

HOCKLEY COUNTY, TEXAS
ANNUAL FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2011

HOCKLEY COUNTY, TEXAS
 ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDING DECEMBER 31, 2011

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HOCKLEY COUNTY, TEXAS

COUNTY OFFICIALS

Larry Sprowls..... County Judge

Curtis Thrash Commissioner, Precinct 1

Larry Carter..... Commissioner, Precinct 2

J. L. Barnett..... Commissioner, Precinct 3

Tommy Clevenger Commissioner, Precinct 4

Christopher Dennis. County Attorney

Irene Gumula County Clerk

Denise Bohannon County Treasurer

Christy Clevenger County Tax Assessor-Collector

Kevin Davis County Sheriff

Jay M. Phelan..... Judge, 286th Judicial District

Gary Goff..... District Attorney

Linda Barnette..... County Auditor

Dennis Price..... District Clerk

Sue Coker..... Justice of the Peace #1

Charlotte Trull Justice of the Peace #2

Rita Conkin..... Justice of the Peace #4

Jerry Boudreaux Justice of the Peace #5

FINANCIAL SECTION

MYATT, BLUME AND FIDALEO, LTD., L.L.P.

SHAM L. MYATT CPA
PHELPS BLUME CPA
ANTHONY S. FIDALEO CPA
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MEMBERS
TEXAS SOCIETY AND AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Hockley County Commissioners Court
Hockley County, Texas
Levelland, Texas

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 Hockley County, Texas (the County) as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 Hockley County, Texas as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2012, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require budgetary comparison information 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 inquires 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.

Hockley County, Texas has not presented the management's discussion and analysis (MD&A) that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements as a whole. The accompanying schedules listed as Other Supplementary Information in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

Myatt, Blume, and Fidaleo, LTD., L.L.P.

Myatt, Blume, and Fidaleo, LTD., L.L.P.
Certified Public Accountants
Levelland, Texas 79336

December 26, 2012

BASIC FINANCIAL STATEMENTS

HOCKLEY COUNTY
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 8,859,608	\$ 33,307	\$ 8,892,915
Receivables (net of allowance for uncollectibles)	8,713,966	-	8,713,966
Due from Fiduciary Funds	6,332,772	-	6,332,772
Capitalized Debt Issuance Costs	137,245	-	137,245
Capital Assets:			
Land	295,729	-	295,729
Infrastructure, net	77,521	-	77,521
Buildings, net	3,253,300	-	3,253,300
Machinery and Equipment, net	3,949,554	-	3,949,554
Construction in Progress	14,323,652	-	14,323,652
Total Assets	<u>45,943,347</u>	<u>33,307</u>	<u>45,976,654</u>
LIABILITIES			
Accounts Payable	838,620	-	838,620
Accrued Interest Payable	181,125	-	181,125
Noncurrent Liabilities			
Due Within One Year	1,305,000	-	1,305,000
Due in More Than One Year	11,273,220	-	11,273,220
Total Liabilities	<u>13,597,965</u>	<u>-</u>	<u>13,597,965</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	9,329,265	-	9,329,265
Restricted for:			
Restricted for Debt Service	775,872	-	775,872
Restricted for Construction	734,722	-	734,722
Unrestricted Net Assets	21,505,523	33,307	21,538,830
Total Net Assets	<u>\$ 32,345,382</u>	<u>\$ 33,307</u>	<u>\$ 32,378,689</u>

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

HOCKLEY COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 6,110,608	\$ -	\$ 14,872
Public Safety	2,973,112	996,692	17,925
Highways and Streets	2,238,408	574,705	-
Health and Welfare	245,624	220,000	-
Culture and Recreation	887,573	14,551	12,203
Bond Interest	487,632	-	-
Total Governmental Activities:	12,942,957	1,805,948	45,000
BUSINESS-TYPE ACTIVITIES:			
Sheriff Commissary Fund	8,523	3,077	-
Inmate Trust Fund	80,722	80,148	-
Total Business-Type Activities:	89,245	83,225	-
TOTAL PRIMARY GOVERNMENT:	\$ 13,032,202	\$ 1,889,173	\$ 45,000

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes
Property Taxes, Levied for Debt Service
Taxes - Road and Bridge
Penalty and Interest
Grants and Contributions Not Restricted
Royalty Income
Miscellaneous Revenue
Investment Earnings
Disposal on Gain of Assets

Total General Revenues

Change in Net Assets

Net Assets--Beginning

Net Assets--Ending

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

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (6,095,736)	\$ -	\$ (6,095,736)
(1,958,495)	-	(1,958,495)
(1,663,703)	-	(1,663,703)
(25,624)	-	(25,624)
(860,819)	-	(860,819)
(487,632)	-	(487,632)
<u>(11,092,009)</u>	<u>-</u>	<u>(11,092,009)</u>
-	(5,446)	(5,446)
-	(574)	(574)
-	(6,020)	(6,020)
<u>(11,092,009)</u>	<u>(6,020)</u>	<u>(11,098,029)</u>
11,155,464	-	11,155,464
1,738,689	-	1,738,689
571,011	-	571,011
136,037	-	136,037
1,554	-	1,554
396,900	-	396,900
278,878	-	278,878
119,003	343	119,346
18,007	-	18,007
<u>14,415,543</u>	<u>343</u>	<u>14,415,886</u>
3,323,534	(5,677)	3,317,857
29,021,848	38,984	29,060,832
<u>\$ 32,345,382</u>	<u>\$ 33,307</u>	<u>\$ 32,378,689</u>

HOCKLEY COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General Fund	Debt Service Fund	Capital Projects
ASSETS			
Cash and Cash Equivalents	\$ 5,125,396	\$ 680,012	\$ 1,244,657
Taxes Receivable	5,680,565	1,239,351	-
Allowance for Uncollectible Taxes (credit)	(503,555)	(109,863)	-
Due from Other Funds	4,522,326	110,958	-
Total Assets	\$ 14,824,732	\$ 1,920,458	\$ 1,244,657
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 126,520	\$ -	\$ 509,935
Accrued Interest Payable	-	51,609	-
Deferred Revenues	5,177,010	1,129,488	-
Total Liabilities	5,303,530	1,181,097	509,935
Fund Balances:			
Committed Fund Balance:			
Construction	-	-	734,722
Retirement of Loans or Notes Payable	-	739,361	-
Assigned Fund Balance:			
Other Assigned Fund Balance	-	-	-
Unassigned Fund Balance	9,521,202	-	-
Total Fund Balances	9,521,202	739,361	734,722
Total Liabilities and Fund Balances	\$ 14,824,732	\$ 1,920,458	\$ 1,244,657

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

Other Funds	Total Governmental Funds
\$ 1,796,839	\$ 8,846,904
1,969,996	8,889,912
(174,632)	(788,050)
<u>1,699,488</u>	<u>6,332,772</u>
<u>\$ 5,291,691</u>	<u>\$ 23,281,538</u>
\$ 202,164	\$ 838,619
-	51,609
<u>1,795,363</u>	<u>8,101,861</u>
<u>1,997,527</u>	<u>8,992,089</u>
-	734,722
36,511	775,872
3,382,723	3,382,723
(125,070)	9,396,132
<u>3,294,164</u>	<u>14,289,449</u>
<u>\$ 5,291,691</u>	<u>\$ 23,281,538</u>

HOCKLEY COUNTY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 DECEMBER 31, 2011

Total Fund Balances - Governmental Funds	\$	14,289,449
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The Governmental Funds Fund Balance differs from the Net Assets of Governmental Activities because:

The County uses an internal service fund to charge the costs of certain activities, such as employe insurance costs to the appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase net assets.		12,704
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Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the end of the year, the cost of these assets was \$46,043,270 and the accumulated depreciation was \$(24,143,514). The net effect of including the ending balance for capital assets (net of depreciation) is to increase net assets.		21,899,756
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Long-term liabilities, including bonds payable and the related prepaid costs and discounts, are not due and payable in the current period, and, therefore are not reported as liabilities in the governmental funds. The net effect of including long-term debt and other debt-related accounts in the governmental activities is to decrease net assets.		(12,570,491)
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Bond Principal	\$ 12,075,000	
Unamortized Discount	503,220	
Accrued Interest	129,516	
Debt Issuance Costs	<u>(137,245)</u>	
 Total	 \$ 12,570,491	

When converting from the modified accrual basis of accounting to the full accrual basis, deferred revenue under the accrual method is recognized as revenue under the full accrual method. At the end of the year, the County had \$8,101,860 of property taxes recorded as deferred revenue and an additional \$612,104 reported as an allowance for uncollectible taxes which were to be recognized as income on the full accrual basis. The net effect of this classification is to increase net assets.		8,713,964
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Net Assets of Governmental Activities	\$	32,345,382
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The notes to the Financial Statements are an integral part of this statement.

HOCKLEY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General Fund	Debt Service Fund	Capital Projects
REVENUES:			
Taxes:			
Property Taxes	\$ 8,075,079	\$ 1,771,125	\$ -
Licenses and Permits	1,107	-	-
Intergovernmental Revenue and Grants	41,304	-	-
Charges for Services	816,861	-	-
Fines	-	-	-
Forfeits	-	-	-
Investment Earnings	27,206	3,065	63,798
Rents and Royalties	396,900	-	-
Contributions & Donations from Private Sources	-	-	-
Other Revenue	459,746	-	-
Total Revenues	9,818,203	1,774,190	63,798
EXPENDITURES:			
Current:			
General Government	5,048,594	3,720	325,260
Public Safety	2,822,651	-	-
Highways and Streets	-	-	-
Health and Welfare	-	-	-
Culture and Recreation	637,275	-	-
Debt Service:			
Bond Principal	-	1,255,000	-
Bond Interest	-	508,100	-
Capital Outlay:			
Capital Outlay	111,733	-	13,548,796
Total Expenditures	8,620,253	1,766,820	13,874,056
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,197,950	7,370	(13,810,258)
OTHER FINANCING SOURCES (USES):			
Sale of Real and Personal Property	-	-	-
Transfers In	2,861,898	-	850,000
Transfers Out (Use)	(2,821,898)	-	-
Total Other Financing Sources (Uses)	40,000	-	850,000
Net Change in Fund Balances	1,237,950	7,370	(12,960,258)
Fund Balance - January 1 (Beginning)	8,283,252	731,990	13,694,981
Fund Balance - December 31 (Ending)	\$ 9,521,202	\$ 739,360	\$ 734,723

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

	Other Funds	Total Governmental Funds
\$	2,858,081	\$ 12,704,285
	451,404	452,511
	3,696	45,000
	372,170	1,189,031
	128,442	128,442
	37,074	37,074
	24,933	119,002
	-	396,900
	1,554	1,554
	618,854	1,078,600
	<u>4,496,208</u>	<u>16,152,399</u>
	406,264	5,783,838
	56,152	2,878,803
	1,968,265	1,968,265
	245,548	245,548
	280,830	918,105
	-	1,255,000
	-	508,100
	<u>1,592,982</u>	<u>15,253,511</u>
	<u>4,550,041</u>	<u>28,811,170</u>
	<u>(53,833)</u>	<u>(12,658,771)</u>
	135,467	135,467
	-	3,711,898
	<u>(890,000)</u>	<u>(3,711,898)</u>
	<u>(754,533)</u>	<u>135,467</u>
	<u>(808,366)</u>	<u>(12,523,304)</u>
	<u>4,102,530</u>	<u>26,812,753</u>
\$	<u>3,294,164</u>	<u>\$ 14,289,449</u>

HOCKLEY COUNTY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2011

Total Net Change in Fund Balances - Governmental Funds	\$ (12,523,304)
The County uses an internal service fund to charge the costs of certain activities to the governmental funds. The net loss of this internal service fund is reported with governmental activities. The net effect of this consolidation is to decrease net assets.	(2,533)
Current year capital outlays are expenditures in the fund financial statements, but they are reported as increases in capital assets in the government-wide financial statements. The net effect of reclassing capital outlays is to increase net assets.	15,265,581
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	(721,668)
Gains on asset disposals report proceeds net of book value on the government-wide financial statements, but only the proceeds are reported in the governmental fund financial statements. The net effect of the remaining book value of the disposed assets is to decrease net assets.	(347,280)
Current year bond principal payments are expenditures in the fund financial statements, but they are reported as reductions in long-term debt in the government-wide financial statements. the net effect of reclassing the principal payments is to increase net assets.	1,255,000
Debt issuance costs and bond discounts are incurred and reported when the bonds are issued in the governmental funds but are capitalized and amortized over the life of the bonds in the government-wide financial statements. The annual amortization of the debt issuance costs of \$19,262 and the bond discount of \$(70,627) are reported net as a reduction in the annual cost of maintaing the bonds and increase net assets.	51,365
Bond interest is reported when paid in the governmental funds but is accrued between payments for the government-wide financial statements. The net change between the current year and prior year interest accrual increases net assets.	20,468
Under the full accrual basis, property taxes are recognized as income when levied by the County. Some property taxes reported as current tax revenue for this year (\$8,427,765) were recognized as income in the prior year's government-wide financial statements and reduce current year tax revenue to avoid double recognition. Property taxes designated for the next fiscal year (\$8,101,860) being reported as deferred revenue in this year's governmental funds are to be recognized as income for this year in the government-wide financial statements. The net effect of the change in deferred revenue is to increase net assets.	325,905
Change in Net Assets of Governmental Activities	\$ 3,323,534

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

HOCKLEY COUNTY
 STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2011

	Business-Type Activities -	Governmental Activities -
	Total Enterprise Funds	Internal Service Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 33,307	\$ 12,704
Total Assets	<u>33,307</u>	<u>12,704</u>
NET ASSETS		
Unrestricted Net Assets	33,307	12,704
Total Net Assets	<u>\$ 33,307</u>	<u>\$ 12,704</u>

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

HOCKLEY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

EXHIBIT D-2

	Business-Type Activities - Total Enterprise Funds	Governmental Activities - Internal Service Fund
OPERATING REVENUES:		
Charges for Services	\$ 83,225	\$ -
Total Operating Revenues	83,225	-
OPERATING EXPENSES:		
Personnel Services - Employee Benefits	-	1,825
Purchased Professional & Technical Services	39,668	-
Purchased Property Services	2,100	-
Other Operating Expenses	41,068	840
Supplies	6,409	-
Total Operating Expenses	89,245	2,665
Operating Income (Loss)	(6,020)	(2,665)
NON-OPERATING REVENUES (EXPENSES):		
Investment Earnings	343	132
Total Non-operating Revenue (Expenses)	343	132
Change in Net Assets	(5,677)	(2,533)
Total Net Assets - January 1 (Beginning)	38,984	15,237
Total Net Assets - December 31 (Ending)	\$ 33,307	\$ 12,704

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

HOCKLEY COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

EXHIBIT D-3

	Business-Type Activities	Governmental Activities -
	Total Enterprise Funds	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>		
Cash Received from User Charges	\$ 83,225	\$ -
Cash Payments for Insurance Claims	-	(2,665)
Cash Payments for Suppliers	(47,341)	-
Cash Payments for Other Operating Expenses	(41,904)	-
Net Cash Provided by (Used for) Operating Activities	(6,020)	(2,665)
<u>Cash Flows from Investing Activities:</u>		
Interest and Dividends on Investments	343	132
Net Increase(Decrease) in Cash and Cash Equivalents	(5,677)	(2,533)
Cash and Cash Equivalents at Beginning of the Year:	38,984	15,237
Cash and Cash Equivalents at the End of the Year:	\$ 33,307	\$ 12,704
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>		
Operating Income (Loss):	\$ (6,020)	\$ (2,665)

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

HOCKLEY COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 11,261,357
Due from Fiduciary Funds	810,066
Total Assets	<u>\$ 12,071,423</u>
LIABILITIES	
Accounts Payable	\$ 605,601
Wages and Salaries Payable	11,023
Claims and Judgments Payable	63,023
Intergovernmental Payable	3,837,801
Due to Other Funds	6,332,775
Due to Fiduciary Funds	810,066
Due to Others	411,134
Total Liabilities	<u>\$ 12,071,423</u>

The accompanying notes are an integral part of this statement.

HOCKLEY COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hockley County, Texas (the "County") is a political subdivision and was created in 1921 under the provisions of the State of Texas. The County operates under an elected Commissioners Court form of government. The County's major operations include county road maintenance principally within the unincorporated areas of the County, law enforcement, court system maintenance and recording services, and health and social services.

The County prepares its basic financial statements in conformity with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB) as applicable to governments. The financial report has been prepared in accordance with GASB Statement No. 54 – ***Fund Balance Reporting and Governmental Fund Type Definitions***, issued in 2009 and implemented by the County in fiscal year 2011. The following is a summary of the more significant accounting policies the County utilizes to prepare its basic financial statements.

A. REPORTING ENTITY

The members of the County's Commissioners Court ("Court") are elected by the public, and the Court has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the County is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, *The Financial Reporting Entity*. Accounting principles generally accepted in the United States of America require that these financial statements present the County (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria; the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board) and the primary government is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government. The component unit discussed in this note is included in the County's reporting entity because of the significance of its operational or financial relationships with the County.

Blended Component Unit

Hockley County Industrial Development Corporation – the Corporation is a non-profit industrial development corporation of the State of Texas created with the approval of the Commissioners Court pursuant to the Development Corporation Act of 1979, as amended, for the purpose of promoting and developing industrial and manufacturing enterprises in order to eliminate unemployment and underemployment, and promoting and encouraging employment and the public welfare of, for, and on behalf of the County.

The Commissioners Court appoints all five Directors, and can remove them at will. The Court can also change the structure, organization, programs, or activities of the Corporation, and it may terminate or dissolve the Corporation. The Corporation was incorporated on January 30, 2004, and as of December 31, 2011, no financial transactions had taken place.

B. BASIS OF PRESENTATION

GOVERNMENT-WIDE STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of Hockley County, Texas' non-fiduciary activities. Eliminations have been made to minimize the duplication of internal activities. These statements distinguish between *Governmental activities*, which include programs supported primarily by taxes, intergovernmental revenues and other non-exchange transactions. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

HOCKLEY COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
YEAR ENDED DECEMBER 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

B. BASIS OF PRESENTATION (Cont.)

The Statement of Activities presents a comparison between expense and program revenues for each function of the County's governmental activities and for the business-type activities of the County. Direct expenses are those that specifically associate with a program or function and therefore are clearly identifiable to a particular function. Program revenues typically include a) fees, fines and charges paid by the recipients of goods or services offered by the programs and b) grants and contributions that are restricted to meeting the operational and capital requirements of a particular program. If revenues are not considered program revenues, they are considered general revenues used to support all of the County's functions. Taxes are always general revenues.

Interfund activities within governmental funds and between governmental and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and the Proprietary Fund Statement of Net Assets and as other resources and other uses on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets. All interfund transactions within governmental funds and between governmental and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as interfund transfers. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Net Assets.

FUND FINANCIAL STATEMENTS

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Remaining governmental funds, internal service funds and fiduciary funds are reported as nonmajor funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are non-operating.

The County reports the following major governmental funds:

General Fund – The General Fund is the County's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

I & S Multipurpose Events Center Debt Service Fund – The debt service fund accounts for the resources accumulated and payments made for principal and interest on the long-term debt associated with construction of the Mallet Multipurpose Events Center.

MPEC Construction Fund – The construction fund accounts for the financial resources used for the construction of the Mallet Multipurpose Events Center for the County.

Nonmajor Governmental funds are used to account for the County's expendable financial resources and related liabilities (except those accounted for in the proprietary funds). Currently, the County maintains several special revenue funds as nonmajor funds.

HOCKLEY COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
YEAR ENDED DECEMBER 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

B. BASIS OF PRESENTATION (Cont.)

The County reports the following fund types as Nonmajor governmental funds:

- a. **Special Revenue Funds** – The County accounts for resources restricted to, or designated for, specific purposes by the County or a grantor in special revenue funds. Some federal and state financial assistance is accounted for in special revenue funds, and sometimes unused balances must be returned to the grantor at the close of specified project periods. The County has twenty-three funds designated as special revenue funds.
- b. **Debt Service Funds** – The County accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in debt service funds. The County currently has two debt service funds. The Debt Service – MPEC Fund met the requirements of being a major fund for financial reporting purposes.
- c. **Capital Projects Funds** – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in capital projects funds. The County currently has one capital projects fund, the MPEC Construction Fund, and it is considered a major fund.

With the implementation of GASB 54, the County now reports fund balance of governmental funds in the following classifications depending on the relative strength of the spending constraints placed on the purpose for which resources can be used:

- a. **Nonspendable Fund Balance** – Represents the amount that cannot be spent because the assets are either not in a spendable form (such as inventory or prepaid insurance) or are legally required to remain intact (such as notes receivable or principal of a permanent fund).
- b. **Restricted Fund Balance** – Represents the amounts that are constrained by external parties, constitutional provisions or enabling legislation.
- c. **Committed Fund Balance** – Represents amounts that can only be used for a specific purpose because of a formal action by the County's Commissioners' Court. Committed amounts cannot be used for any other purpose unless the Commissioners' court removes the restrictions by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Commissioners' Court. Commitments are typically done through adoption and amendment of the budget. Committed fund balances amounts differ from restricted balances in that the constraints on the funds' usage is internally generated, rather than from external sources, constitutional provisions, or enabling legislation.
- d. **Assigned Fund Balance** – Represents amounts which the County intends to use for a specific purpose but does not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Commissioners' Court or by an official or body to which the Commissioners' Court delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of the amounts is for a specific purpose that is narrower than the general purpose of the County itself. The Commissioners have not yet delegated authority to assign fund balance amounts to a specific individual.
- e. **Unassigned Fund Balance** – Represents amounts which are unconstrained in that they may be spent for any purpose. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative fund balance in this classification because of overspending for specific purposes for which amounts have been restricted, committed or assigned.

HOCKLEY COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
YEAR ENDED DECEMBER 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

B. BASIS OF PRESENTATION (Cont.)

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the County considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the County considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Governmental Funds with Deficit Fund Balances – While the total fund balance is not in a deficit position, the County has funds with deficit fund balances as of December 31, 2011: Indigent Health Care Fund (\$13,980), Mallet MPEC Operating Fund (\$111,090)

Proprietary funds are used to account for activities that are similar to those often found in the private sector. Currently, the County reports two enterprise funds and one internal service fund as its proprietary funds. None of these funds are considered major funds. The enterprise funds are used to account for services and supplies provided to the inmates of the County's jail. The internal service fund accounts for medical care provided to the employees of the County. These funds are intended to be entirely or predominantly self-supported through user charges to customers.

Proprietary Funds:

- a. **Enterprise Funds** – The County's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in enterprise funds. The County has two enterprise funds.
- b. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the County on a cost reimbursement basis are accounted for in internal service funds. The County currently has one internal service fund.

Hockley County has adopted the provisions of Statement 34 of the Governmental Accounting Standards Board - *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* (GASB 34). This statement established standards for external financial reporting for all state and local government entities, which includes statements of net assets, revenues, expenses and changes in net assets, and a direct method of for the statement of cash flows for proprietary funds. GASB 34 requires the classification of net assets into three components – invested in capital asset, net of related debt, restricted, and unrestricted. These components are reported in the proprietary fund financial statements as well in the government-wide financial statements. These classifications are defined as follows:

1. **Invested in Capital Assets, Net of Related Debt** - This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributed to the acquisition, construction, or improvement of the capital assets.
2. **Restricted** – This component consists of net assets which are restricted through external constraints either by creditors, grantors, contributors, laws or regulations of other governments, or through constitutional provisions or enabling legislation.
3. **Unrestricted** - This component consists of the net assets which do not meet the definition of the first two categories.

Additionally, the County maintains and reports the following fiduciary funds.

Agency Funds – The County accounts for resources held in a custodial capacity in agency funds. This includes amounts received for County operations but not transferred to the governmental funds. The County has twenty-three agency funds.

HOCKLEY COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
YEAR ENDED DECEMBER 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The County considers all revenues available if they are collectible within 60 days after year end. Revenues not considered available are recorded as deferred revenues. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are only recorded when payment is due.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the state are recognized under the "susceptible to accrual" concept. In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one type, monies are expended on the specific purpose or project before any amounts will be paid to the County; therefore, revenues are recognized based upon the expenditures incurred. In the other type, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible-to-accrual criteria are met.

Property taxes are recognized as revenue in the year for which the taxes are levied if they will be collected within 60 days of the end of the fiscal year. Sales tax, fines and forfeitures, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the County to refund all or part of the unused amount.

The proprietary fund types and fiduciary funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable.

Pursuant to GASB Statement No. 20, the County applies all GASB pronouncements as well as all Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

HOCKLEY COUNTY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 YEAR ENDED DECEMBER 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the County considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the General Fund. All appropriations lapse at the end of each fiscal year, and encumbrances outstanding at that time are either cancelled or appropriately provided for in the subsequent year's budget. Encumbrances do not constitute expenditures or liabilities.
3. 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 assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.
4. In the fund financial statements, governmental fund types 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.
5. Capital assets, which include land, buildings, furniture, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial individual cost of more than; \$5,000 for equipment and machinery; \$100,000 for buildings (and building improvements) and infrastructure; and an estimated useful life in excess of two years. Land is always capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Buildings, furniture, and equipment of the County are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	40
Building Improvements	15-25
Infrastructure	20-25
Vehicles	5
Office Equipment	5-10
Machinery & Equipment	5-30
Water Rights	12-40

HOCKLEY COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
YEAR ENDED DECEMBER 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. OTHER ACCOUNTING POLICIES (Cont.)

6. Since internal service funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the County as a whole.
7. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
8. County employees are entitled to certain compensated absences based on their length of employment. Except for extenuating circumstances, compensated absences do not vest or accumulate and are recorded as expenditures when they are paid.
9. When the County incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
10. Any inventory or materials and supplies on hand at year-end are considered insignificant, and, therefore, not reflected in the financial statements. A small inventory of food and supplies is kept for the inmates in the Sheriff's Commissary Fund.
11. The County is exposed to various risks of loss related to torts; errors and omissions; violations of civil rights; theft of, damage to, and destruction of assets; natural disasters; injuries to employees; and other claims of various natures. The County participates in the Texas Association of Counties Intergovernmental Risk Pool (TAC Pool) which provides protection for risks of loss. TAC Pool was established by the Texas Association of Counties to provide self-insurance for its members and to obtain lower costs for insurance. The County pays annual premiums for liability, property, workers' compensation, and unemployment coverage. Annual contribution rates are determined by the TAC Pool Board. Such rates are estimated to include all claims expected to occur during the policy period, including claims incurred but not reported. TAC Pool has established Claims Reserves for each of the types of insurance offered. Thus, although TAC Pool is a self-insured risk pool, members are not contingently liable for claims filed above the amount of the fixed annual contributions and the member's policies' deductibles. If losses incurred are significantly higher than actuarially estimated, TAC Pool adjusts the contribution rate for subsequent years. Members are also entitled to returns of contributions if actual results are more favorable than estimated.

Any losses reported but unsettled or incurred and not reported are believed to be insignificant to the County's basic financial statements.

TAC Pool also makes available to the County loss control services to assist the County in following a plan of loss control that may result in reduced losses. The County agrees that it will cooperate in instituting any and all reasonable loss control recommendations made by TAC Pool.

For the year ended December 31, 2011, the County contributed \$85,877 for its property, liability, workers' compensation, and unemployment coverage.

The County also carries insurance on most other risks of loss including employee health and accident insurance and surety bond coverage. The County does retain the risk on automobile physical damage.

No significant reductions in insurance coverage occurred in the past fiscal year, and settled claims have not exceeded insurance coverage in any of the past three fiscal years.

HOCKLEY COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
YEAR ENDED DECEMBER 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. OTHER ACCOUNTING POLICIES (Cont.)

12. FASB ASC 855-10-50-1 requires reporting entities to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or available to be issued. Management has evaluated subsequent events through December 26, 2012, the date the financial statements were available to be issued.

BUDGETARY DATA

The State of Texas requires annual budgets to be prepared for the general and special revenue funds. The budgets are prepared on the cash basis (budget basis) in order to comply with the Constitution of the State of Texas. The County Commissioners Court, on a departmental basis, exercises budgetary controls over expenditures. The actual results of operations for the County's General Fund are presented in Exhibit G-1 in accordance with the budget (cash) basis to provide a meaningful comparison of actual results with the original and final budget. The differences between the cash basis (budget basis) and the modified accrual basis (generally accepted accounting principles [GAAP] basis) are that revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP) and expenditures are recorded when paid (budget) as opposed to when incurred (GAAP).

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

1. As required by the State of Texas, the County Judge, with the assistance of the County Auditor, prepares an annual budget prior to the beginning of the fiscal year. Budgeted funds include the general and special revenue funds.
2. The budget is filed in the County Clerk's office and is open to public inspection. The Commissioners Court is required to hold at least one public hearing on the budget no less than 15 days subsequent to the filing by the County Judge.
3. The budget is then adopted at the conclusion of the last public hearing by the favorable votes of a majority of the members of the Commissioners Court. The original budget was adopted by the Commissioners Court on September 7, 2010, in accordance with the above process. The final fiscal 2011 budget revision was adopted by the Commissioners Court on December 13, 2011.
4. The Commissioners Court approves all revisions of the budget, including transfers of budgeted amounts between departments within a specific fund, transfers between funds, and increases to total expenditures of any fund.
5. The fiscal 2011 budget was prepared on the cash basis using estimated beginning and ending cash balances. There is not a significant difference in the budgeted revenues and expenditures between the cash basis and the modified accrual basis.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

A. DEPOSITS AND INVESTMENTS

County Policies and Legal and Contractual Provisions Governing Deposits:

Custodial Credit Risk for Deposits – State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. The County is in compliance with this law.

HOCKLEY COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
YEAR ENDED DECEMBER 31, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

A. DEPOSITS AND INVESTMENTS (Cont.)

In accordance with the FDIC, funds owned by the County are public unit deposits. Time deposits, savings deposits and interest bearing NOW accounts of a public unit held at a financial institution will be insured up to \$250,000 in aggregate and separate from the unlimited coverage for public unit demand deposits held at the same institution through December, 2012, at which time the coverage will revert back to \$100,000. Of the County's deposits at December 31, 2011, all deposits were covered by either the federal depository insurance or the financial institution's pledged collateral, and were not subject to custodial credit risk.

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the County to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the County to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act.

The County is in compliance with the requirements of the Act and with local policies.

Any investments by the County in investment pools are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form. As of December 31, 2011, the County has no amounts invested in certificates of deposit or investment pools. All of the County's funds are in depository accounts, although some accounts do earn interest.

Additional policies and contractual provisions governing deposits and investments for Hockley County, Texas are specified below:

Credit Risk – To limit the risk that an insurer or other counter-party to an investment will not fulfill its obligations, the County limits investments in commercial paper, corporate bonds, and mutual bond funds to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of December 31, 2011, the County's investments were rated AAA or higher by Standard & Poor's.

Custodial Credit Risk for Investments – To limit the risk that, in the event of the failure of the counter-party to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party, the County requires counter-parties to register the securities in the name of the County and hand them over to the County or its designated agent. This includes securities in securities lending transactions. All of the securities are in the County's name and held by the County's agent.

HOCKLEY COUNTY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 YEAR ENDED DECEMBER 31, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

County Policies and Legal and Contractual Provisions Governing Investments (Cont.):

Concentration of Credit Risk – To limit the risk of loss attributed to the magnitude of a government’s investment in a single issuer, the County limits investments in a single issuer to less than 5% of its total investments. The County further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate nonmajor funds, and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk – To limit the risk that changes in interest rates will adversely affect the fair value of investments, the County requires the investment portfolio to have maturities of one year or less.

B. RESTRICTED CASH

Under the normal course of conducting its activities, Hockley County will become the custodian of funds that can only be paid on behalf of, for, or to certain third-party beneficiaries. These funds are held in either bank accounts or short-term certificates of deposit until use of the funds is required. As of December 31, 2011, Hockley County had restricted cash in the amount of \$329,176 that was payable to third-party beneficiaries.

C. CAPITAL ASSET ACTIVITY

Capital asset activity for the County for the year ended December 31, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	\$ 295,729	\$ -	\$ -	\$ 295,729
Infrastructure	4,844,245	79,514	-	4,923,759
Buildings	18,952,344	227,626	-	19,179,970
Machinery and Equipment	4,931,088	1,110,559	(868,357)	5,173,290
Vehicles	2,177,981	213,932	(245,043)	2,146,870
Construction in Progress	<u>559,246</u>	<u>13,764,406</u>	<u>-</u>	<u>14,323,652</u>
Totals at Historic Cost	<u>31,760,633</u>	<u>15,396,037</u>	<u>(1,113,400)</u>	<u>46,043,270</u>
Less Accumulated Depreciation:				
Infrastructure – Roads	(4,844,245)	(1,993)	-	(4,846,238)
Buildings	(15,721,645)	(205,025)	-	(15,926,670)
Machinery and Equipment	(1,802,100)	(364,500)	402,848	(1,763,752)
Vehicles	<u>(1,689,520)</u>	<u>(150,150)</u>	<u>232,816</u>	<u>(1,606,854)</u>
Total Accumulated Depreciation	<u>(24,057,510)</u>	<u>(721,668)</u>	<u>635,664</u>	<u>(24,143,514)</u>
Governmental Activities Capital Assets, Net	<u>\$ 7,703,123</u>	<u>\$ 14,674,369</u>	<u>\$ (477,736)</u>	<u>\$ 21,899,756</u>

Hockley County traded in several pieces of equipment throughout the year with an aggregate initial cost of \$262,086, and having an aggregate book value of \$130,456 at the time of the trade-in. This remaining book value was added back to the basis of the new equipment and will be depreciated over the life of the equipment.

Committed Funds – Hockley County has committed an additional \$620,403 in fiscal 2012 to complete construction of the Mallet Multi-purpose Event Center. The event center is slated to open in the Spring of 2012.

HOCKLEY COUNTY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 YEAR ENDED DECEMBER 31, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

C. CAPITAL ASSET ACTIVITY (Cont.)

Depreciation expense for governmental activities is charged to functions as follows:

General Government	\$ 325,378
Public Safety	93,727
Highways and Streets	281,782
Culture and Recreation	<u>20,781</u>
Total	<u>\$ 721,668</u>

Hockley County's business-type activities had no capital assets as of December 31, 2011.

D. INTERFUND BALANCES AND TRANSFERS

Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved. Reimbursements from one fund to another for expenditures or expenses already made are recorded as expenditures or expenses in the reimbursing fund. Non-recurring or non-routine transfers of equity between funds are treated as residual equity transfers and are reported as additions to or deductions from the fund balance of governmental funds. All other transfers are treated as operating transfers and are included in the results of operations of the governmental funds.

The County had the following interfund balances as of the end of the year:

Fund	Due From	Due To
<u>General Fund</u>		
Agency Funds	\$ 4,522,326	\$ -
 <u>Nonmajor Governmental Funds</u>		
Agency Funds	1,699,492	-
 <u>Debt Service Funds</u>		
Agency Funds	110,958	-
 <u>Agency Funds</u>		
General Fund	-	4,522,326
Nonmajor Governmental Funds	-	1,699,492
Debt Service Funds	-	110,958
Other Agency Funds	<u>810,066</u>	<u>810,066</u>
 Total All Funds	 <u>\$ 7,142,842</u>	 <u>\$ 7,142,842</u>

HOCKLEY COUNTY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 YEAR ENDED DECEMBER 31, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

D. INTERFUND BALANCES AND TRANSFERS (Cont.)

The County had the following permanent transfers during the year:

Fund	Transfers In	Transfers Out
<u>General Fund</u>		
General Fund	\$ 40,000	\$ -
Nonmajor Special Revenue Funds	-	40,000
<u>Capital Projects Fund</u>		
Permanent Improvement Fund	-	850,000
<u>Debit Service Fund</u>		
MPEC Construction Fund	<u>850,000</u>	<u>-</u>
Total All Funds	<u>\$ 890,000</u>	<u>\$ 890,000</u>

E. BOND INDEBTEDNESS

The citizens of Hockley County, Texas on May 9, 2009 passed by a majority vote of the participating voters a \$14,515,000 General Obligation Bond, Series 2009 for the construction and equipping of a County multipurpose events center. The bonds were issued pursuant to the Constitution and general laws of the State of Texas (the State) including particularly Subchapter B of Chapter 1473, Texas Government Code, as amended. The bonds were sold September 3, 2009 with an interest cost of 3.04%. The bonds are payable over a ten year period beginning February 15, 2011 and maturing February 15, 2019. The \$182,190 in bond issuance costs and \$(668,016) in bond premiums are being amortized on a straight-line basis over the life of the bonds. The amount of debt service due within one year, the remaining debt service requirements and amortization recognition are as follows:

Year Ending December 31,	Principal	Interest	Total Debt Service	Bond Issuance Costs	Bond Premium	Net Adjustment
2012	\$ 1,305,000	\$ 456,900	\$ 1,761,900	\$ 19,262	\$ (70,627)	\$ (51,365)
2013	1,360,000	403,600	1,763,600	19,262	(70,627)	(51,365)
2014	1,415,000	348,100	1,763,100	19,262	(70,627)	(51,365)
2015	1,475,000	290,300	1,765,300	19,262	(70,627)	(51,365)
2016	1,535,000	230,100	1,765,100	19,262	(70,627)	(51,365)
2017-2019	<u>4,985,000</u>	<u>304,500</u>	<u>5,289,500</u>	<u>40,935</u>	<u>(150,085)</u>	<u>(109,150)</u>
Totals	<u>\$ 12,075,000</u>	<u>\$ 2,033,500</u>	<u>\$ 14,108,500</u>	<u>\$ 137,245</u>	<u>\$ (503,220)</u>	<u>\$ (365,975)</u>

F. LEASES

The County did not have any capital leases as of December 31, 2011. The County leases multiple office equipment for several departments under an operating lease which renews biannually. The County pays \$3,243 monthly lease payments for the equipment. Total payments for 2011 were approximately \$38,916, with approximately \$38,916 due in 2012.

HOCKLEY COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
YEAR ENDED DECEMBER 31, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

G. PROPERTY TAXES

In accordance with state law, all appraisals of County property for tax purposes are made by the county-wide appraisal authority, Hockley County Appraisal District. Assessed values are based upon 100 percent of appraised market value and are reviewed every three years. Taxpayers have the right to challenge the assessed value.

The County's property taxes are levied each October 1 based upon 100 percent of the assessed value listed as of the prior January 1 for all real and business personal property located in the County in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property by state law to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the County's fiscal year.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General Fund, the special revenue funds, and the debt service funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the County is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

The County's fiscal year is the calendar year, while the tax years have a September 30th year end. This overlap in fiscal year requires the County to recognize the 2011 tax levy as income for government-wide financial statement purposes under the full accrual basis of accounting, but only recognize what is collected during the fiscal year as revenue for the governmental fund financial statements. The remainder of the 2011 tax levy is reported as a tax receivable and deferred revenue in the governmental funds.

The tax rates for the 2011 fiscal year (2011 and 2010 tax levies) are \$0.30680 and \$0.28870 per \$100 assessed value for County operations, respectively. The County assessed an additional \$0.04970 and \$0.04772, respectively for the construction of a multipurpose events center. The maximum allowable tax rate for the County is \$1.10 for each \$100 assessed value. The County is subject to a tax rate rollback if the total amount of property taxes imposed in any year, as defined by statute, exceeds the total amount of property taxes imposed in the preceding year, as defined by statute, by 8%.

The original appraised taxable values upon which the 2011 and 2010 tax levies are based are \$3,623,455,322 and \$3,758,901,283, respectively, resulting in tax levies of \$12,917,925 and \$12,645,493, respectively. The County has collected approximately 34% and 98% of the tax levies, respectively.

Concentration of Risk – A significant percentage of the County's property tax revenue comes from the oil and gas industry. Should the industry suffer another decline in production, the County's revenue and resulting services may be severely impacted.

H. FEDERAL AND STATE AWARDS

The County had \$14,872 in expenditures of Federal awards and \$30,127 in state awards for the year ended December 31, 2011. Since the Federal expenditures did not exceed \$500,000, the County is not subject to the Federal Single Audit as described in the U.S. Office of Management and Budget (OMB) Circular A-133.

HOCKLEY COUNTY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 YEAR ENDED DECEMBER 31, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

H. FEDERAL AND STATE AWARDS (Cont.)

Contingency Risk - As a condition for the County to participate in Federally-assisted programs and grants, the County is required to comply with specific terms and agreements, as well as applicable federal and state laws and regulations. Such compliance is subject to review and audit by the grantors and their representatives. In the opinion of management, the County has complied with all requirements. However, since such programs are subject to future audit or review, the possibility of disallowed expenditures exists. In the event of such disallowance of claimed expenditures, the County expects the resulting liability to be immaterial.

The Federal and state award detail and expenditures were as follows:

Project/Grant Number	CFDA No.	Program Title	Federal Expenditures	State Expenditures
78585	39.011	Help America Vote Act – Education	\$ 12,430	\$ -
77405	90.481	Help America Vote Act – General Compliance	2,442	-
442-11835	N/A	Lone Star Library Grant	-	5,356
908210	N/A	Texas VINE Grant	-	6,874
2011-AP-BX-0468	N/A	SCAAP Grant	-	1,180
212-08-110	N/A	Texas Task Force on Indigent Defense	-	16,717
			<u>\$ 14,872</u>	<u>\$ 30,127</u>

I. EMPLOYEE DEFERRED COMPENSATION PLAN

The employees of Hockley County also participate in a deferred compensation plan administrated by Nationwide Retirement Solutions. The County does not contribute to the plan. One of the County employees was participating in the plan at the end of 2011.

Net Assets Available for Participants \$ 59,538

J. MEDICAL/HEALTH CARE COVERAGE – SELF-INSURANCE FUND

The County utilized an internal service fund to account for its medical self-insurance program until June 1, 2006. The purpose of this fund was to pay medical insurance claims of the County employees and their covered dependents and minimize the total costs of annual insurance to the County. Employees who had met the requirements necessary to be classified as “fully vested” remained on the medical and health plan for life, while employees not “fully vested” were eligible to remain on the medical and health plan in accordance with laws established by COBRA. Such laws provide different time limits depending on whether the employment separation was due to voluntary or involuntary termination.

A private insurance carrier determined premium payments to be made by the County. Any dependent coverage was funded by charges to employees. Annual claims were paid from accumulated premium payments, and claims exceeding specified limits are paid by the private insurance carrier.

Beginning June 1, 2006, the County discontinued the self-insurance fund and converted to Blue Cross Blue Shield of Texas for health insurance benefits. The Texas Association of Counties Health Benefits Department serves as plan administrator. The County pays premiums for full-time employees. Employees may add spouses and children and pay premiums through payroll deductions. For the calendar year 2011, the County paid approximately \$1,640,563 for health insurance.

HOCKLEY COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
YEAR ENDED DECEMBER 31, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

J. MEDICAL/HEALTH CARE COVERAGE – SELF-INSURANCE FUND (Cont.)

The internal service fund is still active to account for any pending claims under the old self-insurance program. Activity for the 2011 fiscal year reported \$2,665 in expenditures and \$152 in interest income in the fund. The fund has a cash balance of \$12,704 at December 31, 2011.

E. PENSION PLAN

Hockley County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined pension plan through the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system, consisting of 624 nontraditional defined pension plans from various county and district governmental entities statewide. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon request through TCDRS, PO Box 2034, Austin, TX 79768-2034, or through the www.tcdrs.org website.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at age 60 or above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of the member's age and years of service equal 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed contributions. Members who withdraw their personal contributions in a lump sum prior to retirement are not entitled to the employer contributions.

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

Funding Status and Funding Progress – As of December 31, 2011, the most recent actuarial valuation date for Hockley County, the plan was 77.85% funded. The actuarial accrued liability for benefits was \$14,205,124, and actuarial value of the assets was \$11,058,307, resulting in an unfunded actuarial accrued liability of \$3,146,817. Covered payroll for the County was \$4,282,416 and the ratio of unfunded actuarial accrued liability to covered payroll was 73.48%

The deposit rate for the employer is 12.97% for the 2011 calendar year while employee members' rate is 7% for the 2011 calendar year, as adopted by Hockley County Commissioners Court. The employee and/or employer contribution rate may be changed by the Commissioners to other options as allowed by the TCDRS Act.

Annual Pension Cost - The required contribution was determined as part of the December 31, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2011 include an 8% investment return and a 5.4% projected salary increase. Both assumptions include a 3.5% inflationary adjustment component. The actuarial value of the plan assets is determined using techniques that spread the effects of short-term market volatility over a ten-year period. The unfunded actuarial accrued liability is amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period as of December 31, 2011 was 20 years.

Optional Group Term Life Fund – Hockley County participates in the Optional Group Term Life Fund (OGTLF), which is a cost-sharing, multiple employer defined group term life insurance plan operated by TCDRS. This is a separate trust administered by the TCDRS Board of Trustees, and is included in TCDRS' publicly-available CAFR.

HOCKLEY COUNTY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 YEAR ENDED DECEMBER 31, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

E. PENSION PLAN (Cont.)

The County elected to provide group-term life insurance coverage for its employees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculations are based on the employee's actual earnings for the 12 months preceding the month of death). Retired employees are insured for \$5,000.

OGTLF Funding Policy - The County contributed monthly to the OGTLF at a contractually required rate as determined by an annual actuarial valuation. The rate is based on the mortality and service experience of all employees covered by the OGTLF and the demographics specific to the workforce of the County and is equal to the cost of providing one-year term life insurance. The funding policy for the OGTLF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year.

The TCDRS pension cost for all Hockley County employees for the fiscal year ending December 31, 2011 was approximately \$543,860. Supplemental death benefits paid by the County for the fiscal year 2011 were approximately \$11,562.

Historical information on actuarial valuation information, annual funding progress trends and annual pension costs are charted below.

ACTUARIAL VALUATION INFORMATION			
Actuarial Valuation Date	12/31/09	12/31/10	12/31/11
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Percentage of Payroll, Closed	Level Percentage of Payroll, Closed	Level Percentage of Payroll, Closed
Amortization Period	20 years	20 years	20 years
Asset Valuation Method	Subdivision Accum. Fund – 10 Year Smoothed Value; Employee Saving Fund – Fund Value	Subdivision Accum. Fund – 10 Year Smoothed Value; Employee Saving Fund – Fund Value	Subdivision Accum. Fund – 10 Year Smoothed Value; Employee Saving Fund – Fund Value
Actuarial Assumptions*:			
Investment Return	8.0%	8.0%	8.0%
Projected Salary Increases	5.4%	5.4%	5.4%
Inflation	3.5%	3.5%	3.5%
*Includes inflation at stated rate – no cost of living adjustments			

HOCKLEY COUNTY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 YEAR ENDED DECEMBER 31, 2011

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

E. PENSION PLAN (Cont.)

EMPLOYEES OF HOCKLEY COUNTY RETIREMENT PLAN SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/11	\$ 11,058,307	\$ 14,205,124	\$ 3,146,817	77.85%	\$ 4,282,416	73.48%
12/31/10	10,060,518	12,973,498	2,912,980	77.55%	3,992,088	72.97%
12/31/09	9,514,869	12,231,691	2,716,822	77.79%	3,922,802	69.26%
12/31/08	9,126,560	12,026,218	2,899,658	75.89	3,722,930	77.89%

EMPLOYEES OF HOCKLEY COUNTY RETIREMENT PLAN COST TREND INFORMATION

Fiscal Year Ending December 31,	Annual Pension Cost (APC)	Supplemental Death Benefit	APC Contribution Percentage	Remaining Net Pension Obligation
2011	\$ 543,860	\$ 11,562	100%	\$ -0-
2010	530,150	13,972	100%	-0-
2009	463,115	14,117	100%	-0-

REQUIRED SUPPLEMENTARY INFORMATION

HOCKLEY COUNTY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual Amounts (BUDGET BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
RECEIPTS:				
Taxes:				
Property Taxes	\$ 7,994,557	\$ 7,994,557	\$ 8,075,079	\$ 80,522
Licenses and Permits	-	-	1,107	1,107
Intergovernmental Revenue and Grants	7,000	7,000	41,304	34,304
Charges for Services	682,700	682,700	816,861	134,161
Investment Earnings	92,500	92,500	27,206	(65,294)
Rents and Royalties	303,000	303,000	396,900	93,900
Other Revenue	341,421	341,421	459,746	118,325
Total Receipts	9,421,178	9,421,178	9,818,203	397,025
DISBURSEMENTS:				
Current:				
General Government	5,828,848	5,827,920	5,048,594	779,326
Public Safety	2,947,073	2,919,147	2,822,651	96,496
Culture and Recreation	635,234	635,234	637,275	(2,041)
Capital Outlay:				
Capital Outlay	85,500	85,500	111,733	(26,233)
Total Disbursements	9,496,655	9,467,801	8,620,253	847,548
Excess (Deficiency) of Receipts Over (Under) Disbursements	(75,477)	(46,623)	1,197,950	1,244,573
OTHER FINANCING SOURCES (USES):				
Transfers In	2,861,898	2,861,898	2,861,898	-
Transfers Out (Use)	(2,821,898)	(2,821,898)	(2,821,898)	-
Total Other Financing Sources (Uses)	40,000	40,000	40,000	-
Net Change in Cash Balance	(35,477)	(6,623)	1,237,950	1,244,573
Cash Balance - January 1 (Beginning)	8,283,252	8,283,252	8,283,252	-
Cash Balance - December 31 (Ending)	\$ 8,247,775	\$ 8,276,629	\$ 9,521,202	\$ 1,244,573

HOCKLEY COUNTY
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - I&S MULTI PURPOSE EVENTS CENTER
 FOR THE YEAR ENDED DECEMBER 31, 2011

EXHIBIT G-2

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	BUDGET (See Note)	Final Budget Positive or (Negative)
RECEIPTS:				
Taxes:				
Property Taxes	\$ 1,763,100	\$ 1,763,100	\$ 1,771,125	\$ 8,025
Investment Earnings	-	-	3,065	3,065
Total Receipts	<u>1,763,100</u>	<u>1,763,100</u>	<u>1,774,190</u>	<u>11,090</u>
DISBURSEMENTS:				
Current:				
General Government	-	-	3,720	(3,720)
Debt Service:				
Bond Principal	1,255,000	1,255,000	1,255,000	-
Bond Interest	508,100	508,100	508,100	-
Total Disbursements	<u>1,763,100</u>	<u>1,763,100</u>	<u>1,766,820</u>	<u>(3,720)</u>
Change in Fund Balance	-	-	7,370	7,370
Fund Balance - January 1 (Beginning)	-	731,990	731,990	-
				-
Fund Balance - December 31 (Ending)	<u>\$ -</u>	<u>\$ 731,990</u>	<u>\$ 739,360</u>	<u>\$ 7,370</u>

HOCKLEY COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - MULTI PURPOSE EVENTS CENTER CONSTRUCTION
FOR THE YEAR ENDED DECEMBER 31, 2011

EXHIBIT G-3

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	BUDGET (See Note)	Final Budget Positive or (Negative)
RECEIPTS:				
Investment Earnings	\$ -	\$ -	\$ 63,798	\$ 63,798
Total Receipts	-	-	63,798	63,798
DISBURSEMENTS:				
Current:				
General Government	-	-	325,260	(325,260)
Capital Outlay:				
Capital Outlay	-	850,000	13,548,796	(12,698,796)
Total Disbursements	-	850,000	13,874,056	(13,024,056)
Excess (Deficiency) of Receipts Over (Under) Disbursements	-	(850,000)	(13,810,258)	(12,960,258)
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	850,000	850,000
Total Other Financing Sources (Uses)	-	-	850,000	850,000
Change in Fund Balance	-	(850,000)	(12,960,258)	(12,110,258)
Fund Balance - January 1 (Beginning)	-	13,694,981	13,694,981	-
	-	-	-	-
Fund Balance - December 31 (Ending)	\$ -	\$ 12,844,981	\$ 734,723	\$ (12,110,258)

OTHER SUPPLEMENTARY INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

HOCKLEY COUNTY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2011

	214 Indigent Health Care Fund	217 Jury Fund	221 Road and Bridge #1 Fund	222 Road and Bridge #2 Fund
ASSETS				
Cash and Cash Equivalents	\$ 4,017	\$ 165,817	\$ 118,884	\$ 375,584
Taxes Receivable	-	209,468	309,838	309,838
Allowance for Uncollectible Taxes (credit)	-	(18,568)	(27,466)	(27,467)
Due from Other Funds	-	162,352	277,990	277,990
Total Assets	<u>\$ 4,017</u>	<u>\$ 519,069</u>	<u>\$ 679,246</u>	<u>\$ 935,945</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 17,997	\$ 20,217	\$ 6,734	\$ 14,064
Deferred Revenues	-	190,899	282,372	282,372
Total Liabilities	<u>17,997</u>	<u>211,116</u>	<u>289,106</u>	<u>296,436</u>
Fund Balances:				
Committed Fund Balance:				
Retirement of Loans or Notes Payable	-	-	-	-
Assigned Fund Balance:				
Other Assigned Fund Balance	-	307,953	390,140	639,509
Unassigned Fund Balance	(13,980)	-	-	-
Total Fund Balances	<u>(13,980)</u>	<u>307,953</u>	<u>390,140</u>	<u>639,509</u>
Total Liabilities and Fund Balances	<u>\$ 4,017</u>	<u>\$ 519,069</u>	<u>\$ 679,246</u>	<u>\$ 935,945</u>

EXHIBIT H-1 (Cont'd)

223 Road and Bridge #3 Fund	224 Road and Bridge #4 Fund	225 Road and Bridge #5 Fund	230 Law Library Fund	235 Library Fund	239 District Clerk Preservation	240 County Clerk Preservation Fund	241 Records Management Office Fund
\$ 389,980	\$ 35,451	\$ 48,556	\$ 23,485	\$ 30,725	\$ 17,593	\$ 41,832	\$ 17,544
309,838	309,838	-	-	107,228	-	-	-
(27,467)	(27,464)	-	-	(9,505)	-	-	-
277,990	277,990	-	120	83,917	1,599	-	240
<u>\$ 950,341</u>	<u>\$ 595,815</u>	<u>\$ 48,556</u>	<u>\$ 23,605</u>	<u>\$ 212,365</u>	<u>\$ 19,192</u>	<u>\$ 41,832</u>	<u>\$ 17,784</u>
\$ 9,855	\$ 10,081	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
282,372	282,372	-	-	97,722	-	-	-
<u>292,227</u>	<u>292,453</u>	<u>-</u>	<u>-</u>	<u>97,722</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-	-
658,114	303,362	48,556	23,605	114,643	19,192	41,832	17,784
-	-	-	-	-	-	-	-
<u>658,114</u>	<u>303,362</u>	<u>48,556</u>	<u>23,605</u>	<u>114,643</u>	<u>19,192</u>	<u>41,832</u>	<u>17,784</u>
<u>\$ 950,341</u>	<u>\$ 595,815</u>	<u>\$ 48,556</u>	<u>\$ 23,605</u>	<u>\$ 212,365</u>	<u>\$ 19,192</u>	<u>\$ 41,832</u>	<u>\$ 17,784</u>

HOCKLEY COUNTY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2011

	243 Courthouse Security Fund	244 Court Technology Fund	270 Permanent Improvement Fund	271 Road Bond Fund
ASSETS				
Cash and Cash Equivalents	\$ 40,463	\$ 61,910	\$ 302,550	\$ 20,486
Taxes Receivable	-	-	413,948	-
Allowance for Uncollectible Taxes (credit)	-	-	(36,695)	-
Due from Other Funds	104	-	338,323	-
Total Assets	<u>\$ 40,567</u>	<u>\$ 61,910</u>	<u>\$ 1,018,126</u>	<u>\$ 20,486</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Deferred Revenues	-	-	377,254	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>377,254</u>	<u>-</u>
Fund Balances:				
Committed Fund Balance:				
Retirement of Loans or Notes Payable	-	-	-	-
Assigned Fund Balance:				
Other Assigned Fund Balance	40,567	61,910	640,872	20,486
Unassigned Fund Balance	-	-	-	-
Total Fund Balances	<u>40,567</u>	<u>61,910</u>	<u>640,872</u>	<u>20,486</u>
Total Liabilities and Fund Balances	<u>\$ 40,567</u>	<u>\$ 61,910</u>	<u>\$ 1,018,126</u>	<u>\$ 20,486</u>

EXHIBIT H-1 (Cont'd)

272 Mallet MPED Operating Fund	280 Farm to Market & Lateral Roads	282 District Attorney Forfeiture	289 District Attorney Proceeds Fund	294 County Attorney Restitution	295 District Attorney Restitution	296 CA Pre-Trial Diversion Fund	Total Nonmajor Special Revenue Funds
\$ 12,126	\$ 4,338	\$ 7,946	\$ 16,832	\$ 5,730	\$ 4,375	\$ 14,104	\$ 1,760,328
-	-	-	-	-	-	-	1,969,996
-	-	-	-	-	-	-	(174,632)
-	-	-	-	873	-	-	1,699,488
<u>\$ 12,126</u>	<u>\$ 4,338</u>	<u>\$ 7,946</u>	<u>\$ 16,832</u>	<u>\$ 6,603</u>	<u>\$ 4,375</u>	<u>\$ 14,104</u>	<u>\$ 5,255,180</u>
\$ 123,216	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 202,164
-	-	-	-	-	-	-	1,795,363
<u>123,216</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,997,527</u>
-	-	-	-	-	-	-	-
-	4,338	7,946	16,832	6,603	4,375	14,104	3,382,723
(111,090)	-	-	-	-	-	-	(125,070)
<u>(111,090)</u>	<u>4,338</u>	<u>7,946</u>	<u>16,832</u>	<u>6,603</u>	<u>4,375</u>	<u>14,104</u>	<u>3,257,653</u>
<u>\$ 12,126</u>	<u>\$ 4,338</u>	<u>\$ 7,946</u>	<u>\$ 16,832</u>	<u>\$ 6,603</u>	<u>\$ 4,375</u>	<u>\$ 14,104</u>	<u>\$ 5,255,180</u>

HOCKLEY COUNTY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	560 1998 I & S Hospital Fund	Total Nonmajor Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$ 36,511	\$ 1,796,839
Taxes Receivable	-	1,969,996
Allowance for Uncollectible Taxes (credit)	-	(174,632)
Due from Other Funds	-	1,699,488
Total Assets	<u>\$ 36,511</u>	<u>\$ 5,291,691</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts Payable	\$ -	\$ 202,164
Deferred Revenues	-	1,795,363
Total Liabilities	<u>-</u>	<u>1,997,527</u>
Fund Balances:		
Committed Fund Balance:		
Retirement of Loans or Notes Payable	36,511	36,511
Assigned Fund Balance:		
Other Assigned Fund Balance	-	3,382,723
Unassigned Fund Balance	-	(125,070)
Total Fund Balances	<u>36,511</u>	<u>3,294,164</u>
Total Liabilities and Fund Balances	<u>\$ 36,511</u>	<u>\$ 5,291,691</u>

HOCKLEY COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	214 Indigent Health Care Fund	217 Jury Fund	221 Road and Bridge #1 Fund	222 Road and Bridge #2 Fund
REVENUES:				
Taxes:				
Property Taxes	\$ -	\$ 298,966	\$ 445,410	\$ 445,410
Licenses and Permits	-	-	112,851	112,851
Intergovernmental Revenue and Grants	-	3,696	-	-
Charges for Services	220,000	363	-	-
Fines	-	-	9,828	9,828
Forfeits	-	-	-	-
Investment Earnings	172	1,781	2,172	3,544
Contributions & Donations from Private Sources	-	-	-	-
Other Revenue	3,133	5,542	168,216	168,417
Total Revenues	<u>223,305</u>	<u>310,348</u>	<u>738,477</u>	<u>740,050</u>
EXPENDITURES:				
Current:				
General Government	-	295,400	-	-
Public Safety	-	-	-	-
Highways and Streets	-	-	550,126	517,585
Health and Welfare	245,548	-	-	-
Culture and Recreation	-	-	-	-
Capital Outlay:				
Capital Outlay	-	-	230,746	216,875
Total Expenditures	<u>245,548</u>	<u>295,400</u>	<u>780,872</u>	<u>734,460</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(22,243)</u>	<u>14,948</u>	<u>(42,395)</u>	<u>5,590</u>
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	-	-	1,544	18,910
Transfers Out (Use)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>1,544</u>	<u>18,910</u>
Net Change in Fund Balance	(22,243)	14,948	(40,851)	24,500
Fund Balance - January 1 (Beginning)	<u>8,263</u>	<u>293,005</u>	<u>430,991</u>	<u>615,009</u>
Fund Balance - December 31 (Ending)	<u>\$ (13,980)</u>	<u>\$ 307,953</u>	<u>\$ 390,140</u>	<u>\$ 639,509</u>

223 Road and Bridge #3 Fund	224 Road and Bridge #4 Fund	225 Road and Bridge #5 Fund	230 Law Library Fund	235 Library Fund	239 District Clerk Preservation	240 County Clerk Preservation Fund	241 Records Management Office Fund
\$ 445,410	\$ 445,410	\$ -	\$ -	\$ 154,475	\$ -	\$ -	\$ -
112,851	112,851	-	-	-	-	-	-
-	-	-	-	-	-	-	-
9,828	9,828	84,462	3,360	1,157	4,705	53,701	8,593
-	-	-	-	1,308	-	-	-
3,912	1,117	681	220	608	163	324	170
-	-	-	-	1,554	-	-	-
170,393	63,985	-	-	-	-	-	-
<u>742,394</u>	<u>633,191</u>	<u>85,143</u>	<u>3,580</u>	<u>159,102</u>	<u>4,868</u>	<u>54,025</u>	<u>8,763</u>
-	-	-	-	-	-	40,070	7,783
-	-	-	-	-	-	-	-
399,288	437,382	63,884	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	1,115	156,499	-	-	-
507,956	224,821	-	-	-	-	-	-
<u>907,244</u>	<u>662,203</u>	<u>63,884</u>	<u>1,115</u>	<u>156,499</u>	<u>-</u>	<u>40,070</u>	<u>7,783</u>
<u>(164,850)</u>	<u>(29,012)</u>	<u>21,259</u>	<u>2,465</u>	<u>2,603</u>	<u>4,868</u>	<u>13,955</u>	<u>980</u>
87,390	27,623	-	-	-	-	-	-
-	-	(40,000)	-	-	-	-	-
<u>87,390</u>	<u>27,623</u>	<u>(40,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(77,460)	(1,389)	(18,741)	2,465	2,603	4,868	13,955	980
<u>735,574</u>	<u>304,751</u>	<u>67,297</u>	<u>21,140</u>	<u>112,040</u>	<u>14,324</u>	<u>27,877</u>	<u>16,804</u>
<u>\$ 658,114</u>	<u>\$ 303,362</u>	<u>\$ 48,556</u>	<u>\$ 23,605</u>	<u>\$ 114,643</u>	<u>\$ 19,192</u>	<u>\$ 41,832</u>	<u>\$ 17,784</u>

HOCKLEY COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	243 Courthouse Security Fund	244 Court Technology Fund	270 Permanent Improvement Fund	271 Road Bond Fund
REVENUES:				
Taxes:				
Property Taxes	\$ -	\$ -	\$ 623,000	\$ -
Licenses and Permits	-	-	-	-
Intergovernmental Revenue and Grants	-	-	-	-
Charges for Services	18,381	10,624	-	-
Fines	-	-	-	-
Forfeits	-	-	-	-
Investment Earnings	368	596	8,164	203
Contributions & Donations from Private Sources	-	-	-	-
Other Revenue	-	-	33,525	-
Total Revenues	18,749	11,220	664,689	203
EXPENDITURES:				
Current:				
General Government	15,028	6,747	27,712	-
Public Safety	-	-	-	-
Highways and Streets	-	-	-	-
Health and Welfare	-	-	-	-
Culture and Recreation	-	-	-	-
Capital Outlay:				
Capital Outlay	-	-	412,584	-
Total Expenditures	15,028	6,747	440,296	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,721	4,473	224,393	203
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	-	-	-	-
Transfers Out (Use)	-	-	(850,000)	-
Total Other Financing Sources (Uses)	-	-	(850,000)	-
Net Change in Fund Balance	3,721	4,473	(625,607)	203
Fund Balance - January 1 (Beginning)	36,846	57,437	1,266,479	20,283
Fund Balance - December 31 (Ending)	\$ 40,567	\$ 61,910	\$ 640,872	\$ 20,486

272 Mallet MPED Operating Fund	280 Farm to Market & Lateral Roads	282 District Attorney Forfeiture	289 District Attorney Proceeds Fund	294 County Attorney Restitution	295 District Attorney Restitution	296 CA Pre-Trial Diversion Fund	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,858,081
-	-	-	-	-	-	-	451,404
-	-	-	-	-	-	-	3,696
12,110	-	13,838	-	20,001	2,059	6,638	372,170
-	-	-	-	-	-	-	128,442
-	-	-	37,074	-	-	-	37,074
16	43	144	142	93	31	79	24,743
-	-	-	-	-	-	-	1,554
-	-	-	-	-	-	5,643	618,854
<u>12,126</u>	<u>43</u>	<u>13,982</u>	<u>37,216</u>	<u>20,094</u>	<u>2,090</u>	<u>12,360</u>	<u>4,496,018</u>
-	-	13,524	-	-	-	-	406,264
-	-	-	31,486	22,366	-	2,300	56,152
-	-	-	-	-	-	-	1,968,265
-	-	-	-	-	-	-	245,548
123,216	-	-	-	-	-	-	280,830
-	-	-	-	-	-	-	1,592,982
<u>123,216</u>	<u>-</u>	<u>13,524</u>	<u>31,486</u>	<u>22,366</u>	<u>-</u>	<u>2,300</u>	<u>4,550,041</u>
<u>(111,090)</u>	<u>43</u>	<u>458</u>	<u>5,730</u>	<u>(2,272)</u>	<u>2,090</u>	<u>10,060</u>	<u>(54,023)</u>
-	-	-	-	-	-	-	135,467
-	-	-	-	-	-	-	(890,000)
-	-	-	-	-	-	-	(754,533)
<u>(111,090)</u>	<u>43</u>	<u>458</u>	<u>5,730</u>	<u>(2,272)</u>	<u>2,090</u>	<u>10,060</u>	<u>(808,556)</u>
-	4,295	7,488	11,102	8,875	2,285	4,044	4,066,209
<u>\$ (111,090)</u>	<u>\$ 4,338</u>	<u>\$ 7,946</u>	<u>\$ 16,832</u>	<u>\$ 6,603</u>	<u>\$ 4,375</u>	<u>\$ 14,104</u>	<u>\$ 3,257,653</u>

HOCKLEY COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	560 1998 I & S Hospital Fund	Total Nonmajor Governmental Funds
REVENUES:		
Taxes:		
Property Taxes	\$ -	\$ 2,858,081
Licenses and Permits	-	451,404
Intergovernmental Revenue and Grants	-	3,696
Charges for Services	-	372,170
Fines	-	128,442
Forfeits	-	37,074
Investment Earnings	190	24,933
Contributions & Donations from Private Sources	-	1,554
Other Revenue	-	618,854
Total Revenues	<u>190</u>	<u>4,496,208</u>
EXPENDITURES:		
Current:		
General Government	-	406,264
Public Safety	-	56,152
Highways and Streets	-	1,968,265
Health and Welfare	-	245,548
Culture and Recreation	-	280,830
Capital Outlay:		
Capital Outlay	-	1,592,982
Total Expenditures	<u>-</u>	<u>4,550,041</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>190</u>	<u>(53,833)</u>
OTHER FINANCING SOURCES (USES):		
Sale of Real and Personal Property	-	135,467
Transfers Out (Use)	-	(890,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(754,533)</u>
Net Change in Fund Balance	190	(808,366)
Fund Balance - January 1 (Beginning)	<u>36,321</u>	<u>4,102,530</u>
Fund Balance - December 31 (Ending)	<u>\$ 36,511</u>	<u>\$ 3,294,164</u>

NON-MAJOR ENTERPRISE FUNDS

HOCKLEY COUNTY
 COMBINING STATEMENT OF NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 DECEMBER 31, 2011

	711	712	Total
	Sheriff's Commissary Fund	Inmate Trust Fund	Nonmajor Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 29,404	\$ 3,903	\$ 33,307
Total Assets	<u>29,404</u>	<u>3,903</u>	<u>33,307</u>
NET ASSETS			
Unrestricted Net Assets	29,404	3,903	33,307
Total Net Assets	<u>\$ 29,404</u>	<u>\$ 3,903</u>	<u>\$ 33,307</u>

HOCKLEY COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

EXHIBIT H-4

	711 Sheriff's Commissary Fund	712 Inmate Trust Fund	Total Nonmajor Enterprise Funds
OPERATING REVENUES:			
Charges for Services	\$ 3,077	\$ 80,148	\$ 83,225
Total Operating Revenues	<u>3,077</u>	<u>80,148</u>	<u>83,225</u>
OPERATING EXPENSES:			
Purchased Professional & Technical Services	-	39,668	39,668
Purchased Property Services	2,100	-	2,100
Other Operating Expenses	14	41,054	41,068
Supplies	6,409	-	6,409
Total Operating Expenses	<u>8,523</u>	<u>80,722</u>	<u>89,245</u>
Operating Income (Loss)	<u>(5,446)</u>	<u>(574)</u>	<u>(6,020)</u>
NON-OPERATING REVENUES (EXPENSES):			
Investment Earnings	324	19	343
Total Non-operating Revenue (Expenses)	<u>324</u>	<u>19</u>	<u>343</u>
Change in Net Assets	(5,122)	(555)	(5,677)
Total Net Assets - January 1 (Beginning)	<u>34,526</u>	<u>4,458</u>	<u>38,984</u>
Total Net Assets - December 31 (Ending)	<u>\$ 29,404</u>	<u>\$ 3,903</u>	<u>\$ 33,307</u>

HOCKLEY COUNTY
 COMBINING STATEMENT OF CASH FLOWS
 NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	711 Sheriff's Commissary Fund	712 Inmate Trust Fund	Total Nonmajor Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 3,077	\$ 80,148	\$ 83,225
Cash Payments for Suppliers	(7,673)	(39,668)	(47,341)
Cash Payments for Other Operating Expenses	(850)	(41,054)	(41,904)
Net Cash Provided by (Used for) Operating Activities	<u>(5,446)</u>	<u>(574)</u>	<u>(6,020)</u>
<u>Cash Flows from Investing Activities:</u>			
Interest and Dividends on Investments	<u>324</u>	<u>19</u>	<u>343</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(5,122)	(555)	(5,677)
Cash and Cash Equivalents at Beginning of the Year:	<u>34,526</u>	<u>4,458</u>	<u>38,984</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 29,404</u>	<u>\$ 3,903</u>	<u>\$ 33,307</u>

FIDUCIARY FUNDS

HOCKLEY COUNTY, TEXAS
 COMBINING BALANCE SHEET
 AGENCY FUNDS
 DECEMBER 31, 2011

	861	862	863	864
	J. P. Precinct #1	J. P. Precinct #2	J. P. Precinct #4	J. P. Precinct #5
<u>Assets</u>				
Cash and Cash Equivalents	\$ 4,023	\$ 2,041	\$ 948	\$ 20,835
Restricted Cash	-	-	-	823
Accounts Receivable	-	-	-	-
Due from General Fund	-	-	-	-
Due from Agency Funds	-	-	-	-
 TOTAL ASSETS	 <u>\$ 4,023</u>	 <u>\$ 2,041</u>	 <u>\$ 948</u>	 <u>\$ 21,658</u>
<u>Liabilities:</u>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Wages and Salaries Payable	-	-	-	-
Claims and Judgements Payable	-	-	-	823
Intergovernmental Payable	-	-	-	-
Due to Other Funds	4,023	2,041	948	20,835
Due to Fiduciary Funds	-	-	-	-
Due to Others	-	-	-	-
 TOTAL LIABILITIES	 <u>\$ 4,023</u>	 <u>\$ 2,041</u>	 <u>\$ 948</u>	 <u>\$ 21,658</u>

865	865	866	866	867	868
County Clerk	County Clerk Trusts	District Clerk	District Clerk Trusts	County Attorney Processing	District Attorney Trust
\$ 35,037	\$ -	\$ 229,845	\$ -	\$ 83,224	\$ 9,681
-	52,519	-	275,834	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 35,037</u>	<u>\$ 52,519</u>	<u>\$ 229,845</u>	<u>\$ 275,834</u>	<u>\$ 83,224</u>	<u>\$ 9,681</u>
\$ -	\$ -	\$ 217,827	\$ -	\$ 77,726	\$ -
-	-	-	-	-	-
-	52,519	-	-	-	9,681
35,037	-	2,795	-	-	-
-	-	9,223	-	5,498	-
-	-	-	-	-	-
-	-	-	275,834	-	-
<u>\$ 35,037</u>	<u>\$ 52,519</u>	<u>\$ 229,845</u>	<u>\$ 275,834</u>	<u>\$ 83,224</u>	<u>\$ 9,681</u>

HOCKLEY COUNTY, TEXAS
 COMBINING BALANCE SHEET (Cont.)
 AGENCY FUNDS
 DECEMBER 31, 2011

	845	860	869	870
	Sheriff's Bond Fund	Adult and Juvenile Probation	Sheriff's Work Release Program	Tax A/C Tax Account
<u>Assets</u>				
Cash and Cash Equivalents	\$ 41,909	\$ 240,932	\$ 1,487	\$ 4,319,862
Restricted Cash	-	-	-	
Accounts Receivable	-	-	-	
Due from General Fund	-	-	-	
Due from Agency Funds	-	-	-	91,774
TOTAL ASSETS	<u>\$ 41,909</u>	<u>\$ 240,932</u>	<u>\$ 1,487</u>	<u>\$ 4,411,636</u>
<u>Liabilities:</u>				
Accounts Payable	\$ 41,909	\$ 206,941	\$ -	\$ -
Wages and Salaries Payable	-	14	-	
Claims and Judgements Payable	-	-	-	-
Intergovernmental Payable	-	-	-	3,478,884
Due to Other Funds	-	33,977	1,487	110,958
Due to Fiduciary Funds	-	-	-	686,494
Due to Others	-	-	-	135,300
TOTAL LIABILITIES	<u>\$ 41,909</u>	<u>\$ 240,932</u>	<u>\$ 1,487</u>	<u>\$ 4,411,636</u>

HOCKLEY COUNTY, TEXAS
 COMBINING BALANCE SHEET (Cont.)
 AGENCY FUNDS
 DECEMBER 31, 2011

	816	842	871	872
	L.E.O.S.E.	Road and Bridge Extra Fee Account	Tax A/C Highway Account	Tax A/C Auto Registration
Assets				
Cash and Cash Equivalents	\$ 18,626	\$ 82,770	\$ 205,517	\$ 194,529
Restricted Cash	-	-	-	-
Accounts Receivable	-	-	-	-
Due from General Fund	-	-	-	-
Due from Agency Funds	-	19,429	1,899	10,470
TOTAL ASSETS	\$ 18,626	\$ 102,199	\$ 207,416	\$ 204,999
Liabilities:				
Accounts Payable	\$ 18,626	-	\$ 6,276	-
Wages and Salaries Payable	-	-	-	11,009
Claims and Judgements Payable	-	-	-	-
Intergovernmental Payable	-	-	188,990	167,132
Due to Other Funds	-	102,199	1,680	5,530
Due to Fiduciary Funds	-	-	10,470	21,328
Due to Others	-	-	-	-
TOTAL LIABILITIES	\$ 18,626	\$ 102,199	\$ 207,416	\$ 204,999

EXHIBIT H-6

873	874	875	876	877	Totals
Dealer Escrow Account	Tax A/C Office Expense	Sheriff's Fee Account	Auditor's Auto Registration Fund	Ad Valorem Tax Fund	
\$ 91,774	\$ 36,296	\$ 3,043	\$ 42,163	\$ 5,267,639	\$ 10,932,181
-	-	-	-	-	329,176
-	-	-	-	-	-
-	-	-	-	686,494	810,066
<u>\$ 91,774</u>	<u>\$ 36,296</u>	<u>\$ 3,043</u>	<u>\$ 42,163</u>	<u>\$ 5,954,133</u>	<u>\$ 12,071,423</u>
\$ -	\$ 36,296	\$ -	\$ -	\$ -	\$ 605,601
-	-	-	-	-	11,023
-	-	-	-	-	63,023
-	-	-	-	-	3,837,801
-	-	3,043	42,163	5,954,133	6,332,775
91,774	-	-	-	-	810,066
-	-	-	-	-	411,134
<u>\$ 91,774</u>	<u>\$ 36,296</u>	<u>\$ 3,043</u>	<u>\$ 42,163</u>	<u>\$ 5,954,133</u>	<u>\$ 12,071,423</u>

OTHER SCHEDULES

HOCKLEY COUNTY
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED DECEMBER 31, 2011

Last 10 Years Ended December 31	Tax Rates		Assessed/Appraised Value for Tax Purposes
	Maintenance	Debt Service	
2002	Various	Various	\$ Various
2003	0.36501	0.00000	1,609,381,900
2004	0.36247	0.00000	1,743,635,276
2005	0.32950	0.00000	2,234,039,102
2006	0.28950	0.00000	2,914,476,684
2007	0.28950	0.00000	2,986,760,970
2008	0.23950	0.00000	3,830,914,567
2009	0.28480	0.05503	3,427,470,541
2010	0.28870	0.04772	3,758,901,283
2011 (Fiscal year under audit)	0.30680	0.04970	3,623,455,322
1000	TOTALS		

Beginning Balance January 1, 2011	Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance December 31, 2011
\$ 63,702	\$ -	\$ 1,850	\$ -	\$ (10,317)	\$ 51,535
12,339	-	915	-	(112)	11,312
12,797	-	1,421	-	(183)	11,193
11,669	-	2,144	-	(72)	9,453
15,059	-	3,442	-	(98)	11,519
22,564	-	5,240	-	(715)	16,609
32,272	-	12,839	-	(994)	18,439
108,458	-	57,631	-	(4,179)	46,648
8,235,466	-	6,913,426	1,142,739	(995)	178,306
-	12,917,926	3,760,622	609,201	(13,206)	8,534,897
<u>\$ 8,514,326</u>	<u>\$ 12,917,926</u>	<u>\$ 10,759,530</u>	<u>\$ 1,751,940</u>	<u>\$ (30,871)</u>	<u>\$ 8,889,911</u>

HOCKLEY COUNTY, TEXAS
 RECONCILIATION OF CURRENT TAX COLLECTIONS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Taxes Assessed
2011 Assessed Tax Roll	\$ 12,917,926
Less: Adjustments	(25,259)
Plus: Supplements	12,053
2011 Adjusted Tax Roll	\$ 12,904,720
Less: Current Tax Collections	(4,369,823)
<i>Current Taxes Receivable</i>	\$ 8,534,896
 Percent of current taxes collected through December 31, 2011	 33.86%

HOCKLEY COUNTY, TEXAS
RECONCILIATION OF DELINQUENT TAX COLLECTIONS
FOR THE YEAR ENDED DECEMBER 31, 2011

Delinquent Taxes Receivable 01/01/2011		\$	278,542
Less: Adjustments			<u>(12,619)</u>
Adjusted Delinquent Tax Roll		\$	265,923
Plus: Taxes Transferred to Delinquent Roll 10/01/2011			
Current Taxes Receivable 01/01/2011	\$		8,235,466
Less: Tax Collections January through September, 2011			(8,029,569)
Less: Net Adjustments and Supplements			<u>495</u>
2009 Taxes Transferred to Delinquent Roll 10/01/2010			<u>206,392</u>
Available for Collection		\$	472,315
Less: Write-Offs per State Statutes			(1,749)
Less: Prior Year Refund Collections			(3,474)
Less: Tax Collections January through September, 2011			(74,864)
Less: Tax Collections October through December, 2011			<u>(37,214)</u>
<i>Delinquent Taxes Receivable 12/31/2011</i>		\$	<u><u>355,014</u></u>

HOCKLEY COUNTY, TEXAS
SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY
DECEMBER 31, 2011

Name of Depository	Pledged Collateral	Name and Location of Custodian	Fair Market Value December 31, 2011
AIM Bank	FNMA #994933 Matures 9/1/2023	Texas Independent Bankers Dallas, TX	\$ 2,021,948
AIM Bank	FNMA #MA0629 Matures 1/1/2021	Texas Independent Bankers Dallas, TX	4,328,717
AIM Bank	FNMA #AD7079 Matures 6/1/2025	Texas Independent Bankers Dallas, TX	3,181,501
AIM Bank	Federal Home Loan Line of Credit	FNMA Dallas, TX	10,000,000
Prosperity Bank	FFCB #31331YSV3 Matures 2/11/2015	Federal Reserve Bank Dallas, TX	2,186,520
Prosperity Bank	FHLB #3133XBYM1 Matures 6/12/2020	Federal Reserve Bank Dallas, TX	5,863,050
Prosperity Bank	FNMA #987206 Matures 7/1/2023	Federal Reserve Bank Dallas, TX	1,746,257
Prosperity Bank	FHLMC #J13273 Matures 10/1/2025	Federal Reserve Bank Dallas, TX	4,041,694
Prosperity Bank	FNMA #AB1773 Matures 11/1/2025	Federal Reserve Bank Dallas, TX	4,528,915
			<u>\$ 37,898,602</u>

HOCKLEY COUNTY, TEXAS
SCHEDULE OF INSURANCE COVERAGE
FOR THE YEAR ENDED DECEMBER 31, 2011

Company	Policy Number	Policy Period		Type of Insurance
		From	To	
Republic Entity	RPE-1000026-00	03/22/11	03/22/12	General Liability
Texas Association of Counties	AL 1100 2011 03 22	03/22/11	03/22/12	Liability, B.I.P.D., Uninsured, Underinsured
Republic Entity	RPE-1000026-00	03/22/11	03/22/12	Property Insurance
Texas Association of Counties	Po 1100 2011 03 22	03/22/11	03/22/12	Public Officials and Employee Liability
Republic Entity	LEL 19517212	03/22/11	03/22/12	Law Enforcement Liability Policy
Texas Association of Counties	APD 1100 2011 03 22	03/22/11	03/22/12	Juvenile Prob/Co Judge
Chubb Inland Marine Insurance	0664-04-25WUC	03/23/11	03/23/12	Comprehensive Property Damage/Per Accident
Republic Entity	MNP271298778	03/22/11	03/22/12	Terrorism Risk Insurance
Texas Association of Counties	1100	01/01/11	01/01/12	Worker's Compensation
Western Surety Company	18242784	01/12/11	01/12/12	Errors and Omissions
National District Attorneys Association	CEM 701	04/01/11	04/01/12	Professional Liability
TLIE Texas Lawyers Insurance	53094	12/6/2011	12/6/2012	Judge's Professional Liability

EXHIBIT J-5

Type of Coverage	Co-Insurance	Coverage Amount	Premium
Commercial General Personal and Advers. Injury Fire Damage		\$ 1,000,000	\$ 9,715
Auto Fleet		\$ 300,000 Per Endorsement	\$ 14,155
Fire, E. C., M. M., Van.	\$5,000 Deductible	\$ 33,019,258	\$ 60,456
Public Officials and Employees Liability	\$10,000 Deductible	\$ 2,000,000	\$ 9,471
Comprehensive Law Enforcement Liability	\$5,000 Deductible	\$ 2,000,000 2,000,000 Each Wrongful Act	\$ 33,275
Physical Damage, Collision	\$500 Deductible	\$ Damages	\$ 751
Computer and Printers Electronic Equipment	\$1,000 Deductible	\$ 442,973	\$ 5,050
Terrorism Risk	No Deductible	\$ 26,231,138	\$ 3,278
Employees	No Deductible	\$ Unlimited	\$ 61,500
Notary Public Comprehensive		\$ 20,000	\$ 422
Lawyers	\$5,000 Deductible	\$ 300,000	\$ 1,661
District Judge Liability	\$1,000 Deductible	\$ 1,000,000	\$ 1,500

HOCKLEY COUNTY, TEXAS
SURETY BOND SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011

Name	Policy Number	Effective Dates	
		Beginning	Ending
Barnett, J. L. "Whitey"	93QS20269F	01/01/09	01/01/13
Barnette, Linda	15865336	03/17/09	03/17/13
Beseda, David	15100738	02/08/08	02/08/12
Bohannon, Denise	14381676	01/01/11	01/01/15
Boudreaux, Jerry	15527700	12/31/10	12/31/12
Box, Gaynelle	15865332	01/01/08	Indefinite
Bramlett, Debra	69859987	02/16/05	Continuous
Burks, Wilburn	14381675	01/01/09	01/01/13
Cantwell, Amy	15863953	01/01/07	Indefinite
Caroland, Rita Kay	54939150	10/01/85	Continuous
Carter, Larry R.	LP01136526	01/01/11	01/01/15
Clevenger, Christy	70630162	01/01/09	01/01/13
Clevenger, Christy	70630153	01/01/09	01/01/13
Clevenger, Tommy	15863951	01/01/11	01/01/14
Coker, Bonnie Sue	tx357507	04/17/11	04/17/15
Conkin, Rita Diane	18262288	03/19/12	03/19/16
Daniel, Marilyn Kay	54939154	09/01/98	Continuous
Davis, Kevin	54939156	08/24/03	Indefinite
Dennis, Christopher	15865331	01/01/09	01/01/13
Dockery, Lora	68501272	06/06/08	06/06/09
Foster, Clyde J.	54939213	01/06/11	Continuous
Frescar, Mary	54939250	09/09/11	Continuous
Gipson, Yvonne L.	70468387	02/20/12	02/20/13
Goff, Gary	13032826	01/01/09	01/01/13
Gumula, Irene	15863952	01/01/11	01/01/15
Haston, Robyn	70878445	02/19/11	02/19/12
Henry, Melissa	15863955	01/01/07	Indefinite
Honesto, Nora	54939155	08/14/06	Continuous
Jeffcoat, Margret	POB2061566	08/31/06	08/31/12
Kinney, E. Jennifer	13748653	01/01/09	01/01/13
Latham, Robert Todd	13748652	01/01/09	01/01/13
McDaniel, Everett	1031273	09/29/11	09/29/15
Montez, Delia	15300272	05/12/11	Continuous
Moody, Paula	15865338	06/19/09	Continuous

Office	Bond Amount	Bonding Company
County Commissioner-Precinct #3	3,000.00	State Farm Fire & Casualty Co.
Hockley County Auditor	5,000.00	Western Surety Co.
Deputy Sheriff	2,000.00	Western Surety Co.
Hockley County Treasurer	10,000.00	Western Surety Co.
Justice of the Peace - Precinct #5	5,000.00	Western Surety Co.
Deputy Clerk	40,000.00	Western Surety Co.
Deputy Tax Assessor-Collector	10,000.00	Western Surety Co.
Constable - Precinct #1	1,000.00	Western Surety Co.
Deputy Clerk	40,000.00	Western Surety Co.
District Attorney Clerk	5,000.00	Western Surety Co.
County Commissioner - Precinct #2	3,000.00	Old Republic Surety Co.
Tax Assessor-Collector	\$ 100,000.00	Western Surety Co.
Tax Assessor-Collector	100,000.00	Western Surety Co.
County Commissioner - Precinct #4	3,000.00	Western Surety Co.
Justice of the Peace - Precinct #1	10,000.00	Merchants Bonding Co.
Justice of the Peace - Precinct #4	1,000.00	Western Surety Co.
Librarian	5,000.00	Western Surety Co.
Hockley County Sheriff	5,000.00	Western Surety Co.
County Attorney	2,500.00	Western Surety Co.
Deputy Tax Assessor-Collector	10,000.00	Western Surety Co.
Special Investigator	10,000.00	Western Surety Co.
Deputy Clerk	40,000.00	Western Surety Co.
Deputy Tax Assessor-Collector	10,000.00	Western Surety Co.
Hockley County District Attorney	5,000.00	Western Surety Co.
Hockley County Clerk	40,000.00	Western Surety Co.
Deputy Tax Assessor-Collector	10,000.00	Western Surety Co.
Deputy Clerk	40,000.00	Western Surety Co.
Library Assistant	5,000.00	Western Surety Co.
Reserve Deputy	2,000.00	Old Republic Surety Co.
Constable - Precinct #4	1,000.00	Western Surety Co.
Constable - Precinct #5	1,000.00	Western Surety Co.
Constable - Precinct #2	1,000.00	Trinity Universal Insurance Co.
Deputy Tax Assessor-Collector	10,000.00	Western Surety Co.
Justice of the Peace #5 Clerk	5,000.00	Western Surety Co.

HOCKLEY COUNTY, TEXAS
 SURETY BOND SCHEDULE
 FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Name</u>	<u>Policy Number</u>	<u>Effective Dates</u>	
		<u>Beginning</u>	<u>Ending</u>
Moran, Gary	54939157	02/01/07	Indefinite
Nock, Brenda	15865337	06/19/09	Continuous
Patterson, Teresa	54939159	12/16/09	Continuous
Price, Dennis	14381670	01/01/11	01/01/15
Quintanilla, Veronica	54939151	04/24/02	Continuous
Rumbaugh, Gale	15863954	01/01/07	Indefinite
Salazar, Janie	15863956	01/01/07	Indefinite
Scarborough, Paul D.	54939255	09/01/09	Continuous
Schulle, Stacy	15865339	07/01/94	Continuous
Scott, Wendy	54939251	09/13/11	Continuous
Sehon, Linda	14383630	11/29/05	Continuous
Shaheen, Ferris E.	15262617	02/25/09	02/25/13
Smart, Cheryl	71165526	09/09/11	09/09/12
Sprowls, Larry D.	13739188	01/01/11	01/01/14
Thrash, Curtis	POB2104895	01/01/11	01/01/13
Trull, Charlotte	15865334	01/01/11	01/01/13
Willmon, Debra	54939153	06/01/91	Continuous

<u>Office</u>	<u>Bond Amount</u>	<u>Bonding Company</u>
Narcotics Investigator	10,000.00	Western Surety Co.
Justice/Peace #5 Clerk/Reserve Deputy	5,000.00	Western Surety Co.
Chief Deputy Treasurer	10,000.00	Western Surety Co.
Hockley County District Clerk	25,000.00	Western Surety Co.
County Attorney Clerk	5,000.00	Western Surety Co.
Deputy Clerk	40,000.00	Western Surety Co.
Deputy Clerk	40,000.00	Western Surety Co.
Chief Deputy Sheriff	5,000.00	Western Surety Co.
County Attorney Clerk	5,000.00	Western Surety Co.
Director Mallet Events Center	10,000.00	Western Surety Co.
Deputy Tax Assessor-Collector	10,000.00	Western Surety Co.
Reserve Deputy	2,000.00	Western Surety Co.
Voter Registrar	10,000.00	Western Surety Co.
County Judge	3,000.00	Western Surety Co.
County Commissioner-Precinct #1	3,000.00	Old Republic Surety Co.
Justice of the Peace #2	5,000.00	Western Surety Co.
County Attorney Clerk	5,000.00	Western Surety Co.

OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION

MYATT, BLUME AND FIDALEO, LTD., L.L.P.

SHAM L. MYATT CPA
PHELPS BLUME CPA
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MEMBERS
TEXAS SOCIETY AND AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

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*

Hockley County Commissioners Court
Hockley County, Texas
Levelland, Texas 79336

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hockley County, Texas, as of and for the year ended December 31, 2011, which collectively comprise Hockley County, Texas' basic financial statements and have issued our report thereon dated December 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Hockley County, Texas is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Hockley County, Texas' 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 Hockley County, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hockley County, Texas' internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs. We consider deficiencies referenced as 11-2 to be significant deficiencies in internal control over financial reporting, which is a repeated finding from the prior year.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hockley County, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 11-1, which is a repeated finding modified from the prior year.

We noted certain matters that we reported to management of Hockley County, Texas, in a separate letter dated December 26, 2012.

Hockley County, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Hockley County, Texas' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, County Commissioners, others within the entity, and federal and state 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,

Myatt, Blume, and Fidaleo, LTD., L.L.P.

Myatt, Blume, and Fidaleo, LTD., L.L.P.
Certified Public Accountants
Levelland, Texas
December 26, 2012

HOCKLEY COUNTY, TEXAS
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2011

Prior Year Findings:

Finding:

Status:

10-1 Controls over Cash	Repeated – Modified
10-2 Financial Reporting	Repeated – Modified
09-1 County Attorney Hot Check Fund	Resolved
09-2 Controls over Cash	Repeated – Modified and Merged with 10-1
09-3 Financial Reporting	Repeated – Modified and Merged with 10-2
09-4 Approving Opening, Closing and/or Changes to Bank Accounts	Resolved

HOCKLEY COUNTY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2011

11-1 Controls over Cash – Merged with 09-2 and Modified 10-1

Criteria: Several checks written for large amounts requiring dual signatures cleared the bank account with only one signature or were not signed at all.

Condition: Checks were issued and deposited without following proper internal control procedures. With financial institutions converting to digital processing, the banks are no longer reviewing checks for signature verification. It is now incumbent upon County personnel to review issued checks and properly authorize and sign the checks before dispersal.

Effect: County personnel are not properly authorizing expenditures and transfers out of the bank accounts.

Cause: When the checks are written, one or more County personnel authorized to sign checks may not be available to review and authorize the disbursement.

Recommendation: With financial institutions converting to digital processing, the banks are no longer reviewing checks for signature verification. It is now incumbent upon County personnel to review issued checks and properly authorize and sign the checks before dispersal. If the check in question is a transfer between accounts at the same time, an online transfer would be an alternative to issuing checks.

Response: The County Treasurer will implement changes to make sure all checks issued have the required signatures before dispersal.

11-2 Financial Reporting – Merged with 09-3 and Modified 10-2

Criteria: Hockley County, Texas (the County) has not fully implemented reporting requirements for elected officials who control their own cash accounts. Attorney General Opinion No. GA-0636 issued June 12, 2008 states each elected official who collects fees for the County should remit such fees directly to the County Treasurer daily and the County Treasurer assumes the responsibility of remitting the funds to the appropriate vendor or other governmental entity and recording the transactions into the County's accounting records. The fees remittance and the reporting to the County Treasurer office are not timely, nor is the recording into the County's books.

Additionally, the County does not prepare adjusting documentation necessary to convert the County's cash basis accounting records to the accrual basis at year end (i.e. accounts receivable, due tos and due froms, and accounts payable). Conversion from cash basis to accrual basis is an audited financial statement requirement as promulgated by the *Government Accounting Standards Board* and the pronouncements therefrom. The transfers and ending receivables and liabilities between Agency Funds and Governmental Funds are not in balance because of this lack of preparation.

Condition: In preparing a working trial balance without recording the transactions with the Agency Funds maintained by the various County departments, the County is significantly misstating the amount of cash on hand and on deposit as well as the receivables and liabilities from and to various state and local governments and internal funds.

HOCKLEY COUNTY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES (CONT.)
FOR THE YEAR ENDED DECEMBER 31, 2011

A complete and accurate trial balance is not possible to obtain from the accounting system without piecemealing several other sources of information from the various County departments. This piecemealing is dramatically increasing the amount of time being spent on auditing the financial statements by both the County Auditor's office and the external auditors.

Cause: The County continues to annually operate on a cash basis, which is an acceptable basis of accounting for a governmental entity. County personnel have not followed the proper procedures required by the GASB needed to prepare closing and adjusting journal entries to convert the accounting records from the cash basis of accounting to the accrual basis of accounting at year end which includes recording all the transaction occurring in the Agency Funds to develop a complete and accurate working trial balance on the accrual basis of accounting.

Recommendation: The County Auditor's Office should annually prepare schedules of accounts receivable, due tos and due froms, transfers in and transfers out, and accounts payable as of December 31 for each fund. Additionally, each elected official whose records are not kept on the County Auditor's system of accounting should provide a trial balance of all assets, liabilities, receipts, and expenditures for the year ended December 31 to the County Auditor for entry into the accounting records before the external audit is engaged.

Response: Due to limited space, resources, and availability of personnel in the County Auditor's Office, implementation of the accrual basis of accounting cannot be accomplished at this time. The County Auditor will seek alternative measures to provide information concerning receivables, payables, due tos and due froms to external auditors. The two County Offices maintaining their own records will be required to submit year end trial balances to the County Auditor so the County Auditor can include such information into the accounting records before the external audit is engaged.