

RUTLEDGE CRAIN & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
2401 Garden Park Court, Suite B
Arlington, Texas 76013

July 2, 2015

To the Honorable County Judge and Commissioners
Clay County
Henrietta, Texas

We have audited the financial statements of the governmental activities, the discrete component unit, each major fund, and the aggregate remaining fund information of Clay County, Texas (the "County") as of and for the year ended September 30, 2014, which collectively comprise Clay County, Texas' basic financial statements and have issued our report thereon dated July 2, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In planning and performing our audit we considered the County's internal control over financial reporting (internal control) 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 the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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

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

1. Leased Equipment

The County Commissioners have historically acquired major equipment, such as motor graders, by financing their purchase through the use of capital leases. In 2013, the approach to leasing was changed so that the leases appeared to qualify as operating leases. The difference in operating and capital leases is in the way that the underlying asset and long-term lease commitment are treated in the financial statements. Operating leases treat the lease payment as rental expense. Capital leases treat the agreement as a purchase of an asset, therefore the motor grader and the obligation are recorded in the general ledger and reported in the financial statements.

Although the change in leasing appeared to be an operating lease, in practice, the leases continued to meet the tests of a lease purchase. After reviewing the leasing activity for the last two years we have determined that the leases should have been treated as capital leases and accordingly have restated the prior year financial statements to reflect the leases as lease purchases. In reviewing the leases for the last two years we discovered that there was no central location for the filing of the leases.

We recommend that all leases be maintained in a central file. This file should be maintained by the County Auditor or the County Treasurer as a part of the maintenance of the capital asset records.

Other Matters

The following are matters we want to bring to your attention which are not control deficiencies, but which should be considered by the Commissioner's Court:

2. County Auditor

The County has a newly appointed County Auditor. It is important that the County Auditor receive the proper training and guidance for performing her duties. There are a number of resources available for newly appointed County Auditors. The Texas Association of County Auditors has a course for new County Auditors geared towards providing the new County Auditor a starting point. Additionally, there is an on line forum for County Auditors which should prove very helpful in obtaining answers from other auditors. The Local Government Code has a chapter covering the duties of the County Auditor. But the best resource of all would be other County Auditors who have been in the position for some time.

We recommend that the Commissioner's Court support the new County Auditor in obtaining the proper training for the position.

3. New Statements from the Governmental Accounting Standards Board

The following GASB Statements take effect in fiscal 2015 and fiscal 2016, and the County should determine how these statements will effect the County's financial statements:

- A. GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, effective as of fiscal 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

- B. GASB Statement No. 69, Government Combinations and Disposals of Government Operations, effective as of fiscal 2015. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.
- C. GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, effective fiscal 2015. Some governments extend financial guarantees for the obligations of another government, a not-for-profit organization, a private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.
- D. GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68, effective fiscal 2015. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.
- E. GASB Statement No. 72, Fair Value Measurement and Application, effective fiscal 2016. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.
- F. GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, effective fiscal 2016. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

- G. GASB Statement No 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, effective fiscal 2016. Not applicable to County
- H. GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, effective fiscal 2016. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.



We would like to express our appreciation to offices of the County Treasurer and other county offices for their prompt responses to our requests for information and their efforts in preparing the numerous audit schedules and analyses needed in our audit of the County’s basic financial statements.

The foregoing conditions were considered in determining the nature, timing, and extent of audit tests to be applied in our examination of the financial statements, and this report of such condition does not modify our report dated July 2, 2015 on such financial statements. We would be pleased to discuss our recommendations in more detail and to assist in implementing them at your request.

This communication is intended solely for the information and use of the Clay County Commissioners’ Court, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

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