

Annual Financial Report of Franklin County, Texas



Fiscal Year Ended December 31, 2013

ANNUAL FINANCIAL REPORT

Fiscal Year Ended December 31, 2013

Franklin County, Texas



**FRANKLIN COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013**

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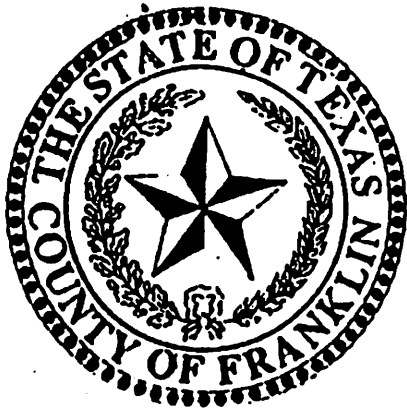
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INTRODUCTORY SECTION

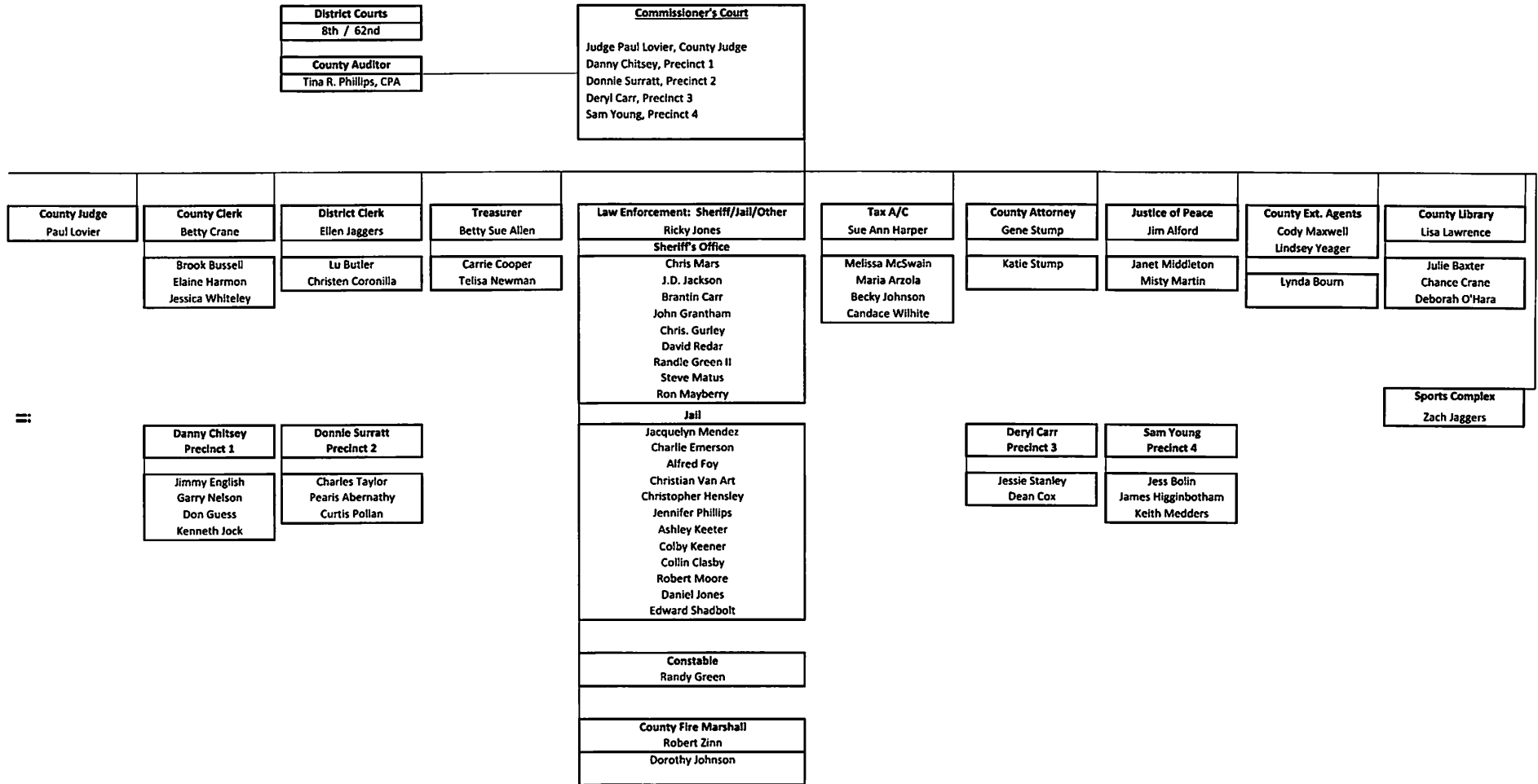


**FRANKLIN COUNTY, TEXAS
COUNTY OFFICIALS
DECEMBER 31, 2013**

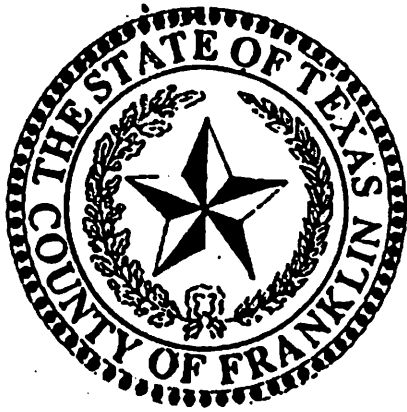
County Officials

Paul Lovier	County Judge
Danny Chitsey	Commissioner, Precinct 1
Donnie Surratt	Commissioner, Precinct 2
Deryl W. Carr	Commissioner, Precinct 3
Sam Young	Commissioner, Precinct 4
Gene Stump	County Attorney
Betty Crane	County Clerk
Sue Ann Harper	County Tax Assessor/Collector
Betty Sue Allen	County Treasurer
Jim Alford	County Justice of the Peace
Ricky Jones	County Sheriff
Randy Green	County Constable
Ellen Jagers	District Clerk
Tina Phillips	County Auditor

Franklin County Organizational Chart 12/31/2013



FINANCIAL SECTION





Michael Conway, CPA
Neil Conway, CPA

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June 6, 2014

INDEPENDENT AUDITOR'S REPORT

Honorable Judge and Commissioners
Franklin County
502 E. Main 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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Franklin County as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Rockwall, Texas 75087
Office (972) 771-1065
Fax (972) 771-1022

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 – 14, TCDRS Funding Progress and Contributions on page 45 and budgetary comparison information on page 46 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 Franklin 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 also 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual major and nonmajor fund financial statements and the schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 6, 2014, on our consideration of Franklin County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Franklin County's internal control over financial reporting and compliance.

Respectfully Submitted,

Conway Company CPAs, P.C.

Conway Company CPAs, P.C.

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FRANKLIN COUNTY, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

DECEMBER 31, 2013

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, 2013. 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 \$17,712,511 (net position). Of this amount, \$13,963,650 is net investment in capital assets which do not directly generate revenue and are not available to generate liquid capital. Net position restricted for specific purposes is \$527,108 such as library, debt service, court use, and hotel tax use. The remaining \$3,221,753 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 \$1,142,291, or 6.89%, due to an increase in 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 \$4,251,067, an increase of \$303,682, or 7.69%, in comparison with the prior year. A total of \$959,862, or 22.58%, is available for spending at the government's discretion (unassigned fund balance). In addition, the County reported nonspendable fund balance of \$458,707, restricted fund balance of \$247,139, committed fund balance of \$750,500 and assigned fund balance of \$1,834,859.
- At the end of the current fiscal year, unassigned fund balance for the General Fund of \$959,862 was 23.50% of total General Fund expenditures for this fiscal year.
- Franklin County's long-term debt increased by \$266,841, or 39.6%, during the current fiscal 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, 2013**

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 20-27) 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 28-42). The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **required supplemental information** (pages 45-46) is provided to show details about the County's pension plan and the General Fund budget to actual comparison schedule. **Supplemental information** (pages 48-58) 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.

Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the Statement of Net Position and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting methods.

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 are on pages 17 - 19 of this report.

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.

**FRANKLIN COUNTY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2013**

Governmental Funds – Governmental funds are used to account for those 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 in and out, 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 him or her determine if there are more or less financial resources available to finance the County's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of 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 council; 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 20-23 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 generally reported in proprietary funds. Proprietary Funds are reported in the same way that all 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 24-26 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 its 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 27.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 28 – 42 of this report.

**FRANKLIN COUNTY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2013**

Required Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to its employees and a General Fund Budgetary Comparison Schedule (pages 45-46).

Other Information – The combining statements referred to earlier in connection with the major and non-major governmental funds are presented immediately following the required supplementary information. Combining statements and individual fund statements can be found on pages 48 – 58 of this report.

New GASB Pronouncements

The GASB has issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement" incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures. The implementation of this statement had no effect on the financial statements.

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

GASB Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statement No. 10 and No. 62", will be implemented by the County as required by GASB during the fiscal year ending September 30, 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 financial 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", will be implemented as required by GASB during the fiscal year ending September 30, 2014. The objective of this statement is to improve financial reporting by state and local government pension plans. The County is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

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 September 30, 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.

**FRANKLIN COUNTY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013**

Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 9,349,009	\$ 8,841,151	\$ (15,260)	\$ (16,253)	\$ 9,333,749	\$ 8,824,898
Capital assets	13,727,194	12,643,086	777,222	718,939	14,504,416	13,362,025
Total assets	23,076,203	21,484,237	761,962	702,686	23,838,165	22,186,923
Current liabilities	378,220	296,855	1,006	11	379,226	296,866
Long-term liabilities	1,021,199	722,925	-	-	1,021,199	722,925
Total liabilities	1,399,419	1,019,780	1,006	11	1,400,425	1,019,791
Deferred inflows of resources:						
Unavailable revenue	4,725,229	4,596,912	-	-	4,725,229	4,596,912
	4,725,229	4,596,912	-	-	4,725,229	4,596,912
Net position:						
Net investment in capital assets	13,186,428	11,996,161	777,222	718,941	13,963,650	12,715,102
Restricted	527,108	439,847	-	-	527,108	439,847
Unrestricted	3,238,019	3,431,537	(16,266)	(16,266)	3,221,753	3,415,271
Total net position	\$ 16,951,555	\$ 15,867,545	\$ 760,956	\$ 702,675	\$ 17,712,511	\$ 16,570,220

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 \$17,712,511 as of December 31, 2013. The County's net position increased by \$1,142,291 for the fiscal year ended December 31, 2013.

Net investment in capital assets

The largest portion of the County's net position, 78.83%, 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 related 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 2.98% are subject to external restrictions on how they may be used, or by enabling legislation. The restricted net position is comprised of (a) \$104,998 for debt service, (b) \$143,872 for state imposed restrictions and (c) \$278,238 for library.

Unrestricted net position:

Unrestricted net position in the amount of \$3,221,753 are available to fund the County's programs to citizens and creditors.

**FRANKLIN COUNTY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013**

Franklin County's Changes in Net Position

	Governmental Activities		Business Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for services	\$ 1,600,878	\$ 1,691,756	\$ 7,490	\$ 5,059	\$ 1,608,368	\$ 1,696,815
Grants and Contributions	1,485,103	1,291,164	-	-	1,485,103	1,291,164
General Revenues:						
Property Taxes	4,595,630	4,864,882	-	-	4,595,630	4,864,882
Sales Taxes	403,062	398,698	-	-	403,062	398,698
Other Taxes	39,035	37,908	-	-	39,035	37,908
Investment Income	94,858	90,555	-	90	94,858	90,645
Miscellaneous	433,518	74,864	-	-	433,518	74,864
Total Revenues	8,652,084	8,449,827	7,490	5,149	8,659,574	8,454,976
Expenses:						
Program Expenses						
General Government	2,345,850	2,469,496	-	-	2,345,850	2,469,496
Public Safety	1,017,890	988,989	-	-	1,017,890	988,989
Judicial	1,316,242	1,347,704	-	-	1,316,242	1,347,704
Health and Public Welfare	56,569	133,481	-	-	56,569	133,481
Library	187,838	192,434	-	-	187,838	192,434
Public Works	2,449,792	2,258,767	-	-	2,449,792	2,258,767
Parks and Recreations	96,452	8,100	-	-	96,452	8,100
Interest on Long-Term Debt	24,550	24,143	-	-	24,550	24,143
Airport	-	-	22,100	24,488	22,100	24,488
Total Expenses	7,495,183	7,423,114	22,100	24,488	7,517,283	7,447,602
Change in Net Position before Other						
Revenues and Financing Sources (Uses)	1,156,901	1,026,713	(14,610)	(19,339)	1,142,291	1,007,374
Other Revenues & Financing Sources (Uses):						
Transfers	(72,891)	-	72,891	-	-	-
Total Other Financing Sources (Uses)	(72,891)	-	72,891	-	-	-
Total Change in Net Position	1,084,010	1,026,713	58,281	(19,339)	1,142,291	1,007,374
Net position - January 1	15,867,545	14,778,882	702,675	722,014	16,570,220	15,500,896
Prior Period Adjustments	-	61,950	-	-	-	61,950
Net position - December 31	\$ 16,951,555	\$ 15,867,545	\$ 760,956	\$ 702,675	\$ 17,712,511	\$ 16,570,220

The Governmental Activities have increased the net position in the current fiscal year due to an increase in grants and contributions, as well as an increase in miscellaneous revenue due to a payment received from a pipeline company for damaged streets.

The Business-type Activities increased the net position in the current fiscal year due to incoming transfers.

**FRANKLIN COUNTY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2013**

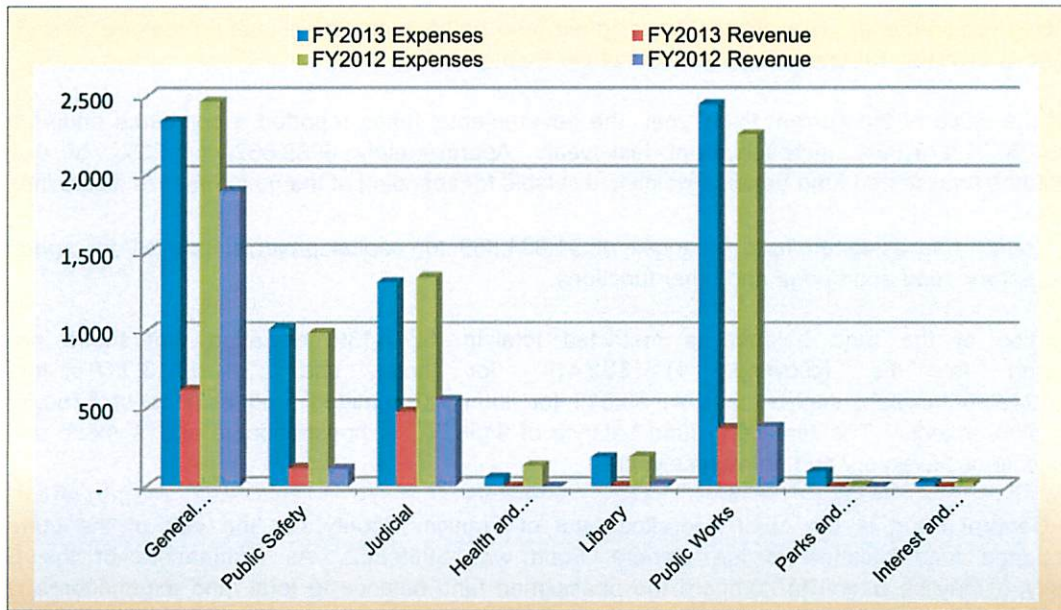
Governmental-type activities - Governmental-type activities increased the County's net position by \$1,084,010. Key elements of this increase are as follows:

Grant revenues increased \$193,939, or 15%.

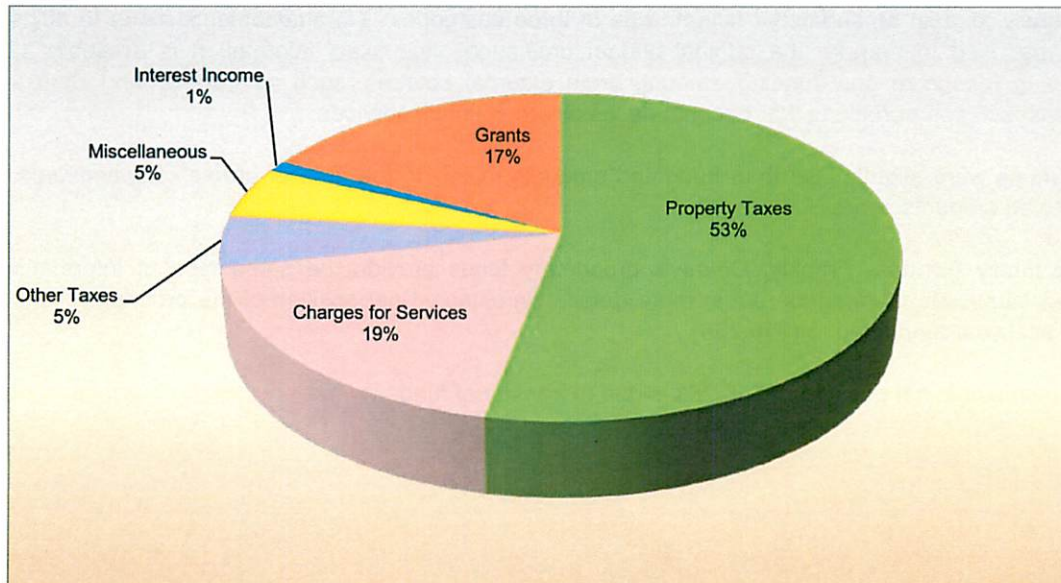
Large increase in miscellaneous revenue due to payment from pipeline company on damaged streets.

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, 2013**

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 \$4,251,067, a 7.69% increase from last year. Approximately \$959,862, or 23%, of this total amount constitutes unassigned fund balance which is available for spending at the government's discretion.

The County has assigned fund balances of \$1,834,859 for capital projects, monies for specific purposes in parks, library, road and bridge and other functions.

A portion of the fund balance is restricted totaling \$247,139 indicating that these are available for spending for the following: 1) \$22,414 for hotel use, 2) \$113,117 for court use, 3) \$104,996 for debt service, and 4) \$6,612 for library. Committed fund balance of \$750,500 is set aside for capital projects. The remaining fund balance of \$458,707 is nonspendable and is made up of endowment, prepaid items, 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 \$959,862. 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 24% 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 area of grants. 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).

The increase in net position of \$58,281 is due to transfer of funds.

**FRANKLIN COUNTY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013**

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, 2013, totals \$14,504,416 (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 5%.

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

- Courthouse renovation
- Recreation facility
- Public works equipment

**Franklin County
Capital Assets
December 31, 2013
(net of accumulated depreciation)**

	Governmental		Business-type		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 713,155	\$ 713,155	\$ 394,372	\$ 394,372	\$ 1,107,527	\$ 1,107,527.0
Construction in Progress	4,254,722	2,849,494	83,269	13,269	4,337,991	2,862,763
Buildings & Improvements	3,998,680	4,205,620	299,581	311,298	4,298,261	4,516,918
Infrastructure	3,544,395	3,727,695	-	-	3,544,395	3,727,695
Machinery & Equipment	1,216,242	1,147,122	-	-	1,216,242	1,147,122
Total	\$ 13,727,194	\$ 12,643,086	\$ 777,222	\$ 718,939	\$ 14,504,416	\$ 13,362,025

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, 2013, Franklin County had total long-term debt outstanding of \$940,766. This is an increase of \$266,841, or 39.60%, over the previous year.

**Franklin County
Long-Term Debt
December 31, 2013**

	Governmental		Business-type		Total	
	2013	2012	2013	2012	2013	2012
Bonds payable	\$ 415,631	\$ 574,084	\$ -	\$ -	\$ 415,631	\$ 574,084
Notes payable	431,190	-	-	-	431,190	-
Capital lease	93,945	99,841	-	-	93,945	99,841
Totals	\$ 940,766	\$ 673,925	\$ -	\$ -	\$ 940,766	\$ 673,925

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, 2013**

Economic Factors and Next Year's Budgets and Rates

In the fiscal year 2014 budget, the General Fund revenues are budgeted to increase \$151,302 or 3.4%, from the 2013 budget year. General Fund property tax revenue makes up about \$3,216,169, or approximately 69.9% of anticipated General Fund revenues. The 2013 adjusted property tax values for the General Fund increased by \$1,000,000 over the prior year. This increase was primarily due to higher appraised values for the real property. For the 2014 tax year, the County Commissioners decreased the tax rate by \$.0122 per \$100 assessed valuation, which was approximately a 4.06% decrease over the prior year.

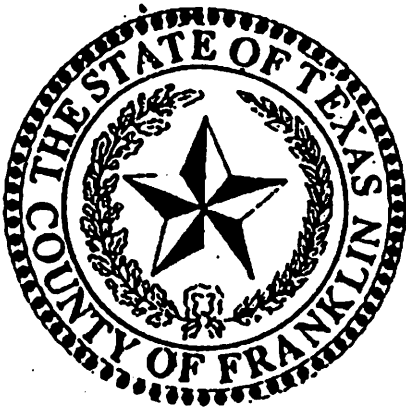
Fees and fines, the second largest revenue source for the General Fund, is budgeted at \$718,250 for 2014, or 15.6% of anticipated General Fund revenue. Sales tax, the third largest revenue source, is budgeted at \$400,000, or 8.70%. The remaining 5.8% of budgeted revenue is made up of delinquent tax penalties, interest earnings, and miscellaneous other income. The fiscal year 2014 budget includes an approximate 3.5% wage increase for hourly employees. Elected and appointed officials' salaries increased \$1,000 each or 2.08%.

During late summer of 2013, the County borrowed \$400,000 through a limited tax note at 1.7% interest. The funds were borrowed for the amount the subcontract bids came in over the amount approved in the THC grant for the Courthouse interior renovations.

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, 2013**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,209,401	\$ -	\$ 4,209,401
Receivables (net of allowance for uncollectibles)	3,174,594	-	3,174,594
Notes receivable	140,462	-	140,462
Grant receivable	733,789	-	733,789
Internal Balances	15,260	(15,260)	-
Prepaid expenses	40,210	-	40,210
Inventory	6,409	-	6,409
Restricted assets:			
Cash and cash equivalents	1,028,884	-	1,028,884
Non-depreciable capital assets:			
Land	713,155	394,372	1,107,527
Construction in progress	4,254,722	83,269	4,337,991
Depreciable capital assets (net):			
Infrastructure	3,544,395	299,581	3,843,976
Building & improvements	3,998,680	-	3,998,680
Machinery & equipment	1,216,242	-	1,216,242
Total Assets	<u>23,076,203</u>	<u>761,962</u>	<u>23,838,165</u>
LIABILITIES			
Accounts payable	301,101	1,006	302,107
Other liabilities	-	-	-
Accrued interest payable	9,486	-	9,486
Accrued expenses	67,633	-	67,633
Noncurrent liabilities:			
Due within one year:			
Compensated absences	36,790	-	36,790
Capital lease payable	73,081	-	73,081
Notes payable	69,216	-	69,216
Bonds payable	134,936	-	134,936
Due in more than one year:			
Compensated absences	43,643	-	43,643
Capital lease payable	20,864	-	20,864
Note Payable	361,974	-	361,974
Bonds payable	280,695	-	280,695
Total Liabilities	<u>1,399,419</u>	<u>1,006</u>	<u>1,400,425</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	4,725,229	-	4,725,229
Total Deferred Inflows of Resources	<u>4,725,229</u>	<u>-</u>	<u>4,725,229</u>
NET POSITION			
Net investment in capital assets	13,186,428	777,222	13,963,650
Restricted for:			
Debt Service	104,998	-	104,998
Court use	121,457	-	121,457
Hotel tax	22,415	-	22,415
Library			
Expendable	6,612	-	6,612
Nonexpendable	271,626	-	271,626
Unrestricted	3,238,019	(16,266)	3,221,753
Total Net Position	<u>\$ 16,951,555</u>	<u>\$ 760,956</u>	<u>\$ 17,712,511</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, 2013**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Function/Program Activities				
Primary Government				
Governmental activities:				
General government	\$ 2,345,850	\$ 622,666	\$ 107,745	\$ 1,305,764
Public safety	1,017,890	115,825	37,669	-
Judicial	1,316,242	480,526	-	-
Health and public welfare	56,569	-	-	-
Library	187,838	5,954	10,000	-
Public works	2,449,792	375,907	13,067	-
Parks and recreational	96,452	-	10,858	-
Interest on long-term debt	24,550	-	-	-
Total governmental activities	7,495,183	1,600,878	179,339	1,305,764
Business-type activities:				
Airport	22,100	7,490	-	-
Total business-type activities	22,100	7,490	-	-
Total primary government	\$ 7,517,283	\$ 1,608,368	\$ 179,339	\$ 1,305,764

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
\$ (309,675)	\$ -	\$ (309,675)
(864,396)	-	(864,396)
(835,716)	-	(835,716)
(56,569)	-	(56,569)
(171,884)	-	(171,884)
(2,060,818)	-	(2,060,818)
(85,594)	-	(85,594)
(24,550)	-	(24,550)
<u>(4,409,202)</u>	<u>-</u>	<u>(4,409,202)</u>
-	(14,610)	(14,610)
-	(14,610)	(14,610)
<u>\$ (4,409,202)</u>	<u>\$ (14,610)</u>	<u>\$ (4,423,812)</u>
\$ 4,595,630	\$ -	\$ 4,595,630
403,062	-	403,062
39,035	-	39,035
94,858	-	94,858
433,518	-	433,518
(72,891)	72,891	-
<u>5,493,212</u>	<u>72,891</u>	<u>5,566,103</u>
1,084,010	58,281	1,142,291
15,867,545	702,675	16,570,220
<u>\$ 16,951,555</u>	<u>\$ 760,956</u>	<u>\$ 17,712,511</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, 2013**

	General Fund	Road & Bridge Funds (Funds 1 - 4)	Road & Bridge County-Wide Fund	Other Funds	Total
Assets					
Cash and cash equivalents	\$ 2,784,777	\$ 655,358	\$ 686,836	\$ 82,430	\$ 4,209,401
Receivables (net of allowance for uncollectible)	1,891,526	417,294	776,249	89,525	3,174,594
Grant Receivable	-	-	-	733,789	733,789
Cash and cash equivalents - restricted	-	-	-	1,028,884	1,028,884
Due from other funds	252,953	20,000	-	349	273,302
Notes receivable	-	-	-	140,462	140,462
Inventory	-	-	-	6,409	6,409
Prepaid expenses	29,316	-	-	10,894	40,210
Total Assets	\$ 4,958,572	\$ 1,092,652	\$ 1,463,085	\$ 2,092,742	\$ 9,607,051
Liabilities					
Accounts payable	85,971	22,091	240	192,800	301,102
Due to other funds	34,760	28,965	-	194,317	258,042
Accrued expenses	63,454	2,971	-	1,208	67,633
Accrued interest payable	-	3,979	-	-	3,979
Total Liabilities	184,185	58,006	240	388,325	630,756
Deferred Inflows of Resources					
Unavailable revenue - property taxes	3,034,709	256,762	1,317,615	116,142	4,725,228
Total Deferred Inflows of Resources	3,034,709	256,762	1,317,615	116,142	4,725,228
Fund Balance					
Nonspendable:					
Endowment	-	-	-	271,626	271,626
Inventory	-	-	-	6,409	6,409
Prepaid items	29,316	-	-	10,894	40,210
Notes receivable	-	-	-	140,462	140,462
Restricted for:					
Library	-	-	-	6,612	6,612
Hotel	-	-	-	22,414	22,414
Court use	-	-	-	113,117	113,117
Debt service	-	-	-	104,996	104,996
Committed for:					
Capital improvements	750,500	-	-	-	750,500
Assigned for:					
Capital improvements	-	-	-	400,000	400,000
Road & bridge	-	777,884	145,230	-	923,114
Library	-	-	-	29,241	29,241
General government	-	-	-	155,685	155,685
Public safety	-	-	-	202,254	202,254
Health care	-	-	-	2,805	2,805
Other	-	-	-	47,756	47,756
Judicial	-	-	-	38,703	38,703
Parks	-	-	-	35,301	35,301
Unassigned	959,862	-	-	-	959,862
Total Fund Balance	1,739,678	777,884	145,230	1,588,275	4,251,067
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 4,958,572	\$ 1,092,652	\$ 1,463,085	\$ 2,092,742	\$ 9,607,051

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, 2013**

Total fund balance - governmental fund balance sheet	\$ 4,251,067
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund financial statements.	27,045,204
Accumulated depreciation has not been included in the governmental fund financial statements.	(13,318,010)
Long-term liabilities for compensated absences have not been reflected in the fund financial statements.	(80,433)
Bonds payable have not been included in the governmental fund financial statements	(415,631)
Notes payable have not been included in the governmental fund financial statements	(431,190)
Capital leases payable have not been included in the governmental fund financial statements	(93,945)
Accrued interest payable within sixty days is reported as a liability on the governmental funds statements, whereas the full accrual is reported in the statement of net position. The difference is shown here.	(5,509)
Net position of governmental activities - statement of net position	<u>\$ 16,951,553</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, 2013**

	General Fund	Road & Bridge Funds (Funds 1 - 4)	County-Wide Road & Bridge Fund	Other Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property	\$ 3,080,142	\$ 249,884	\$ 1,143,218	\$ 122,386	\$ 4,595,630
Hotel	-	-	-	35,518	35,518
Beverage	3,516	-	-	-	3,516
Sales and use	403,062	-	-	-	403,062
Fines and forfeitures	385,185	-	-	221,113	606,298
Licenses and permits	57,318	-	-	-	57,318
Charges for services	273,382	117,529	283,389	170,836	845,136
Sales - commissary	-	-	-	34,980	34,980
Grant and contributions	117,826	13,067	-	1,258,955	1,389,848
Donations	-	-	-	10,858	10,858
Investment income	47,429	11,290	11,203	24,936	94,858
Miscellaneous	110,424	282,689	-	40,405	433,518
Total Revenues	4,478,284	674,459	1,437,810	1,919,987	8,510,540
EXPENDITURES					
Current:					
General government	2,064,278	-	-	83,266	2,147,544
Public safety	858,465	-	-	30,372	888,837
Judicial	1,079,205	-	-	237,037	1,316,242
Health and public welfare	31,372	-	-	25,197	56,569
Library	-	-	-	187,838	187,838
Public works	-	2,056,903	321	-	2,057,224
Parks and recreation	-	-	-	95,221	95,221
Debt service:					
Principal retirement	-	81,384	-	145,262	226,646
Interest	-	4,515	-	14,528	19,043
Capital outlays:					
General government	-	-	-	1,373,872	1,373,872
Public Safety	35,048	-	-	-	35,048
Judicial	16,495	-	-	-	16,495
Public works	-	327,181	-	-	327,181
Parks and recreation	-	-	-	38,741	38,741
Total Expenditures	4,084,863	2,469,983	321	2,231,334	8,786,501
Excess (deficiency) of revenues over (under) expenditures	393,421	(1,795,524)	1,437,489	(311,347)	(275,961)
OTHER FINANCING SOURCES (USES)					
Intergovernmental revenue	74,897	-	-	-	74,897
Transfers	(705,312)	1,629,985	(1,631,410)	633,846	(72,891)
Debt proceeds	-	120,489	-	400,000	520,489
Sale of assets	525	56,483	-	140	57,148
Total other financing sources (uses)	(629,890)	1,806,957	(1,631,410)	1,033,986	579,643
Net Change in Fund Balance	(236,469)	11,433	(193,921)	722,639	303,682
Fund Balance, January 1	1,976,147	766,451	339,151	865,636	3,947,385
Fund Balance, December 31	\$ 1,739,678	\$ 777,884	\$ 145,230	\$ 1,588,275	\$ 4,251,067

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, 2013**

Net change in fund balances - statement of revenues, expenditures and changes in fund balances - governmental funds	\$ 303,682
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.	1,791,337
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.	(716,727)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net assets.	9,500
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.	226,646
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.	(520,489)
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.	(4,433)
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.	(5,506)
Net change in net position - statement of activities	<u>\$ 1,084,010</u>

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

**FRANKLIN COUNTY, TEXAS
STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2013**

	<u>Airport Fund</u>
ASSETS	
Noncurrent assets:	
Capital assets:	
Land	\$ 394,372
Construction in progress	83,269
Improvements	631,410
Less: accumulated depreciation	<u>(331,829)</u>
Total capital assets (net of accumulated depreciation)	<u>777,222</u>
Total noncurrent assets	<u>777,222</u>
Total Assets	<u><u>777,222</u></u>
 LIABILITIES	
Current Liabilities:	
Accounts Payable	1,006
Due to Other Funds	<u>15,260</u>
Total Current Liabilities	<u>16,266</u>
Total Liabilities	<u>16,266</u>
 NET POSITION	
Net investment in capital assets	777,222
Unrestricted	<u>(16,266)</u>
Total Net Position	<u><u>\$ 760,956</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, 2013**

	<u>Airport Fund</u>
OPERATING REVENUES:	
Charges for services	\$ 7,490
Total Operating Revenues	<u>7,490</u>
OPERATING EXPENSES:	
Supplies and materials	1,168
Maintenance and repair	403
Utilities	8,811
Depreciation	11,718
Total Operating Expenses	<u>22,100</u>
Operating Income (Loss)	<u>(14,610)</u>
NON-OPERATING REVENUES (EXPENSES):	
Transfers	72,891
Total Non-Operating Revenues	<u>72,891</u>
Change in Net Position	58,281
Net Position, January 1	<u>702,675</u>
Net Position, December 31	<u>\$ 760,956</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, 2013**

	<u>Airport Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 7,490
Cash payments to suppliers for goods and services	<u>(10,382)</u>
Net cash provided by (used in) operating activities	<u>(2,892)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to/from other funds	72,892
Net cash used in noncapital financing activities	<u>72,892</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	<u>(70,000)</u>
Net cash used for capital and related financing activities	<u>(70,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	-
Net cash provided by investing activities	<u>-</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)	\$ (14,610)
Adjustments to reconcile operating income to net cash Provided by operating activities	
Depreciation	11,718
Total adjustments	<u>11,718</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (2,892)</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, 2013**

	<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>Total Agency Funds</u>
ASSETS							
Cash and Cash Equivalents	\$ 14,389	\$ 20,880	\$ 14,505	\$ 84,700	\$ 49,689	\$ 9,498	\$ 193,661
Total Assets	<u>14,389</u>	<u>20,880</u>	<u>14,505</u>	<u>84,700</u>	<u>49,689</u>	<u>9,498</u>	<u>193,661</u>
LIABILITIES							
Due to Other Governments or Individuals	14,389	20,880	14,505	84,700	49,689	9,498	193,661
Total Liabilities	<u>\$ 14,389</u>	<u>\$ 20,880</u>	<u>\$ 14,505</u>	<u>\$ 84,700</u>	<u>\$ 49,689</u>	<u>\$ 9,498</u>	<u>\$ 193,661</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, 2013**

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"). 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, 2013.

1. Reporting Entity

The County is a public corporation and a political subdivision of the State of Texas. A Commissioner's 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, 2013**

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.

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, 2013**

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 related 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.

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

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, 2013**

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, 2013**

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. There are no deferred charges or issuance costs at the end of the current fiscal year.

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, 2013**

**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 or prepaid items. 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, 2013**

**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 Commissioner's 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. Revenues are recognized as the related ad valorem taxes are collected. 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, 2013**

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>
State Agency	\$ (360)

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, 2013, the carrying amount of the County's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,238,285 and the bank balance was \$4,525,954. The County's cash deposits at December 31, 2013 and during the year ended December 31, 2013, were entirely covered by FDIC insurance or by pledged collateral held by the County's agent bank in the County's name. The amount of deposits covered by collateralized securities was \$4,025,954. Cash and investments as of December 31, 2013 consist of and are classified in the accompanying financial statements as follows:

**FRANKLIN COUNTY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2013**

**C. Deposits and Investments
 Cash Deposits (continued)**

Restricted Cash

General Government		
Justice court	\$	113,116
Endowment		278,900
Hotel use		22,415
Debt service		10,942
Records		155,757
Bond proceeds		400,000
Revolving loan		47,754
		<u>\$ 1,028,884</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, 2013, 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	\$ 1,989,141	\$ 100,912	\$ 1,266,878	\$ 3,356,931
Fees and Charges	1,148,464	-	-	1,148,464
Gross Receivables	<u>3,137,605</u>	<u>100,912</u>	<u>1,266,878</u>	<u>4,505,395</u>
Less: allowance for uncollectible	<u>(1,246,079)</u>	<u>(11,387)</u>	<u>(73,335)</u>	<u>(1,330,801)</u>
Net Total Receivables	<u>\$ 1,891,526</u>	<u>\$ 89,525</u>	<u>\$ 1,193,543</u>	<u>\$ 3,174,594</u>

**FRANKLIN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

E. Notes Receivable

As of December 31, 2013, five notes receivable were outstanding under a U.S. Department of HUD revolving loan fund program:

	Interest Rate	Original Issue	Beginning Balance	Decrease	Ending Balance	Due Within One Year
N/R-Impact Printing	4%	\$ 35,531	\$ 31,514	\$ (3,083)	\$ 28,431	\$ 3,235
N/R-Party Barn	4%	47,824	43,892	(4,135)	39,757	3,932
N/R-Fitness Center	4%	35,000	28,840	(3,729)	25,111	2,993
N/R-Mt Vernon Mower	4%	25,000	21,537	-	21,537	1,970
N/R-Cypress Cajun	4%	30,000	25,626	-	25,626	5,761
		<u>\$ 173,355</u>	<u>\$ 151,409</u>	<u>\$ (10,947)</u>	<u>\$ 140,462</u>	<u>\$ 17,891</u>

F. Capital Assets

Capital asset activity for the period ended December 31, 2013 was as follows:

	Beginning Balances	Transfers	Additions	Decreases	Ending Balances
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 713,155	\$ -	\$ -	\$ -	\$ 713,155
Construction-In-Progress	2,849,494	-	1,405,228	-	4,254,722
Total capital assets, not being depreciated:	<u>3,562,649</u>	<u>-</u>	<u>1,405,228</u>	<u>-</u>	<u>4,967,877</u>
Capital assets, being depreciated:					
Infrastructure	9,165,000	-	-	-	9,165,000
Buildings and Improvements	7,067,452	-	-	-	7,067,452
Machinery & Equipment	5,706,721	-	395,609	(257,455)	5,844,875
Total capital assets being depreciated:	<u>21,939,173</u>	<u>-</u>	<u>395,609</u>	<u>(257,455)</u>	<u>22,077,327</u>
Total Fixed Assets	<u>25,501,822</u>	<u>-</u>	<u>1,800,837</u>	<u>(257,455)</u>	<u>27,045,204</u>
Less accumulated depreciation for:					
Infrastructure	(5,437,305)	-	(183,300)	-	(5,620,605)
Buildings and Improvements	(2,888,848)	-	(179,924)	-	(3,068,772)
Machinery & Equipment	(4,532,585)	-	(353,503)	257,455	(4,628,633)
Total accumulated depreciation:	<u>(12,858,738)</u>	<u>-</u>	<u>(716,727)</u>	<u>257,455</u>	<u>(13,318,010)</u>
Total capital assets, being depreciated, net	<u>9,080,435</u>	<u>-</u>	<u>(321,118)</u>	<u>-</u>	<u>8,759,317</u>
Governmental activities capital assets, net	<u>\$ 12,643,084</u>	<u>\$ -</u>	<u>\$ 1,084,110</u>	<u>\$ -</u>	<u>\$ 13,727,194</u>
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 394,372	\$ -	\$ -	\$ -	\$ 394,372
Construction-In-Progress	13,269	-	70,000	-	83,269
Total capital assets, not being depreciated:	<u>407,641</u>	<u>-</u>	<u>70,000</u>	<u>-</u>	<u>477,641</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>1,039,051</u>	<u>-</u>	<u>70,000</u>	<u>-</u>	<u>1,109,051</u>
Less accumulated depreciation for:					
Buildings and Improvements	(320,111)	-	(11,718)	-	(331,829)
Total accumulated depreciation:	<u>(320,111)</u>	<u>-</u>	<u>(11,718)</u>	<u>-</u>	<u>(331,829)</u>
Total capital assets, being depreciated, net	<u>311,299</u>	<u>-</u>	<u>(11,718)</u>	<u>-</u>	<u>299,581</u>
Business-type activities capital assets, net	<u>\$ 718,940</u>	<u>\$ -</u>	<u>\$ 58,282</u>	<u>\$ -</u>	<u>\$ 777,222</u>

**FRANKLIN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

F. Capital Assets (continued)

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

Governmental activities:		
General Government		\$ 172,134
Public Safety		129,052
Judicial		22,972
Public Works		392,569
Total depreciation expense - governmental activities		<u>\$ 716,727</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, 2013, is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities					
Bonds payable	\$ 547,084	\$ -	\$ (131,453)	\$ 415,631	\$ 134,936
Total bonds payable	547,084	-	(131,453)	415,631	134,936
Note payable	-	445,000	(13,810)	431,190	69,216
Capital lease payable	99,841	75,488	(81,384)	93,945	73,081
Compensated absences	76,000	69,930	(65,497)	80,433	36,790
Governmental activity Long-term liabilities	<u>\$ 722,925</u>	<u>\$ 590,418</u>	<u>\$ (292,144)</u>	<u>\$ 1,021,199</u>	<u>\$ 314,023</u>

Changes in Governmental Long-term Debt

Description	Interest Rate Payable	Amounts Issue	Amounts Outstanding December 31, 2012	Increase	Retired	Amounts Outstanding December 31, 2013	Due Within One Year
2005 Certificate of Oblig	4.50%	\$ 2,200,000	\$ -	\$ -	\$ -	\$ -	\$ -
2012 GO Refunding	2.65%	547,084	547,084	-	(131,453)	415,631	134,936
Total bonds payable		<u>2,747,084</u>	<u>547,084</u>	<u>-</u>	<u>(131,453)</u>	<u>415,631</u>	<u>134,936</u>
Limited tax note	1.70%	400,000	-	400,000	(13,810)	386,190	54,461
Note Payable-dump truck	1.65%	45,000	-	45,000	-	45,000	14,755
Total notes payable		<u>445,000</u>	<u>-</u>	<u>445,000</u>	<u>(13,810)</u>	<u>431,190</u>	<u>69,216</u>
Capital Lease-road equip	3.55%	190,000	99,841	-	(51,920)	47,921	47,920
Capital Lease-dump truck	1.65%	75,488	-	75,488	(29,464)	46,024	25,161
Total capital lease		<u>265,488</u>	<u>99,841</u>	<u>75,488</u>	<u>(81,384)</u>	<u>93,945</u>	<u>73,081</u>
Total Long Term Obligations		3,457,572	646,925	520,488	(226,647)	940,766	277,233
Compensated Absences		-	76,000	69,930	(65,497)	80,433	36,790
Totals		<u>\$ 3,457,572</u>	<u>\$ 722,925</u>	<u>\$ 590,418</u>	<u>\$ (292,144)</u>	<u>\$ 1,021,199</u>	<u>\$ 314,023</u>

Debt service requirements for bonds payable are as follows:

Year Ending December 31:	Principal	Interest	Total Requirements
2014	\$ 134,936	\$ 11,014	\$ 145,950
2015	138,512	7,438	145,950
2016	142,183	3,768	145,951
Totals	<u>\$ 415,631</u>	<u>\$ 22,220</u>	<u>\$ 437,851</u>

\$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.

**FRANKLIN COUNTY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2013**

G. Long-Term Obligations (continued)

\$2,200,000 Series 2005 Combination Tax and Revenue Certificates of Obligation issued in October 2005 for the purpose of constructing the Franklin County Jail.

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.

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.

Debt service requirements for notes payable are as follows:

Year Ending December 31:	Principal	Interest	Total Requirements
2014	\$ 69,216	\$ 6,960	\$ 76,176
2015	70,391	5,785	76,176
2016	71,573	4,352	75,925
2017	57,304	3,375	60,679
2018	58,284	2,394	60,678
2019-2020	104,422	1,782	106,204
Totals	\$ 431,190	\$ 24,648	\$ 455,838

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 agreement qualifies as a capital lease for accounting purposes and has been recorded at the present value of future minimum lease payments as of the inception date.

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 agreement qualifies as a capital lease for accounting purposes and 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:	
2014	\$ 76,189
2015	21,286
Total minimum lease payments	97,475
Less: amount representing interest	(3,530)
Present value-minimum lease payments	<u>\$ 93,945</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.

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.

**FRANKLIN COUNTY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2013**

H. Pension Plan

1. Plan Description (continued)

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 2013 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 2013:

Employee deposit rate	7.0%
Contribution rate for employer	11%
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, 2011 and 2012, the basis for determining the contribution rates for the calendar year 2013. The December 31, 2012 actuarial valuation is the most recent valuation:

Actuarial Information

Valuation Date	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</u>
Actuarial Cost Method	entry age	entry age	entry age
Amortization Method	Level Percent	Level Percent	Level Percent
Amortization Period	of Payroll, closed	of Payroll, closed	of Payroll, closed
	14.7 years	15.8 years	20 years
Asset Valuation Method	10-yr smoothed	10-yr smoothed	10-yr smoothed
Subdivision Accumulation Fund	value	value	value
Employees Saving Fund	fund value	fund value	fund value
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%	5.4%
Inflation	3.5%	3.5%	3.5%
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, 2013**

H. Pension Plan

3. Annual Pension Cost (continued)

	<u>Schedule of Funding Progress:</u>		
	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</u>
Actuarial Valuation Date			
Actuarial Value of Assets	\$ 5,113,721	\$ 5,447,109	\$ 5,917,358
Actuarial Accrued Liability (AAL)	5,910,490	6,342,518	6,835,095
Unfunded (Overfunded) AAL (UAAL or [OAAL])	796,769	895,409	917,737
Funded Ratio	86.52%	85.88%	86.57%
Annual Covered Payroll (actuarial)	2,180,817	2,320,363	2,308,911
UAAL OR (OAAL) as percentage of covered payroll	36.54%	38.59%	39.75%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -	\$ -	\$ -
Annual Pension Cost;			
Annual Required Contribution (ARC)	228,986	255,240	256,831
Contributions Made	(228,986)	(255,240)	(256,831)
NPO at the end of the period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The required contribution was determined as part of the December 31, 2012 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2012 included (a) 8% investment rate of return (net of administrative expenses), and (b) projected salary increases of 5.4%. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of 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, 2012 was 20 years.

As of December 31, 2012, the most recent actuarial valuation date, the plan was 86.57% funded. The actuarial accrued liability for benefits was \$6,835,095 and the actuarial value of assets was \$5,917,358, resulting in an unfunded actuarial accrued liability (UAAL) of \$917,737. The covered payroll (annual payroll of active employees covered by the plan) was \$2,308,911, and the ratio of UAAL to the covered payroll was 39.75%.

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 2013, 2012, and 2011 were \$16,375, \$13,853, and \$13,085, respectively, which equaled the contractually required contributions each year.

I. Health Care Coverage

During the year ended December 31, 2013, employees of the County were covered by a health and dental 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, 2013**

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, 2013, 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

Currently, management is unaware of significant pending litigation against Franklin County, Texas.

M. Construction Commitments

The County has active construction projects as of December 31, 2013. The projects include the courthouse restoration and the airport project.

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Courthouse restoration	\$ 4,223,366	\$ 2,228,802
Sports complex	31,356	50,000
Airport project	83,269	205,000
Totals	\$ 4,337,991	\$ 2,483,802

N. Subsequent Events

The County has evaluated all events or transactions that occurred after December 31, 2013 up through June 6, 2014, the date the financial statements were available to be issued. During this period, the County identified no subsequent events requiring disclosure.

REQUIRED SUPPLEMENTARY INFORMATION



**FRANKLIN COUNTY, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED DECEMBER 31, 2013**

**TCDRS FUNDING PROGRESS AND CONTRIBUTIONS
 LAST SIX 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%

**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, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 3,105,000	\$ 3,105,000	\$ 3,080,142	\$ (24,858)
Sales and use	400,000	400,000	403,062	3,062
Beverage	6,000	6,000	3,516	(2,484)
Fines and forfeitures	471,500	440,000	385,185	(54,815)
Licenses and permits	56,000	56,000	57,318	1,318
Charges for services	277,800	277,800	273,382	(4,418)
Grant and contributions	109,000	348,997	80,157	(268,840)
Investment income	43,000	43,000	47,429	4,429
Miscellaneous	74,000	74,000	110,424	36,424
Total Revenues	4,542,300	4,750,797	4,440,615	(310,182)
EXPENDITURES				
Current:				
General government	1,885,913	2,206,494	2,064,278	142,216
Public safety	926,723	922,623	858,465	64,158
Judicial	1,160,010	1,169,020	1,079,205	89,815
Health and public welfare	31,680	32,195	31,372	823
Capital outlay				
General government	60,000	40,000	-	40,000
Public safety	-	-	35,048	(35,048)
Judicial	-	-	16,495	(16,495)
Total Expenditures	4,064,326	4,370,332	4,084,863	285,469
Excess of revenues over expenditures	477,974	380,465	355,752	(24,713)
Other Financing Sources (uses)				
Intergovernmental	-	-	112,566	112,566
Transfers	(821,000)	(967,892)	(705,312)	262,580
Sale of assets	-	-	525	525
Total other financing sources (uses)	(821,000)	(967,892)	(592,221)	375,671
Net Change in Fund Balances	(343,026)	(587,427)	(236,469)	350,958
Fund Balance, January 1	1,976,147	1,976,147	1,976,147	
Fund Balance, December 31	\$ 1,633,121	\$ 1,388,720	\$ 1,739,678	

SUPPLEMENTARY INFORMATION

**FRANKLIN COUNTY, TEXAS
 COMBINING BALANCE SHEET - MAJOR
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2013**

	<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	\$ 233,731	\$ 259,802	\$ 23,657	\$ 138,168	\$ 655,358
Receivables (net of allowance for uncollectible)	44,249	30,409	310,033	32,603	417,294
Due from other funds	-	20,000	-	-	20,000
Total Assets	<u>277,980</u>	<u>310,211</u>	<u>333,690</u>	<u>170,771</u>	<u>1,092,652</u>
Liabilities					
Accounts payable	6,029	3,312	8,969	3,781	22,091
Accrued expenses	-	916	902	1,153	2,971
Due to other funds	22,914	1,733	1,583	2,735	28,965
Accrued interest payable	-	-	3,979	-	3,979
Total Liabilities	<u>28,943</u>	<u>5,961</u>	<u>15,433</u>	<u>7,669</u>	<u>58,006</u>
Deferred Inflows of Resources					
Unearned revenues	80,109	54,639	63,730	58,284	256,762
Total Deferred Inflows of Resources	<u>80,109</u>	<u>54,639</u>	<u>63,730</u>	<u>58,284</u>	<u>256,762</u>
Fund Balances					
Assigned	168,928	249,611	254,527	104,818	777,884
Total Fund Balances	<u>168,928</u>	<u>249,611</u>	<u>254,527</u>	<u>104,818</u>	<u>777,884</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 277,980</u>	<u>\$ 310,211</u>	<u>\$ 333,690</u>	<u>\$ 170,771</u>	<u>\$ 1,092,652</u>

**FRANKLIN COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<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	\$ 77,964	\$ 53,176	\$ 62,020	\$ 56,724	\$ 249,884
Licenses and permits	36,669	25,010	29,171	26,679	117,529
Grants and contributions	3,267	3,266	3,267	3,267	13,067
Investment income	3,691	3,767	1,246	2,586	11,290
Miscellaneous	1,202	1,671	277,675	2,141	282,689
Total Revenues	<u>122,793</u>	<u>86,890</u>	<u>373,379</u>	<u>91,397</u>	<u>674,459</u>
EXPENDITURES					
Current:					
Roads and bridges	628,769	440,049	535,633	452,452	2,056,903
Capital outlay	16,000	72,543	90,649	147,989	327,181
Debt service:					
Principal	-	-	51,920	29,464	81,384
Interest	-	-	3,979	536	4,515
Total Expenditures	<u>644,769</u>	<u>512,592</u>	<u>682,181</u>	<u>630,441</u>	<u>2,469,983</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(521,976)</u>	<u>(425,702)</u>	<u>(308,802)</u>	<u>(539,044)</u>	<u>(1,795,524)</u>
Other Revenues and Financing Sources (Uses)					
Sale of assets	802	37,931	802	16,948	56,483
Note proceeds	-	45,000	-	75,489	120,489
Transfers	508,416	346,726	404,477	370,366	1,629,985
Total Other Financing Sources (Uses)	<u>509,218</u>	<u>429,657</u>	<u>405,279</u>	<u>462,803</u>	<u>1,806,957</u>
Net Change in Fund Balances	(12,758)	3,955	96,477	(76,241)	11,433
Fund Balances, Beginning of year	181,686	245,656	158,050	181,059	766,451
Fund Balances, End of year	<u>\$ 168,928</u>	<u>\$ 249,611</u>	<u>\$ 254,527</u>	<u>\$ 104,818</u>	<u>\$ 777,884</u>

**FRANKLIN COUNTY, TEXAS
 COMBINING BALANCE SHEET - NONMAJOR
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2013**

	<u>Bruce Endowment Library</u>	<u>Record Retention</u>	<u>Health Care</u>	<u>Indigent Health Care</u>	<u>County Record Retention</u>
Assets					
Cash and cash equivalents	\$ -	\$ -	\$ 2,156	\$ 861	\$ -
Receivables (net of allowance for uncollectibles)	-	-	-	-	-
Due from general fund	-	-	-	349	-
Inventory	-	-	-	-	-
Notes receivable	-	-	-	-	-
Grant receivable	-	-	-	-	-
Prepaid items	-	-	2,552	-	-
Cash and cash equivalents - restricted	278,900	98,247	-	-	21,240
Total Assets	<u>278,900</u>	<u>98,247</u>	<u>4,708</u>	<u>1,210</u>	<u>21,240</u>
Liabilities					
Accounts payable	662	-	-	561	-
Accrued expenses	-	-	-	-	-
Due to other funds	-	-	-	-	-
Total Liabilities	<u>662</u>	<u>-</u>	<u>-</u>	<u>561</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	-	-	2,552	-	-
Notes receivable	-	-	-	-	-
Restricted:					
Library	6,612	-	-	-	-
Court use	-	-	-	-	-
Capital improvements	-	-	-	-	-
Hotel	-	-	-	-	-
Debt service	-	-	-	-	-
Assigned	-	98,247	2,156	649	21,240
Unassigned	-	-	-	-	-
Total Fund Balances	<u>278,238</u>	<u>98,247</u>	<u>4,708</u>	<u>649</u>	<u>21,240</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 278,900</u>	<u>\$ 98,247</u>	<u>\$ 4,708</u>	<u>\$ 1,210</u>	<u>\$ 21,240</u>

County Free Library	Archival Fund	Record Mgmt District Clerk	District Clerk Technology	Courthouse Security	Justice Court Technology	Courthouse Restoration	State Grant	Attorney Check Collection
\$ 36,503	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,769
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	140,462	-
-	-	-	-	-	-	733,789	-	-
-	-	-	-	-	8,342	-	-	-
-	21,712	14,558	4,954	94,220	13,943	-	47,754	-
<u>36,503</u>	<u>21,712</u>	<u>14,558</u>	<u>4,954</u>	<u>94,220</u>	<u>22,285</u>	<u>733,789</u>	<u>188,216</u>	<u>10,769</u>
3,609	-	-	-	-	-	142,746	-	-
1,136	72	-	-	-	-	-	-	-
2,517	-	-	-	-	-	191,043	-	-
<u>7,262</u>	<u>72</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>333,789</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	8,342	-	-	-
-	-	-	-	-	-	-	140,462	-
-	-	-	-	-	-	-	-	-
-	-	-	4,954	94,220	13,943	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
29,241	21,640	14,558	-	-	-	400,000	47,754	10,769
<u>29,241</u>	<u>21,640</u>	<u>14,558</u>	<u>4,954</u>	<u>94,220</u>	<u>22,285</u>	<u>400,000</u>	<u>188,216</u>	<u>10,769</u>
<u>\$ 36,503</u>	<u>\$ 21,712</u>	<u>\$ 14,558</u>	<u>\$ 4,954</u>	<u>\$ 94,220</u>	<u>\$ 22,285</u>	<u>\$ 733,789</u>	<u>\$ 188,216</u>	<u>\$ 10,769</u>

(continued)

**FRANKLIN COUNTY, TEXAS
 COMBINING BALANCE SHEET - NONMAJOR
 GOVERNMENTAL FUNDS (continued)
 DECEMBER 31, 2013**

	<u>State Agency</u>	<u>Recreation Facility</u>	<u>Hotel Motel Tax</u>	<u>County Law Library</u>	<u>Debt Service</u>
ASSETS					
Cash and cash equivalents	\$ 36,080	\$ 43,774	\$ -	\$ 28,323	\$ 139,191
Receivables (net of allowance for uncollectibles)	-	-	-	-	71,005
Due from general fund	-	-	-	-	-
Inventory	-	-	-	-	-
Notes receivable	-	-	-	-	-
Grant receivable	-	-	-	-	-
Prepaid items	-	-	-	-	-
Cash and cash equivalents - restricted	-	-	22,414	-	10,942
Total Assets	<u>36,080</u>	<u>43,774</u>	<u>22,414</u>	<u>28,323</u>	<u>221,138</u>
Liabilities					
Accounts payable	36,440	7,715	-	29	-
Accrued expenses	-	-	-	-	-
Due to other funds	-	757	-	-	-
Total Liabilities	<u>36,440</u>	<u>8,472</u>	<u>-</u>	<u>29</u>	<u>-</u>
Deferred Inflows of Resources					
Unearned revenues	-	-	-	-	116,142
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>116,142</u>
Fund Balances					
Nonspendable:					
Endowment	-	-	-	-	-
Inventory	-	-	-	-	-
Prepaid items	-	-	-	-	-
Notes receivable	-	-	-	-	-
Restricted:					
Library	-	-	-	-	-
Court use	-	-	-	-	-
Capital improvements	-	-	-	-	-
Hotel	-	-	22,414	-	-
Debt service	-	-	-	-	104,996
Assigned	(360)	35,302	-	28,294	-
Unassigned	-	-	-	-	-
Total Fund Balances	<u>(360)</u>	<u>35,302</u>	<u>22,414</u>	<u>28,294</u>	<u>104,996</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 36,080</u>	<u>\$ 43,774</u>	<u>\$ 22,414</u>	<u>\$ 28,323</u>	<u>\$ 221,138</u>

<u>Commissary</u>	<u>Jail</u>	<u>Capital Project</u>	<u>Total</u>
\$ 42,006	\$ 142,767	\$ -	\$ 482,430
-	18,520	-	89,525
-	-	-	349
6,409	-	-	6,409
-	-	-	140,462
-	-	-	733,789
-	-	-	10,894
-	-	-	628,884
<u>48,415</u>	<u>161,287</u>	<u>-</u>	<u>2,092,742</u>
1,038	-	-	192,800
-	-	-	1,208
-	-	-	194,317
<u>1,038</u>	<u>-</u>	<u>-</u>	<u>388,325</u>
-	-	-	116,142
-	-	-	116,142
-	-	-	271,626
6,409	-	-	6,409
-	-	-	10,894
-	-	-	140,462
-	-	-	6,612
-	-	-	113,117
-	-	-	-
-	-	-	22,414
-	-	-	104,996
40,968	161,287	-	911,745
-	-	-	-
<u>47,377</u>	<u>161,287</u>	<u>-</u>	<u>1,588,275</u>
<u>\$ 48,415</u>	<u>\$ 161,287</u>	<u>\$ -</u>	<u>\$ 2,092,742</u>

**FRANKLIN COUNTY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2013**

	Bruce Endowment Library	Record Retention	Health Care	Indigent Health Care	County Record Retention
REVENUES					
Fines and forfeitures	\$ -	\$ -	\$ -	\$ -	\$ -
Permits and fees	-	49,581	-	-	3,777
Hotel taxes	-	-	-	-	-
Property taxes	-	-	-	-	-
Investment income	6,816	1,328	-	78	293
Grants and contributions	-	-	-	6,119	-
Donations	-	-	-	-	-
Commissary sales	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Revenues	6,816	50,909	-	6,197	4,070
EXPENDITURES					
Current:					
Personnel	-	-	-	-	-
Supplies	1,800	27,878	-	-	-
Contract services	-	-	3,625	25,198	-
Telephone and utilities	-	-	-	-	-
Repairs and maintenance	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlays	-	-	-	-	-
Total Expenditures	1,800	27,878	3,625	25,198	-
Net operating income (loss)	5,016	23,031	(3,625)	(19,001)	4,070
Other Financing Sources (Uses)					
Bond proceeds	-	-	-	-	-
Sale of assets	-	-	-	-	-
Transfers	-	-	8,333	45,000	-
Total Other Financing Sources (Uses)	-	-	8,333	45,000	-
Net Change in Fund Balances	5,016	23,031	4,708	25,999	4,070
Fund Balances, Beginning of year	273,222	75,216	-	(25,350)	17,170
Fund Balances, End of year	\$ 278,238	\$ 98,247	\$ 4,708	\$ 649	\$ 21,240

County Free Library	Archival Fund	Record Mgmt District Clerk	District Clerk Technology	Courthouse Security	Justice Court Technology	Courthouse Restoration	State Grant	Attorney Check Collection
\$ -	\$ -	\$ -	\$ -	\$ 11,668	\$ 6,285	\$ -	\$ -	\$ -
5,954	18,784	2,562	1,102	-	-	-	-	1,762
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
501	193	201	20	1,402	261	-	8,747	160
10,000	-	-	-	-	-	1,233,727	-	-
464	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
2,647	-	-	-	-	-	-	-	-
<u>19,566</u>	<u>18,977</u>	<u>2,763</u>	<u>1,122</u>	<u>13,070</u>	<u>6,546</u>	<u>1,233,727</u>	<u>8,747</u>	<u>1,922</u>
141,216	-	-	-	-	-	-	-	-
28,721	713	-	-	11,099	9,805	-	-	5,821
1,090	-	-	-	-	-	-	-	-
12,835	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
2,176	-	-	-	-	-	3,750	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,373,872	-	-
<u>186,038</u>	<u>713</u>	<u>-</u>	<u>-</u>	<u>11,099</u>	<u>9,805</u>	<u>1,377,622</u>	<u>-</u>	<u>5,821</u>
(166,472)	18,264	2,763	1,122	1,971	(3,259)	(143,895)	8,747	(3,899)
-	-	-	-	-	-	400,000	-	-
-	-	-	-	-	-	-	-	-
174,708	-	-	-	-	-	316,477	(621)	-
<u>174,708</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>716,477</u>	<u>(621)</u>	<u>-</u>
8,236	18,264	2,763	1,122	1,971	(3,259)	572,582	8,126	(3,899)
21,005	3,376	11,795	3,832	92,249	25,544	(172,582)	180,090	14,668
<u>\$ 29,241</u>	<u>\$ 21,640</u>	<u>\$ 14,558</u>	<u>\$ 4,954</u>	<u>\$ 94,220</u>	<u>\$ 22,285</u>	<u>\$ 400,000</u>	<u>\$ 188,216</u>	<u>\$ 10,769</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, 2011**

	<u>State Agency</u>	<u>Recreation Facility</u>	<u>Hotel Motel Tax</u>	<u>County Law Library</u>	<u>Debt Service</u>
REVENUES					
Fines and forfeitures	\$ 203,161	\$ -	\$ -	\$ -	\$ -
Permits and fees	-	-	-	6,468	-
Hotel taxes	-	-	35,518	-	-
Property taxes	-	-	-	-	122,386
Investment income	-	732	139	385	1,441
Grants and contributions	-	9,109	-	-	-
Donations	-	10,394	-	-	-
Commissary sales	-	-	-	-	-
Miscellaneous	-	37,758	-	-	-
Total Revenues	<u>203,161</u>	<u>57,993</u>	<u>35,657</u>	<u>6,853</u>	<u>123,827</u>
EXPENDITURES					
Current:					
Personnel	-	43,198	-	-	-
Supplies	-	28,569	-	-	-
Contract services	209,975	-	47,301	-	-
Telephone and utilities	-	10,614	-	334	-
Repairs and maintenance	-	9,145	-	-	-
Miscellaneous	-	3,695	-	-	-
Debt Service:					
Principal	-	-	-	-	145,262
Interest	-	-	-	-	14,528
Capital outlays	-	38,741	-	-	-
Total Expenditures	<u>209,975</u>	<u>133,962</u>	<u>47,301</u>	<u>334</u>	<u>159,790</u>
Net operating income (loss)	<u>(6,814)</u>	<u>(75,969)</u>	<u>(11,644)</u>	<u>6,519</u>	<u>(35,963)</u>
Other Financing Sources (Uses)					
Bond proceeds	-	-	-	-	-
Sale of assets	-	140	-	-	-
Transfers	-	74,854	-	-	45,095
Total Other Financing Sources (Uses)	<u>-</u>	<u>74,994</u>	<u>-</u>	<u>-</u>	<u>45,095</u>
Net Change in Fund Balances	<u>(6,814)</u>	<u>(975)</u>	<u>(11,644)</u>	<u>6,519</u>	<u>9,132</u>
Fund Balances, Beginning of year	<u>6,452</u>	<u>36,276</u>	<u>34,058</u>	<u>21,775</u>	<u>95,867</u>
Fund Balances, End of year	<u>\$ (362)</u>	<u>\$ 35,301</u>	<u>\$ 22,414</u>	<u>\$ 28,294</u>	<u>\$ 104,999</u>

<u>Commissary</u>	<u>Jail</u>	<u>Capital Project</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 221,114
-	80,845	-	170,835
-	-	-	35,518
-	-	-	122,386
666	1,573	-	24,936
-	-	-	1,258,955
-	-	-	10,858
34,980	-	-	34,980
-	-	-	40,405
<u>35,646</u>	<u>82,418</u>	<u>-</u>	<u>1,919,987</u>
-	-	-	184,414
21,847	-	-	136,253
-	-	-	287,189
-	-	-	23,783
6,475	-	-	15,620
2,051	-	-	11,672
-	-	-	145,262
-	-	-	14,528
-	-	-	1,412,613
<u>30,373</u>	<u>-</u>	<u>-</u>	<u>2,231,334</u>
<u>5,273</u>	<u>82,418</u>	<u>-</u>	<u>(311,347)</u>
-	-	-	400,000
-	-	-	140
-	(30,000)	-	633,846
<u>-</u>	<u>(30,000)</u>	<u>-</u>	<u>1,033,986</u>
5,273	52,418	-	722,639
42,104	108,869	-	865,636
<u>\$ 47,377</u>	<u>\$ 161,287</u>	<u>\$ -</u>	<u>\$ 1,588,275</u>

**FRANKLIN COUNTY, TEXAS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUNDS
DECEMBER 31, 2013**

	<u>Balance December 31, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2013</u>
ASSETS				
Cash and Cash Equivalents	\$ 140,561	\$ 19,974,353	\$ (19,921,253)	\$ 193,661
Total Assets	<u>140,561</u>	<u>19,974,353</u>	<u>(19,921,253)</u>	<u>193,661</u>
LIABILITIES				
Due to County or Other Governments or Individuals	60,451	19,856,577	(19,847,261)	69,767
Trust funds-pending cases	80,110	117,776	(73,992)	123,894
Total Liabilities	<u>\$ 140,561</u>	<u>\$ 19,974,353</u>	<u>\$ (19,921,253)</u>	<u>\$ 193,661</u>

SINGLE AUDIT





Michael Conway, CPA
Neil Conway, CPA

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June 6, 2014

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 and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated June 6, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Franklin County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Franklin County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies. See 2013-001.

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Compliance and Other Matters

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

We noted certain matters that we reported to the management of Franklin County in a separate letter dated June 6, 2014.

Purpose of This Report

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

Respectfully Submitted,
CONWAY COMPANY CPAs, PC

Conway Company CPAs, P.C.



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June 6, 2014

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

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 Franklin County's major federal programs for the year ended December 31, 2013. 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 each of 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. Our audit does not provide a legal determination of Franklin County's compliance with those requirements.

Opinion

In our opinion, Franklin County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

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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 requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Franklin County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Franklin County's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on 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 be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

CONWAY COMPANY CPAs, P.C.

Conway Company CPAs, P.C.

FRANKLIN COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013

Section I. Summary of Auditors' Results:

Financial Statements

1. Type of auditors' report issued on the financial statements Unqualified
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)? X Yes _____ 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, 2013

Section II. Financial Statement Findings

2013-001 **Insufficient backup was noted in the court ticket test of the Justice of the Peace's office.**

Criteria: Proper records should be maintained on all tickets.

Condition: A large number of tickets were not marked with the judgement; therefore, precluding a full walkthrough of transactions on the court ticket test.

Effect: Improper recording of tickets cannot be identified.

Cause: Proper documentation is not maintained in County records.

Recommendation: A large number of tickets were not marked with the judgement; therefore, that proper documentation is maintained.

Corrective Action: The County Auditor reviewed the tickets and audit results of the outside auditors. Approximately 40% of the tickets noted as "judgement not marked" are open cases where no judgement has been issued. Thus these files should not be included in the deficiency.

Approximately 40% of the tickets notes as "judgement not marked" did have sufficient documentation within the file that the fine was paid and thus the final judgement issued and the case closed. Management does agree on these files that the Criminal Court Records form is nor required by the statute to be included in the files as support for the final judgement on a case. This form is included in the case files for convenience of the clerks to make notes as to whether the case is closed, a courtesy reminder has been mailed to the defendant, a warrant has been issued, etc. and when these actions were done.

There was also one case where there was no support as to final disposition of the case. The County Auditor obtained documentation from the JP Clerk and the file was updated.

Corrective action for this issue will include the County Auditor sampling monthly court tickets beginning with the month of July 2014 and reviewing case files for proper documentation for final judgement and for completion of the Criminal Court Records form. The County Auditor will work with the JPs office to ensure case files have the proper documentation for final disposition.

Section III. Federal Award Findings and Questioned Costs:

None

**FRANKLIN COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2013**

Finding/Recommendation

12-01 Material prior period adjustments were made to the financial statements.

12-02 Insufficient backup was noted in the court ticket test of the Justice of the Peace's office

Current Status

12-01 Transactions resulting in prior period adjustments were not duplicated.

12-02 This issue was noted again in the 2013 court ticket test.

Management Explanation
If Not Implemented

Please see corrective action on Schedule of Findings and Questioned Costs.

FRANKLIN COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
DECEMBER 31, 2013

Federal Grantor/Pass-Through Grantor Program Title	ARRA	Federal CFDA Number	Pass-Through Grantor's Number	Program Expenditures
FEDERAL AWARDS:				
DEPARTMENT OF HOMELAND SECURITY				
<i>Passed through Texas Department of Rural Development</i> Texas Community Development Block Grant		14.228	CDGM 71200 711200	\$ 57,675
<i>Passed through Ark-Tex Council of Governments</i> Homeland Security				14,858
TOTAL DEPARTMENT OF HOMELAND SECURITY				<u>72,533</u>
TOTAL FEDERAL AWARDS				<u><u>72,533</u></u>
STATE AWARDS:				
TEXAS HISTORIC COMMISSION				
Courthouse Preservation - Interior			N/A	1,146,392
Courthouse Preservation - Exterior				21,398
TOTAL TEXAS HISTORIC COMMISSION				<u>1,167,790</u>
TEXAS TASK FORCE ON INDIGENT DEFENSE				
Indigent Defense			N/A	10,727
TOTAL TEXAS TASK FORCE ON INDIGENT DEFENSE				<u>10,727</u>
TEXAS DEPARTMENT OF STATE HEALTH SERVICES				
Tobacco Settlement			N/A	6,119
TOTAL TEXAS DEPARTMENT OF STATE HEALTH SERVICES				<u>6,119</u>
TOTAL STATE AWARDS				<u><u>1,184,636</u></u>
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS				<u><u>\$ 1,257,169</u></u>

**FRANKLIN COUNTY, TEXAS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
DECEMBER 31, 2013**

A. General

The accompanying Schedule of Expenditures of Federal 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 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.