County entered into a note payable with Guaranty Bond Bank in the amount of \$57,960 in May 2014 for the purchase of a 2007 TADC truck. This is a lease with two annual payments at an interest rate of 2.05%. The equipment has a ten year estimated life. This year, \$3,381 was included in depreciation expense in relation to the vehicle.

The County entered into a note payable with Guaranty Bond Bank in the amount of \$33,300 in May 2014 for the purchase of a Chevy Caprice. This is a lease with one annual payment at an interest rate of 1.95%. The equipment has a ten year estimated life. This year, \$866 was included in depreciation expense in relation to the vehicle.

Debt service requirements for notes payable are as follows:

Year Ending December 31:	Principal	Interest	Total Requirements
2015	\$ 117,379	\$ 7,123	\$ 124,502
2016	85,600	4,954	90,554
2017	57,304	3,375	60,679
2018	58,284	2,394	60,678
2019-2020	104,405	1,782	106,187
Totals	<u>\$ 422,972</u>	<u>\$ 19,628</u>	<u>\$ 442,600</u>

Capital Lease

The County entered into a capital lease payable with John Deere Credit in the amount of \$190,000 in January 2011 for the purchase of a motor grader. This is a 48 month lease at an interest rate of 3.55%. The equipment has a ten year estimated life. This year, \$19,000 was included in depreciation expense. This lease was paid off during fiscal year 2014.

The County entered into a capital lease payable with Guaranty Bond Bank in the amount of \$75,488 in January 2013 for the purchase of a 2013 HINO dump truck. This is a 36 month lease at an interest rate of 1.65%. The equipment has a seven year estimated life. This year, \$10,784 was included in depreciation expense. The lease has been recorded at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments are as follows:

Year Ending December 31:	
2015	\$ 16,978
Total minimum lease payments	16,978
Less: amount representing interest	(422)
Present value-minimum lease payments	<u>\$ 16,556</u>

H. Pension Plan

1. Plan Description

The County provides retirement, disability, and death benefits for all of its regular fulltime 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 retirement system. TCDRS in the aggregate issues a comprehensive annual financial report ("CAFR") on a calendar year basis. The CAFR is available on their website at www.TCDRS.org.

**FRANKLIN COUNTY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2014**

H. Pension Plan

1. Plan Description (continued)

The plan provisions are adopted by the Commissioners' Court of the County, within the operations available in the Texas state statutes governing TCDRS ("TCDRS Act"). Members can retire at age 60 and above with eight or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the County.

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

2. 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 required contribution rate of the employer is actuarially determined annually. The employer may contribute at an elected contribution rate that is higher.

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

The plan provisions are adopted by the Commissioners' Court of the County, within the options available in the TCDRS Act. Plan provisions for the County were as follows for 2014:

Employee deposit rate	7.0%
Contribution rate for employer	12%
Years required for vesting and retirement at age 60	8
Rule of age plus year of service for retirement eligibility	75
Service years for retirement of any age	30
Elected rate in effect	Yes

3. Annual Pension Cost

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2012 and 2013, the basis for determining the contribution rates for the calendar year 2014. The December 31, 2013 actuarial valuation is the most recent valuation:

Actuarial Information

Valuation Date	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>
Actuarial Cost Method	entry age	entry age	entry age
Amortization Method	Level Percent	Level Percent	Level Percent
	of Payroll, closed	of Payroll, closed	of Payroll, closed
Amortization Period	15.8	11.7	9.7
Asset Valuation Method			
Subdivision Accumulation Fund	10-yr smoothed value fund value	10-yr smoothed value fund value	5-yr smoothed value fund value
Employees Saving Fund			
Assumptions:			
Investment Return - includes inflation at the stated rate	8.0%	8.0%	8.0%
Projected Salary Increases - includes inflation at the stated rate	5.4%	5.4%	4.9%
Inflation	3.5%	3.5%	3.0%
Cost-of-Living Adjustment	0.0%	0.0%	0.0%

**FRANKLIN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

H. Pension Plan

3. Annual Pension Cost (continued)

	<u>Schedule of Funding Progress:</u>		
Actuarial Valuation Date	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>
Actuarial Value of Assets	\$ 5,447,109	\$ 5,917,358	\$ 6,280,193
Actuarial Accrued Liability (AAL)	6,342,518	6,835,095	7,125,943
Unfunded (Overfunded) AAL (UAAL or [OAAL])	895,409	917,737	845,750
Funded Ratio	85.88%	86.57%	88.13%
Annual Covered Payroll (actuarial)	2,320,363	2,308,911	2,354,261
UAAL OR (OAAL) as percentage of covered payroll	38.59%	39.75%	35.92%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -	\$ -	\$ -
Annual Pension Cost;			
Annual Required Contribution (ARC)	255,240	256,831	282,511
Contributions Made	(255,240)	(256,831)	(282,511)
NPO at the end of the period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The required contribution was determined as part of the December 31, 2013 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2013 included (a) 8% investment rate of return (net of administrative expenses), and (b) projected salary increases of 4.9%. Both (a) and (b) included an inflation component of 3%. 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 project payroll on a closed basis. The remaining amortization period at December 31, 2013 was 20 years.

As of December 31, 2013, the most recent actuarial valuation date, the plan was 88.13% funded. The actuarial accrued liability for benefits was \$7,125,943 and the actuarial value of assets was \$6,280,193, resulting in an unfunded actuarial accrued liability (UAAL) of \$845,750. The covered payroll (annual payroll of active employees covered by the plan) was \$2,354,261, and the ratio of UAAL to the covered payroll was 35.92%.

4. Group Term Life Insurance

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

The GTLF is a separate trust administered by the TCDRS board of trustees. Each participating employer contributes to the GTLF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is determined using the unit credit method for providing one-year term life insurance. The County contributions to the GTLF for the years ended 2014, 2013, and 2012 were \$17,102, \$16,375, and \$13,853, respectively, which equaled the contractually required contributions each year.

I. Health Care Coverage

During the year ended December 31, 2014, employees of the County were covered by a health plan with Blue Cross Blue Shield. The County pays all of the employees insurance premium which is \$636 per month per employee. Employees, at their option, authorized payroll withholdings to pay contributions for dependents. The plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

J. Risk Management

The County is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The County had general liability coverage at a cost that is considered to be economically justifiable. There were no significant reductions in commercial insurance coverage in the past year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**FRANKLIN COUNTY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2014**

K. Grants

The County participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the County has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2014, may be impaired. In the opinion of the County, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

L. Litigation

A lawsuit is pending in which the County is involved. It is the opinion of County management that the County has adequate legal defenses and/or insurance coverage respecting each action and believes that the ultimate outcome of the lawsuit will not have a material adverse effect on the County's financial position.

M. Construction Commitments

The County has active construction projects as of December 31, 2014. The projects include the sports complex ball fields and the airport project.

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Sports complex	47,287	50,000
Airport project	107,573	205,000
Totals	<u>\$ 154,860</u>	<u>\$ 255,000</u>

N. Interfund Transactions

Current transfers between funds during the year were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Totals</u>
General Fund	\$ 2,020,850	\$ (687,734)	\$ 1,333,116
Road and Bridge Funds (1-4)	1,710,755	-	1,710,755
Road and Bridge County-Wide Fund	-	(1,415,868)	(1,415,868)
Courthouse restoration Fund	-	(2,044,990)	(2,044,990)
Other Funds	439,607	(56,817)	382,790
Airport Fund	34,197	-	34,197
Total Major Funds	<u>\$ 4,205,409</u>	<u>\$ (4,205,409)</u>	<u>\$ -</u>

Transfers are used to 1) transfer debt service payments and 2) transfer fixed assets and fixed asset purchases.

O. Subsequent Events

The County has evaluated all events or transactions that occurred after December 31, 2014 up through July 15, 2015, the date the financial statements were available to be issued. During this period, the County identified no material subsequent events requiring disclosure.



REQUIRED SUPPLEMENTARY INFORMATION



FRANKLIN COUNTY, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED DECEMBER 31, 2014

TCDRS FUNDING PROGRESS AND CONTRIBUTIONS
 LAST SEVEN FISCAL YEARS (UNAUDITED)

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) -Unit Credit	(Over-funded) Actuarial Accrued Liability UAAL	Funded Percent	Covered Payroll	UAAL as Percent of Covered Payroll	Annual Required Contributions	Actual Contributions	Percent Contributed
2008	12/31/2007	\$ 4,447,735	\$ 4,869,366	\$ 421,631	91.34%	\$ 2,003,080	21.05%	\$ 199,707	\$ 199,707	100%
2009	12/31/2008	4,511,345	5,298,623	787,278	85.14%	2,179,901	36.12%	218,644	218,644	100%
2010	12/31/2009	4,944,034	5,605,991	661,957	88.19%	2,284,943	28.97%	221,869	221,869	100%
2011	12/31/2010	5,113,721	5,910,490	796,769	86.52%	2,180,817	36.54%	228,986	228,986	100%
2012	12/31/2011	5,447,109	6,342,518	895,409	85.88%	2,320,363	38.59%	255,240	255,240	100%
2013	12/31/2012	5,917,358	6,835,095	917,737	86.57%	2,308,911	39.75%	256,831	256,831	100%
2014	12/31/2013	6,280,193	7,125,943	845,750	88.13%	2,354,261	35.92%	282,511	282,511	100%



SUPPLEMENTARY INFORMATION

**FRANKLIN COUNTY, TEXAS
 COMBINING BALANCE SHEET - MAJOR
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2014**

	<u>Road and Bridge #1</u>	<u>Road and Bridge #2</u>	<u>Road and Bridge #3</u>	<u>Road and Bridge #4</u>	<u>Total</u>
Assets					
Cash and cash equivalents	\$ 235,122	\$ 349,180	\$ 136,184	\$ 121,957	\$ 842,443
Receivables (net of allowance for uncollectible)	61,180	42,052	48,913	45,005	197,150
Due from other funds	-	20,000	-	-	20,000
Total Assets	<u>296,302</u>	<u>411,232</u>	<u>185,097</u>	<u>166,962</u>	<u>1,059,593</u>
Liabilities					
Accounts payable	6,809	4,562	5,406	12,965	29,742
Accrued expenses	-	592	439	477	1,508
Due to other funds	20,000	111	(926)	-	19,185
Accrued interest payable	-	-	3,980	-	3,980
Total Liabilities	<u>26,809</u>	<u>5,265</u>	<u>8,899</u>	<u>13,442</u>	<u>54,415</u>
Deferred Inflows of Resources					
Unearned revenues	87,227	59,494	69,390	63,464	279,575
Total Deferred Inflows of Resources	<u>87,227</u>	<u>59,494</u>	<u>69,390</u>	<u>63,464</u>	<u>279,575</u>
Fund Balances					
Assigned	182,266	346,473	106,808	90,056	725,603
Total Fund Balances	<u>182,266</u>	<u>346,473</u>	<u>106,808</u>	<u>90,056</u>	<u>725,603</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 296,302</u>	<u>\$ 411,232</u>	<u>\$ 185,097</u>	<u>\$ 166,962</u>	<u>\$ 1,059,593</u>

FRANKLIN COUNTY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Road and Bridge #1</u>	<u>Road and Bridge #2</u>	<u>Road and Bridge #3</u>	<u>Road and Bridge #4</u>	<u>Total</u>
REVENUES					
Taxes:					
Property	\$ 79,574	\$ 54,274	\$ 63,303	\$ 57,895	\$ 255,046
Charges for services	39,071	26,649	31,083	28,428	125,231
Grants and contributions	31,739	59,121	91,758	91,758	274,376
Investment income	4,170	4,919	2,639	2,270	13,998
Miscellaneous	1,519	140	926	900	3,485
Total Revenues	<u>156,073</u>	<u>145,103</u>	<u>189,709</u>	<u>181,251</u>	<u>672,136</u>
EXPENDITURES					
Current:					
Roads and bridges	658,439	359,333	663,802	523,262	2,204,836
Capital outlay	-	-	10,290	57,960	68,250
Debt service:					
Principal	-	45,001	47,920	29,468	122,389
Interest	-	859	8,487	532	9,878
Total Expenditures	<u>658,439</u>	<u>405,193</u>	<u>730,499</u>	<u>611,222</u>	<u>2,405,353</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(502,366)</u>	<u>(260,090)</u>	<u>(540,790)</u>	<u>(429,971)</u>	<u>(1,733,217)</u>
Other Revenues and Financing Sources (Uses)					
Sale of assets	22,517	20,836	-	-	43,353
Note payable proceeds	-	-	-	57,960	57,960
Transfers	493,188	336,119	393,070	357,247	1,579,624
Total Other Financing Sources (Uses)	<u>515,705</u>	<u>356,955</u>	<u>393,070</u>	<u>415,207</u>	<u>1,680,937</u>
Net Change in Fund Balances	13,339	96,865	(147,720)	(14,764)	(52,280)
Fund Balances, Beginning of year	168,927	249,608	254,528	104,820	777,883
Fund Balances, End of year	<u>\$ 182,266</u>	<u>\$ 346,473</u>	<u>\$ 106,808</u>	<u>\$ 90,056</u>	<u>\$ 725,603</u>

FRANKLIN COUNTY, TEXAS
 COMBINING BALANCE SHEET - NONMAJOR
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2014

	Bruce Endowment Library	Record Retention	Health Care	Indigent Health Care	County Record Retention
Assets					
Cash and cash equivalents	\$ -	\$ -	\$ 24,959	\$ 732	\$ -
Receivables (net of allowance for uncollectibles)	-	-	-	-	-
Due from general fund	-	-	-	350	-
Inventory	-	-	-	-	-
Notes receivable	-	-	-	-	-
Prepaid items	-	-	-	-	-
Cash and cash equivalents - restricted	281,341	132,800	-	-	24,875
Total Assets	<u>281,341</u>	<u>132,800</u>	<u>24,959</u>	<u>1,082</u>	<u>24,875</u>
Liabilities					
Accounts payable	-	-	1,199	432	-
Accrued expenses	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>1,199</u>	<u>432</u>	<u>-</u>
Deferred Inflows of Resources					
Unearned revenues	-	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances					
Nonspendable:					
Endowment	271,626	-	-	-	-
Inventory	-	-	-	-	-
Prepaid items	-	-	-	-	-
Notes receivable	-	-	-	-	-
Restricted:					
Library	9,715	-	-	-	-
Court use	-	-	-	-	-
Hotel	-	-	-	-	-
Debt service	-	-	-	-	-
Assigned	-	132,800	23,760	650	24,875
Total Fund Balances	<u>281,341</u>	<u>132,800</u>	<u>23,760</u>	<u>650</u>	<u>24,875</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 281,341</u>	<u>\$ 132,800</u>	<u>\$ 24,959</u>	<u>\$ 1,082</u>	<u>\$ 24,875</u>

<u>County Free Library</u>	<u>Archival Fund</u>	<u>Record Mgmt District Clerk</u>	<u>District Clerk Technology</u>	<u>Courthouse Security</u>	<u>Justice Court Technology</u>	<u>State Grant</u>	<u>Attorney Check Collection</u>
\$ 37,017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,094
706	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	183,865	-
-	-	-	-	-	9,652	-	-
-	53,881	17,216	2,099	43,802	9,398	10,321	-
<u>37,723</u>	<u>53,881</u>	<u>17,216</u>	<u>2,099</u>	<u>43,802</u>	<u>19,050</u>	<u>194,186</u>	<u>12,094</u>
4,251	(70)	-	-	-	-	-	1,506
466	140	-	-	-	-	-	-
<u>4,717</u>	<u>70</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,506</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	9,652	-	-
-	-	-	-	-	-	183,865	-
-	-	-	-	-	-	-	-
-	-	-	2,099	43,802	9,398	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
33,006	53,811	17,216	-	-	-	10,321	10,588
<u>33,006</u>	<u>53,811</u>	<u>17,216</u>	<u>2,099</u>	<u>43,802</u>	<u>19,050</u>	<u>194,186</u>	<u>10,588</u>
<u>\$ 37,723</u>	<u>\$ 53,881</u>	<u>\$ 17,216</u>	<u>\$ 2,099</u>	<u>\$ 43,802</u>	<u>\$ 19,050</u>	<u>\$ 194,186</u>	<u>\$ 12,094</u>

(continued)

FRANKLIN COUNTY, TEXAS
 COMBINING BALANCE SHEET - NONMAJOR
 GOVERNMENTAL FUNDS (continued)
 DECEMBER 31, 2014

	State Agency	Recreation Facility	Hotel Motel Tax	County Law Library	Debt Service
ASSETS					
Cash and cash equivalents	\$ 33,349	\$ 34,868	\$ -	\$ 34,766	\$ 21,684
Receivables (net of allowance for uncollectibles)	-	-	-	-	51,203
Due from general fund	-	-	-	-	-
Inventory	-	-	-	-	-
Notes receivable	-	-	-	-	-
Prepaid items	-	-	-	-	-
Cash and cash equivalents - restricted	-	-	32,502	-	-
Total Assets	<u>33,349</u>	<u>34,868</u>	<u>32,502</u>	<u>34,766</u>	<u>72,887</u>
Liabilities					
Accounts payable	33,709	3,194	-	31	-
Accrued expenses	-	-	-	-	-
Total Liabilities	<u>33,709</u>	<u>3,194</u>	<u>-</u>	<u>31</u>	<u>-</u>
Deferred Inflows of Resources					
Unearned revenues	-	-	-	-	66,591
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,591</u>
Fund Balances					
Nonspendable:					
Endowment	-	-	-	-	-
Inventory	-	-	-	-	-
Prepaid items	-	-	-	-	-
Notes receivable	-	-	-	-	-
Restricted:					
Library	-	-	-	-	-
Court use	-	-	-	-	-
Hotel	-	-	32,502	-	-
Debt service	-	-	-	-	6,296
Assigned	(360)	31,674	-	34,735	-
Total Fund Balances	<u>(360)</u>	<u>31,674</u>	<u>32,502</u>	<u>34,735</u>	<u>6,296</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 33,349</u>	<u>\$ 34,868</u>	<u>\$ 32,502</u>	<u>\$ 34,766</u>	<u>\$ 72,887</u>

<u>Commissary</u>	<u>Jail</u>	<u>Total</u>
\$ 52,086	\$ 128,590	\$ 380,145
-	7,159	59,068
-	-	350
6,325	-	6,325
-	-	183,865
-	-	9,652
-	-	608,235
<u>58,411</u>	<u>135,749</u>	<u>1,247,640</u>
1,365	-	45,617
-	-	606
<u>1,365</u>	<u>-</u>	<u>46,223</u>
-	-	66,591
-	-	66,591
-	-	271,626
6,325	-	6,325
-	-	9,652
-	-	183,865
-	-	9,715
-	-	55,299
-	-	32,502
-	-	6,296
50,721	135,749	559,546
<u>57,046</u>	<u>135,749</u>	<u>1,134,826</u>
<u>\$ 58,411</u>	<u>\$ 135,749</u>	<u>\$ 1,247,640</u>

FRANKLIN COUNTY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2014

	Bruce Endowment Library	Record Retention	Health Care	Indigent Health Care	County Record Retention
REVENUES					
Fines and forfeitures	\$ -	\$ -	\$ -	\$ -	\$ -
Permits and fees	-	51,287	-	-	3,282
Hotel taxes	-	-	-	-	-
Property taxes	-	-	-	-	-
Investment income	6,872	1,755	-	12	352
Grants and contributions	-	-	-	3,912	-
Donations	-	-	-	-	-
Commissary sales	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Revenues	<u>6,872</u>	<u>53,042</u>	<u>-</u>	<u>3,924</u>	<u>3,634</u>
EXPENDITURES					
Current:					
Personnel	-	-	-	-	-
Supplies	3,770	18,490	-	-	-
Contract services	-	-	63,077	25,119	-
Telephone and utilities	-	-	-	-	-
Repairs and maintenance	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlays	-	-	-	-	-
Total Expenditures	<u>3,770</u>	<u>18,490</u>	<u>63,077</u>	<u>25,119</u>	<u>-</u>
Net operating income (loss)	<u>3,102</u>	<u>34,552</u>	<u>(63,077)</u>	<u>(21,195)</u>	<u>3,634</u>
Other Financing Sources (Uses)					
Transfers	-	-	82,128	21,195	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>82,128</u>	<u>21,195</u>	<u>-</u>
Net Change in Fund Balances	3,102	34,552	19,051	-	3,634
Fund Balances, Beginning of year	<u>278,239</u>	<u>98,248</u>	<u>4,709</u>	<u>650</u>	<u>21,241</u>
Fund Balances, End of year	<u>\$ 281,341</u>	<u>\$ 132,800</u>	<u>\$ 23,760</u>	<u>\$ 650</u>	<u>\$ 24,875</u>

<u>County Free Library</u>	<u>Archival Fund</u>	<u>Record Mgmt District Clerk</u>	<u>District Clerk Technology</u>	<u>Courthouse Security</u>	<u>Justice Court Technology</u>	<u>State Grant</u>	<u>Attorney Check Collection</u>
\$ -	\$ -	\$ -	\$ -	\$ 9,632	\$ 4,900	\$ -	\$ -
5,469	31,576	2,418	1,833	-	-	-	1,150
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
610	593	242	-	818	207	5,970	174
14,953	-	-	-	-	-	-	-
455	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2,527	-	-	-	-	-	-	-
<u>24,014</u>	<u>32,169</u>	<u>2,660</u>	<u>1,833</u>	<u>10,450</u>	<u>5,107</u>	<u>5,970</u>	<u>1,324</u>
141,299	-	-	-	-	-	-	-
33,648	-	-	4,688	4,050	8,342	-	1,506
1,289	-	-	-	-	-	-	-
5,703	-	-	-	-	-	-	-
1,799	-	-	-	-	-	-	-
1,885	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	56,818	-	-	-
<u>185,623</u>	<u>-</u>	<u>-</u>	<u>4,688</u>	<u>60,868</u>	<u>8,342</u>	<u>-</u>	<u>1,506</u>
<u>(161,609)</u>	<u>32,169</u>	<u>2,660</u>	<u>(2,855)</u>	<u>(50,418)</u>	<u>(3,235)</u>	<u>5,970</u>	<u>(182)</u>
165,377	-	-	-	-	-	-	-
<u>165,377</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3,768	32,169	2,660	(2,855)	(50,418)	(3,235)	5,970	(182)
29,238	21,642	14,556	4,954	94,220	22,285	188,216	10,770
<u>\$ 33,006</u>	<u>\$ 53,811</u>	<u>\$ 17,216</u>	<u>\$ 2,099</u>	<u>\$ 43,802</u>	<u>\$ 19,050</u>	<u>\$ 194,186</u>	<u>\$ 10,588</u>

(continued)

FRANKLIN COUNTY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS (continued)
 FOR THE YEAR ENDED DECEMBER 31, 2014

	State Agency	Recreation Facility	Hotel Motel Tax	County Law Library	Debt Service
REVENUES					
Fines and forfeitures	\$ 169,554	\$ -	\$ -	\$ -	\$ -
Permits and fees	-	-	-	6,325	-
Hotel taxes	-	-	43,015	-	-
Property taxes	-	-	-	-	115,329
Investment income	-	577	-	482	920
Grants and contributions	-	-	-	-	-
Donations	-	6,297	-	-	-
Commissary sales	-	-	-	-	-
Miscellaneous	-	31,751	-	-	-
Total Revenues	<u>169,554</u>	<u>38,625</u>	<u>43,015</u>	<u>6,807</u>	<u>116,249</u>
EXPENDITURES					
Current:					
Personnel	-	49,855	-	-	-
Supplies	-	27,563	-	-	-
Contract services	169,554	-	32,927	-	-
Telephone and utilities	-	13,185	-	364	-
Repairs and maintenance	-	18,170	-	-	-
Miscellaneous	-	1,914	-	-	-
Debt Service:					
Principal	-	-	-	-	470,109
Interest	-	-	-	-	20,682
Capital outlays	-	15,931	-	-	-
Total Expenditures	<u>169,554</u>	<u>126,618</u>	<u>32,927</u>	<u>364</u>	<u>490,791</u>
Net operating income (loss)	<u>-</u>	<u>(87,993)</u>	<u>10,088</u>	<u>6,443</u>	<u>(374,542)</u>
Other Financing Sources (Uses)					
Transfers	-	84,365	-	-	275,841
Total Other Financing Sources (Uses)	<u>-</u>	<u>84,365</u>	<u>-</u>	<u>-</u>	<u>275,841</u>
Net Change in Fund Balances	<u>-</u>	<u>(3,628)</u>	<u>10,088</u>	<u>6,443</u>	<u>(98,701)</u>
Fund Balances, Beginning of year	<u>(360)</u>	<u>35,302</u>	<u>22,414</u>	<u>28,292</u>	<u>104,997</u>
Fund Balances, End of year	<u>\$ (360)</u>	<u>\$ 31,674</u>	<u>\$ 32,502</u>	<u>\$ 34,735</u>	<u>\$ 6,296</u>

<u>Commissary</u>	<u>Jail</u>	<u>Total</u>
\$ -	\$ -	\$ 184,086
-	186,760	290,100
-	-	43,015
-	-	115,329
704	2,817	23,105
-	-	18,865
-	-	6,752
46,952	-	46,952
-	-	34,278
<u>47,656</u>	<u>189,577</u>	<u>762,482</u>
-	-	191,154
27,818	-	129,875
-	-	291,966
-	-	19,252
7,591	-	27,560
2,579	-	6,378
-	-	470,109
-	-	20,682
-	-	72,749
<u>37,988</u>	<u>-</u>	<u>1,229,725</u>
<u>9,668</u>	<u>189,577</u>	<u>(467,243)</u>
-	(215,115)	413,791
-	(215,115)	413,791
9,668	(25,538)	(53,452)
47,378	161,287	1,188,278
<u>\$ 57,046</u>	<u>\$ 135,749</u>	<u>\$ 1,134,826</u>

FRANKLIN COUNTY, TEXAS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUNDS
DECEMBER 31, 2014

	<u>Balance December 31, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2014</u>
ASSETS				
Cash and Cash Equivalents	\$ 193,661	\$ 19,970,637	\$ (18,683,990)	\$ 1,480,308
Total Assets	<u>193,661</u>	<u>19,970,637</u>	<u>(18,683,990)</u>	<u>1,480,308</u>
LIABILITIES				
Due to County or Other Governments or Individuals	69,767	19,799,406	(18,537,534)	1,331,639
Trust funds-pending cases	123,894	171,230	(146,455)	148,669
Total Liabilities	<u>\$ 193,661</u>	<u>\$ 19,970,636</u>	<u>\$ (18,683,989)</u>	<u>\$ 1,480,308</u>

SINGLE AUDIT





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July 15, 2015

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

To the Honorable Judge and County Commissioners
Franklin County, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Franklin County, Texas, as of December 31, 2014, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 15, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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County's Response to Findings

Franklin County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Franklin County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,

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July 15, 2015

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

To the Honorable Judge and Commissioners
Franklin County, Texas

Report on Compliance for Each Major Federal Program

We have audited Franklin County's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2014. Franklin County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Unmodified Opinion on Major Programs

In our opinion, Franklin County has complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2014.

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Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Franklin County's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Franklin County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

Respectfully submitted,

CONWAY COMPANY CPAs, P.C.



FRANKLIN COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Section I. Summary of Auditors' Results:

Financial Statements

1. Type of auditors' report issued on the financial statements Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes X No
3. Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

4. Internal controls over major program:
- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes X No
5. Type of auditors' report compliance for major program Unmodified
6. Did the audit disclose findings that are required to be reported under Sec. 501(a)? _____ Yes X No

7. Major programs include:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Texas Historic Commission	N/A

8. Dollar Threshold used to distinguish between type A and type B programs: \$300,000
9. Auditee qualified as low-risk auditee: _____ Yes X No

FRANKLIN COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Section II. Financial Statement Findings

None

Section III. Federal Award Findings and Questioned Costs:

None

**FRANKLIN COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2014**

Finding/Recommendation

2013-01 Insufficient backup was noted in the court ticket test of the Justice of the Peace's office

Current Status

2013-01 This issue was corrected prior to December 31, 2014.

Management Explanation
If Not Implemented

Not applicable, corrective action implemented.

FRANKLIN COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
DECEMBER 31, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	ARRA	Federal CFDA Number	Pass-Through Grantor's Number	Program Expenditures
FEDERAL AWARDS:				
<u>DEPARTMENT OF HOMELAND SECURITY</u>				
<i>Passed through Ark Tex Council of Governments</i>				
Homeland Security Grant				
		14.228	CDGM 71200	\$ 37,316
TOTAL DEPARTMENT OF HOMELAND SECURITY				37,316
TOTAL FEDERAL AWARDS				37,316
STATE AWARDS:				
<u>TEXAS HISTORIC COMMISSION</u>				
Courthouse Preservation - Interior				
			N/A	1,900,802
Courthouse Preservation - Exterior				
				43,065
TOTAL TEXAS HISTORIC COMMISSION				1,943,867
<u>TEXAS TASK FORCE ON INDIGENT DEFENSE</u>				
Indigent Defense				
			N/A	14,602
TOTAL TEXAS TASK FORCE ON INDIGENT DEFENSE				14,602
<u>TEXAS STATE LIBRARY & ARCHIVES COMMISSION</u>				
Edge Initiative				
			N/A	4,954
TOTAL TEXAS STATE LIBRARY & ARCHIVES COMMISSION				4,954
<u>TEXAS DEPARTMENT OF TRANSPORTATION</u>				
County Transportation and Infrastructure Project				
			N/A	261,720
TOTAL TEXAS DEPARTMENT OF TRANSPORTATION				261,720
<u>TEXAS DEPARTMENT OF STATE HEALTH SERVICES</u>				
Tobacco Settlement				
			N/A	3,912
TOTAL TEXAS DEPARTMENT OF STATE HEALTH SERVICES				3,912
<u>OFFICE OF THE ATTORNEY GENERAL</u>				
Texas SAVNS/VINE Program				
			N/A	6,203
TOTAL OFFICE OF THE ATTORNEY GENERAL				6,203
TOTAL STATE AWARDS				2,235,258
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS				\$ 2,272,574

FRANKLIN COUNTY, TEXAS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
DECEMBER 31, 2014

A. General

The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all federal and state financial assistance programs of Franklin County ("County"). The County's reporting is defined in Note A to the basic financial statements. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies are included in the schedule.

B. Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget ("OMB") Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.