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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

January 23, 2013

To the Citizens and residents of  
Floyd County, Texas

Our discussion and analysis of the County's financial performance provides an overview of the County's financial activities for the fiscal year ended September 30, 2012. Please read it in conjunction with the County's financial statements, which begin on page 3.

**FINANCIAL HIGHLIGHTS**

The County's net assets decreased (\$41,906) in 2012 compared to a \$620,906 increase in 2011. The large increase in prior year was partly attributed to the value of contributed public safety equipment by the U.S. department of defense that was recorded at an estimated value of \$349,600 which did not occur in 2012. The current year decrease occurs after recording of \$316,248 in depreciation expense.

The County's debt consists of two bank notes and one vendor note which provided funds to finance the purchase of two new motor graders for Precincts 2 and 4 in 2010 and major repairs in 2012. In 2012 payments made in accordance with scheduled note agreements reduced long term debt obligations by \$37,525. The new loan in the amount of \$39,903 financed a major repair of equipment for Road and Bridge Precinct 4.

During the year, the County's total revenues were down \$516,989 as compared to 2011. The decrease is primarily due to the prior year recording of the value of donated surplus equipment in the amount of \$349,600 and insurance proceeds of \$103,902 which did not occur in 2012. General fund revenues exceeded expenditures after transfers by \$168,242 as compared to \$5,281 in prior year. Road and bridges revenues exceeded expenditures after other sources and transfers by \$31,188 as compared to \$358,631 in 2011, which is partly attributed to FEMA grant revenues of \$167,945 recorded in prior year which did not occur in 2012. Tax revenues were up only slightly by \$18,675. Grant and intergovernmental revenues were down significantly as compared to prior year due to the prior year's one time receipts of FEMA funds and recording of the value of defense department donated surplus equipment to the Sheriff department valued at \$349,600, which did not occur in 2012.

The combined governmental funds reported fund balance of \$2,012,705 as of yearend as compared with \$1,829,554 as of the beginning of the year.

## USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 3 and 4) provide information about the activities of the County as a whole and present a longer term view of the County's finances. Fund financial statements start on page 5. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

### Reporting the County as a Whole

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. The County's financial reporting policy is to use the modified cash basis of accounting, also referred to as the cash basis of accounting, where revenues are recognized when received and expenses when paid. Therefore tax receivables and accounts payables are not reported in the County's financial statements. Such information is disclosed to the extent the information is deemed relevant to the financial statements.

The government wide financial statements report the County's net assets and changes in them. You can think of the County's net assets (the difference between assets and liabilities) as one way to measure the County's financial health, or financial position. Over time, increases or decreases in the County's net assets is one indicator of whether its financial health is improving or deteriorating. You will need to consider other non financial factors, however, such as changes in the County's property tax base and the condition of the County's roads and bridges and facilities, to assess the overall health of the County.

In the Statement of Net Assets and the Statement of Activities, we divide the County into three kinds of activities:

Governmental activities - Most of the County's basic services are reported here, including the law enforcement, fire, county roads, and general administration. Property taxes, licenses and fees, and state and federal grants finance most of these activities. Also the County helps operates a 110<sup>th</sup> District Juvenile rehabilitation facility (which three other counties share and contribute costs) and charges outside governmental entities for these services. These fees cover or help cover the cost of certain services the Parent Adolescent Center provides. The 110<sup>th</sup> District Parent Adolescent operations are also reported with governmental activities since the net revenues are unrestricted.

Business - type activities - The County currently does not report business type activities.

Component unit - The County in prior years reported the 110th Judicial District Texas

Juvenile Probation District's financial activities as a discretely presented component unit. The only reason the District is considered a component unit for financial reporting purposes is because the County is responsible for accounting for the component unit financial activities. In 2012 the County chose to not present the 110th Judicial District Texas Juvenile Probation Commission District financial statements with the County's annual financial statement presentation. The 110th Judicial District Juvenile Probation Department has issued separate reporting entity financial statements as of and for the year ended August 31, 2012 in accordance with accounting practices prescribed or permitted by the Texas Juvenile Justice Department (TJJD). The component unit financial statements are available upon request of the County Treasurer's office, 105 S. Main St. Room 104, Courthouse, Floydada, TX 79235.

The 110<sup>th</sup> Judicial District Community Supervision and Corrections Department **Adult probation** financial statements are not considered a part of the County's reporting responsibility since the County only provides payroll services but has no governance or fiscal agent responsibility over the adult probation activities. Separate financials statements are available upon request of the 110<sup>th</sup> Judicial District Community Supervision and Corrections Department Adult Probation, Room 114, County Courthouse, Floydada, Texas 79235

#### Reporting the County's Most Significant Funds

The fund financial statements begin on page 5 and provide detailed information about the most significant funds, not the County as a whole. Some funds are required to be established by State and Federal law or by debt covenants. However, the Commissioners' Court establishes many other funds to help us control and manage money for particular purposes. Examples are the Road & Bridge accounts, Library, Courthouse security, Record preservation, JP Technology, etc. Governmental entities primarily use two kinds of funds, governmental and proprietary, which use different accounting approaches.

**Governmental funds-** Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified cash basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

**Proprietary funds-** The County currently does not report any proprietary fund types.

## The County as Trustee

The County is responsible for assets that, because of a trust arrangement, can be used only for the trust beneficiaries. All of the County's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 7. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Examples are the County's agency accounts, and registry trust funds.

## THE COUNTY AS A WHOLE

The County's combined net assets decreased by (\$41,036) in 2012 which includes the effect of depreciation expense of \$316,248.

## Revenues

The County's tax revenues increased just slightly over prior year due to increased tax revenues collections, but total revenues were down as compared to prior year primarily due to decreases in grant and intergovernmental revenues.

## THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the balance sheet on page 5) reported a combined fund balance of \$2,012,705 as compared to \$1,829,554 in prior year.

## General Fund Budgetary Highlights

Over the course of the year the Commissioners' Court made amendments to the County budget as needed for changes in economic conditions and events. Specifically, legal expense budget was increased \$20,000 to defend the County on specific threatened litigation, official bonds and insurance expense budget was increased \$10,000.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end the 2012 fiscal year, the County had approximately \$4.4 million invested in capital assets. Depreciation and fixed assets is only reported in the government wide financial statement presentation on pages 3 and 4 and does not affect the fund basis financial statement presentation on pages 5 and 6 in accordance the current generally accepted reporting model for state and local governments since fixed assets are expended in the fund basis financial statements.

Some of the more major additions in 2012 included: three vehicles for the sheriff department in the amount of \$74,886.

## Debt

At year end, the County had outstanding bank and vendor loans of \$96,317 as compared to \$93,939 at the beginning of the year. Principal paid on bank and vendor loans totaled \$37,525 and the County vendor borrowed \$39,903 to finance a major repair of Precinct 4 equipment. Interest expense totaled \$4,632 which is reported with infrastructure expenses since the loans were for road and bridge equipment.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

Economic factors are for the most part just holding their own at this point. Our county has lost population and businesses over the past few years. This has an impact on our tax base. As any small county we are struggling to maintain our current status.

We have managed our budgets and increased our fund balance from 2011 which was \$1,829,554 to \$2,012,705 fund balance for the year 2012.

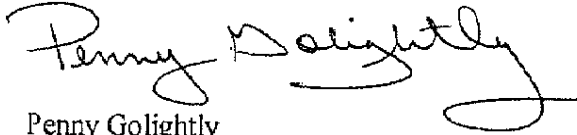
Our road maintenance and buildings will receive the majority of increases if monies are available. These two areas will return the greatest value to our taxpayer base. We know that all departments will most likely need increases, however any and all increases will be examined to the fullest extent. The buildings are in need of some repair plus new or better desks and chairs and windows for offices and the annex.

During our budget workshop for the 2012/2013 budget year a tax increase was not considered due to the national economy in disarray as it was, we would be good stewards of tax dollars, by living within our means for the current year.

Tax revenues increased by a total of \$ 22,883.00 due to added valuation of real property. I, Penny Golightly, Floyd County Judge, and presiding official of Commissioners' Court and the responsible official for the budget, have implemented cost saving practices within the County, some of these cost cutting include monitoring and securing the SECO grant to help with roofs and some lighting for some of the buildings, phone service, internet service, Law Library, cell phone cost. We will continue to evaluate and discover potential cost reductions and will implement those that are feasible.

For the year 2011/2012 we worked hard to just preserve our status. We have in the future some promising anticipated economic growth. We are currently seeing the development of a new electrical transmission line. This development may open the doors to developing larger wind turbine farms which could increase our tax revenue base, if the Federal Government will extend the tax credit needed for the wind developers and the growth.

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Treasurer's Office at 105 S. Main, Floydada, Texas, 79235.

A handwritten signature in black ink that reads "Penny Golightly". The signature is written in a cursive style with a large, sweeping flourish at the end.

Penny Golightly  
County Judge

**FLOYD COUNTY, TEXAS**  
**TABLE #1**  
**GOVERNMENT WIDE**  
COMPARATIVE STATEMENT OF NET ASSETS-  
MODIFIED CASH BASIS  
**SEPTEMBER 30, 2012 AND 2011**

	<u>PRIMARY GOVERNMENT</u>	
	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>	<u>Governmental</u> <u>Activities</u>	<u>Governmental</u> <u>Activities</u>
Cash and Cash Equivalents	\$ 1,918,315	\$ 1,763,628
Cash and Cash Equivalents - restricted	91,979	109,705
Petty cash	450	450
Total Cash and Deposits	2,010,744	1,873,783
Receivables from other governments	44,903	-
Capital Assets	1,518,895	1,740,704
Total Assets	<u>\$ 3,574,542</u>	<u>\$ 3,614,487</u>
 <u>LIABILITIES</u>		
Amounts due others	29,404	24,229
Other liabilities	(12,295)	20,000
Deferred revenue	25,833	-
Long term debt		
Due within one year	47,565	25,532
Due in more than one year	48,752	68,407
Total liabilities	<u>139,259</u>	<u>138,168</u>
 <u>NET ASSETS</u>		
Nonspendable - net investment in capital assets	1,422,578	1,646,765
Restricted	101,880	112,369
Committed	118,540	94,503
Assigned	521,248	514,450
Unassigned	1,271,037	1,108,232
Total Net Assets	<u>3,435,283</u>	<u>3,476,319</u>
Total liabilities and net assets	<u>\$ 3,574,542</u>	<u>\$ 3,614,487</u>

**FLOYD COUNTY, TEXAS**  
**TABLE # 2**  
**COMPARATIVE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

<u>Functions/Programs</u>	<u>PRIMARY GOVERNMENT</u>	
	<u>Governmental</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activities</u>
	<u>2012</u>	<u>2011</u>
<b>REVENUES:</b>		
Property Tax	\$ 1,895,388	\$ 1,876,713
License & Permits	418,307	413,177
Fines and Fees	197,554	202,149
Grant Revenues	64,757	167,945
Intergovernmental	157,510	518,499
Charges for Services	38,437	29,764
Investment income	6,385	1,912
Seizures Proceeds	-	2,000
Other	21,058	104,226
Total revenues	<u>2,799,396</u>	<u>3,316,385</u>
<b>EXPENDITURES:</b>		
<b>Current:</b>		
General Government	751,760	898,754
Justice System	422,497	375,281
Public Safety	631,258	562,790
Corrections and Rehabilitation	33,213	30,445
Health and Human Services	80,052	92,843
Community and Economic Development	79,405	76,520
Infrastructure and Environmental Services	841,283	702,841
Other	-	-
Total expenditures	<u>2,839,468</u>	<u>2,739,474</u>
Excess (deficiency) of revenues over expenditures before transfers	(40,072)	576,911
Transfers	(964)	43,995
Excess (deficiency) of revenues over expenditures after transfers	(41,036)	620,906
Fund balance beginning	<u>3,476,319</u>	<u>2,855,413</u>
Fund balance - ending	<u>\$ 3,435,283</u>	<u>\$ 3,476,319</u>