



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

To the Honorable County Judge
And Commissioners Court
Van Zandt County, Texas

We have audited the financial statements of Van Zandt County, Texas as of and for the year ended September 30, 2016, and have issued our report thereon dated August 22, 2017. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated November 2, 2016, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Van Zandt County, Texas solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

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**Governmental Audit
Quality Center**

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm have complied with all relevant ethical requirements regarding independence.

As a part of the engagement we assisted in preparing the financial statements and related notes to the financial statements and the schedule of expenditures of federal awards of Van Zandt County, Texas in conformity with U.S. generally accepted accounting principles. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services were not conducted in accordance with *Government Auditing Services*.

In order to ensure we maintain our independence for performing these nonaudit services certain safeguards were applied to this engagement. Management assumed responsibility for the financial statements, related notes to the financial statements and the schedule of expenditures of federal awards and any other nonaudit services we provided. Management acknowledged in the management representation letter our assistance with the preparation of the financial statements, related notes to the financial statements and the schedule of expenditures of federal awards and that these items were reviewed and approved prior to their issuance and accepted responsibility for them. Further, the nonaudit services were oversaw by an individual within management that has the suitable skill, knowledge, or experience; evaluated the adequacy and results of the services; and accepted responsibility for them.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Van Zandt County, Texas is included in Note I to the financial statements. Van Zandt County, Texas changed its method of accounting for fair value disclosures by adopting Governmental Accounting Standards (GASB) Statement No. 72, *Fair Value Measurement and Application*. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the allowance for doubtful accounts for property tax and adjudicated fines receivable is based on a percentage of the receivable balance depending on the age of the receivable. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability is based on actuarial assumptions which are determined by the demographics of the plan and future projections that the actuarial makes based on historical information of the plan and the investment market. We evaluated the key factors and assumptions used to develop the net pension liability and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimate of the accumulated depreciation is based on the related estimated useful lives of capital assets. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Van Zandt County, Texas' financial statements relate to the TCDRS pension liability. The disclosures in the financial statements are neutral, consistent and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of audit procedures and corrected by management were material, either individual or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Van Zandt County, Texas' financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated August 22, 2017.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with Van Zandt County, Texas, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Van Zandt County, Texas' auditors.

Significant Forthcoming Accounting Standards

Tax Abatement Disclosures

GASB Statement No. 77 "*Tax Abatement Disclosures*" – This Statement requires governments entering into tax abatement agreements to provide certain disclosures regarding these commitments such as descriptions of the agreements, the amounts abated, and any additional commitments by the governments in addition to abatements. This Statement will become effective for the County in fiscal year 2017.

Restrictions on Use

This report is intended solely for the information and use of the Commissioners Court, and management of Van Zandt County, Texas and is not intended to be and should not be used by anyone other than these specified parties.

Pattillo, Brown + Hill, L.L.P.

Waco, Texas
August 22, 2017

VAN ZANDT COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2016

VAN ZANDT COUNTY, TEXAS

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable County Judge
and Members of the Commissioners' Court
Van Zandt County, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Van Zandt County, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Van Zandt County, Texas's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Van Zandt County, Texas, as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Van Zandt County, Texas's basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR), Part 200, *Uniform Administrative Requirements, Cost Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2017 on our consideration of Van Zandt County, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Van Zandt County, Texas's internal control over financial reporting and compliance.

Pattillo, Brown + Hill, L.L.P.

Waco, Texas
August 22, 2017

VAN ZANDT COUNTY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2016

Our discussion and analysis of Van Zandt County's financial performance provides an overview of the County's financial activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the County's financial statements, which being on page 10.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$11,258,904 (*net position*). Of this amount, \$1,510,788 (*unrestricted net position*) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net position increased by \$2,054,968, due primarily to the \$4,788,332 increase in total revenues.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$4,082,789, an increase of \$944,056 in comparison with the prior year. The County had no fund balance available for spending at the County's discretion as unassigned fund balance is (\$431,394).
- At the end of the current fiscal year, unassigned fund balance for the General Fund totaled (\$76,046).

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to service as introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net positions are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general administration, judicial, health and welfare, public safety, highways and bridges, sanitation, conservation and culture and recreation. The County had no business-type activities.

Fund financial statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintained 42 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the Road and Bridge Funds precincts #1-4, and Debt Service, all 6 of which are considered to be major funds. Data from the other 36 governmental funds are combined in a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning Van Zandt County, Texas' progress in funding its obligation to provide pension benefits to its employees. It also includes budgetary information for the General Fund and Road and Bridge Funds.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions and budgetary comparisons.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position of the County's governmental activities increased from \$9,203,936 to \$11,258,904. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislations, or other legal requirements – was \$1,510,788 as of September 30, 2016.

The net position of the County increased by \$2,054,968 in fiscal year 2016, as opposed to an increase of \$1,398,769 in fiscal year 2015. Total assets increased \$1,598,452 when compared to fiscal year 2015. There were a few factors that caused this increase in net position. The first was an increase in property tax revenues predominately coming from increases in the assessed values throughout the County. Also, the County started collecting FEMA revenues from past flooding and tornado disasters which increased operating grant revenue in FY 2016. Expenditures in the highways and bridges function also increased but not as much as the revenue generated through the FEMA program.

TABLE 1
VAN ZANDT COUNTY, TEXAS
NET POSITION

	Governmental Activities	
	2016	2015
Current and other assets	\$ 8,823,588	\$ 6,234,733
Capital assets	10,605,472	11,404,232
Net pension assets	-	191,643
Total assets	<u>19,429,060</u>	<u>17,830,608</u>
Deferred outflows of resources	2,367,844	672,656
Current liabilities	3,260,741	2,656,952
Non current liabilities	<u>7,169,194</u>	<u>6,607,906</u>
Total liabilities	<u>10,429,935</u>	<u>9,264,858</u>
Deferred inflows	108,065	34,470
Net position		
Net invested in capital assets	4,176,090	3,978,749
Nonspendable	-	34,672
Restricted	5,572,026	3,432,641
Unrestricted	<u>1,510,788</u>	<u>1,757,874</u>
Total net position	<u>\$ 11,258,904</u>	<u>\$ 9,203,936</u>

TABLE 2
VAN ZANDT COUNTY, TEXAS
CHANGES IN NET POSITION

	Governmental Activities	
	2016	2015
Revenues:		
Charges for services	\$ 4,107,218	\$ 4,049,008
Operating grants and contributions	5,020,259	555,493
Capital grants and contributions	2,700	557,848
General revenue:		
Property taxes	11,511,328	11,229,304
Miscellaneous	770,811	327,797
Gain (loss) on sale of assets	67,330	(39,542)
Insurance proceeds	-	34,427
Interest income	28,310	5,289
Total revenues	<u>21,507,956</u>	<u>16,719,624</u>
Expenses:		
General government	3,807,093	3,744,877
Judicial	2,462,358	2,440,354
Public safety	5,580,568	5,745,755
Health and welfare	85,300	142,408
Highways and bridges	7,028,324	3,363,318
Culture and recreation	119,083	116,251
Conservation	86,613	79,716
Sanitation	60,835	58,561
Interest on long-term debt	222,813	251,175
Total expenses	<u>19,452,988</u>	<u>15,942,415</u>
Change in net position	2,054,968	777,209
Prior period adjustment	-	621,560
Net position beginning of year	<u>9,203,936</u>	<u>7,805,167</u>
Net position end of year	<u>\$ 11,258,904</u>	<u>\$ 9,203,936</u>

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the balance sheet on pages 12 – 13) reported a combined fund balance of \$4,082,789 which represents an \$944,056 increase from the previous year.

Over the course of the year, the Commissioners' Court amended the County's budget several times. These amendments fall into two categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts that were estimated in September of 2015.) Also, the second category was the Commissioners' Court approving several changes in appropriations to prevent budget overruns.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

	Governmental Activities	
	2016	2015
Land	\$ 514,749	\$ 514,749
Buildings and improvements	3,106,451	3,381,057
Machinery and equipment	1,311,144	1,424,061
Infrastructure	5,673,128	6,084,365
Total	\$ 10,605,472	\$ 11,404,232

At the end of 2016, the County had approximately \$10,605,472 (net of accumulated depreciation) invested in a broad range of capital assets, including buildings and equipment, transportation equipment, and administrative and maintenance buildings and equipment.

Major additions to capital assets for the fiscal year were as follows:

- 4 Chevrolet Tahoes for \$57,500
- 2012 Gradall Motor Grader for \$180,000

Debt

	Governmental Activities	
	2016	2015
Certificates of obligation	\$ 5,969,000	\$ 6,911,000
Notes payable	460,382	514,483
Net pension obligation (asset)	1,518,452	(191,643)
Compensated absences	476,887	400,464
Total	\$ 8,424,721	\$ 7,634,304

At year-end, the County had \$460,382 in notes payable for various County equipment and vehicles. The County issued \$142,640 in new debt and paid \$1,138,471 in principal payments for the year. The County also had \$5,969,000 of Certificates of Obligation outstanding at year-end. The County paid in principal payments of \$942,000 on these obligations in fiscal year 2016.

GENERAL FUND BUDGETARY HIGHLIGHTS

The County's General Fund balance of (\$58,553) reported on pages 12 and 13 differs from the General Fund's budgetary fund balance of (\$683,433). The primary reason for the difference was the County staying under budgeted expenditures by \$464,019. The County also collected \$22,026 more in revenues than were budgeted for FY 2016.

The County budget is prepared in accordance with financial policies approved by the Commissioners' Court, and in accordance with accounting principles generally accepted in the United States. The budget is prepared by the Budget Officer and approved by the Commissioners' Court. The approved budget is used as a management control device during the year, and appropriations are set at the expenditure line item level. Budgetary transfers between departments must be approved by the Commissioners' Court.

As confirmed by recent U.S. Census figures, Van Zandt has experienced a population growth of 4.8% since 2010.

Accordingly, the requirements for services to citizens, in addition to ongoing unfunded mandates from the state and federal governments, have increased substantially while revenue options available to County government continue to be severely limited. Even state-authorized increases to fees such as court costs are usually tied to dedicated funds to be turned over to the state with any local retainage dedicated and not available to the County for General Fund expenses.

The County continues to experience an increase in expenses for federal mandates related to elections; and increased expenses for state mandates relating to the reporting of case management. The increasing cost of materials and fuel continue to erode the purchase power of Road and Bridge precincts and law enforcement.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2017 budget and tax rates. The officials will take additional steps of reductions and increasing revenues as much as possible, although the County also expects expenditures grow, but at a smaller pace than the increase in revenue.

For fiscal year 2017 the County has total resources of \$18,708,875. Included in this number is a carryover of \$1,644,649 from the previous years fund balance. The property tax rate is \$.585847 and includes a \$.10 special road tax. The fiscal year 2017 budget will raise additional property taxes of \$327,841.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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 Auditor's office, at 121 East Dallas, Room 102, Canton, Texas 75103.

BASIC FINANCIAL STATEMENTS

VAN ZANDT COUNTY, TEXAS
STATEMENT OF NET POSITION
FISCAL YEAR ENDED SEPTEMBER 30, 2016

	Primary Government
	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 5,296,302
Receivables (net of allowance for doubtful accounts)	3,509,793
Prepays and other assets	17,493
Capital assets (net of accumulated depreciation):	
Land	514,749
Buildings	3,106,451
Machinery and equipment	1,311,144
Infrastructure	5,673,128
Total Capital Assets	10,605,472
Total Assets	19,429,060
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on pension	2,367,844
Total Deferred Outflows of Resources	2,367,844
LIABILITIES	
Accounts payable	1,508,769
Accrued liabilities	274,465
Accrued interest payable	75,037
Due to other governments	146,943
Long-term debt:	
Due within one year	1,255,527
Due in more than one year	7,169,194
Total Liabilities	10,429,935
DEFERRED INFLOWS OF RESOURCES	
Deferred charge on pension	108,065
Total Deferred Inflows of Resources	108,065
NET POSITION	
Net investment in capital assets	4,176,090
Restricted for:	
Road and bridge	2,361,555
Court technology and security	38,362
Records management	591,465
Judicial	54,000
Public safety	199,012
Law library	54,064
Conservation	20,349
Economic Development	186,098
Historical commission	9,127
Disaster relief	998,550
Capital projects	172
Debt service	1,059,272
Unrestricted	1,510,788
Total Net Position	\$ 11,258,904

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

VAN ZANDT COUNTY, TEXAS

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary Government:					
Governmental activities:					
General government	\$ 3,807,093	\$ 831,747	\$ 185,716	\$ -	\$(2,789,630)
Judicial	2,462,358	1,557,493	160,401	-	(744,464)
Public safety	5,580,568	208,448	59,941	2,700	(5,309,479)
Health and welfare	85,300	-	56,983	-	(28,317)
Highways and bridges	7,028,324	1,355,290	4,557,218	-	(1,115,816)
Cultural and recreation	119,083	8,956	-	-	(110,127)
Conservation	86,613	-	-	-	(86,613)
Sanitation	60,835	145,284	-	-	84,449
Interest on long-term debt	222,813	-	-	-	(222,813)
Total primary government	\$ 19,452,988	\$ 4,107,218	\$ 5,020,259	\$ 2,700	(10,322,811)
General revenues:					
Property taxes					11,511,328
Investment earnings					28,310
Gain on sale of assets					67,330
Other					770,811
Total general revenues					<u>12,377,779</u>
Change in net position					
					2,054,968
Net position - beginning of year					
					<u>9,203,936</u>
Net position - end of year					
					<u>\$ 11,258,904</u>

VAN ZANDT COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2016

	General	Road and Bridge Precinct #1	Road and Bridge Precinct #2	Road and Bridge Precinct #3
ASSETS				
Cash and cash equivalents	\$ 51,485	\$ 377,166	\$ 1,901,698	\$ 462,647
Receivables (net of allowance of uncollectibles) :				
Accounts	1,437,527	137,571	138,565	10,206
Property Taxes	444,245	30,341	37,047	30,907
Due from other governments	16,356	-	-	-
Prepaid and other assets	17,493	-	-	-
Due from other funds	380,349	-	194,671	-
Total assets	<u>2,347,455</u>	<u>545,078</u>	<u>2,271,981</u>	<u>503,760</u>
LIABILITIES				
Accounts payable	385,715	85,129	644,951	140,961
Accrued Liabilities	207,668	12,650	12,517	9,297
Due to other governments	146,943	-	-	-
Due to other funds	3,680	105,263	-	122,076
Total liabilities	<u>744,006</u>	<u>203,042</u>	<u>657,468</u>	<u>272,334</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - fines	1,258,038	-	-	-
Unavailable revenue - grants	1,753	-	-	-
Unavailable revenue - property taxes	402,211	28,969	28,969	28,969
Total deferred inflows of resources	<u>1,662,002</u>	<u>28,969</u>	<u>28,969</u>	<u>28,969</u>
FUND BALANCES				
Nonspendable:				
Prepaid expenditures	17,493	-	-	-
Restricted for:				
Road and bridge	-	313,067	1,585,544	202,457
Court technology and security	-	-	-	-
Records management	-	-	-	-
Judicial	-	-	-	-
Public safety	-	-	-	-
Debt service	-	-	-	-
Law library	-	-	-	-
Conservation	-	-	-	-
Economic development	-	-	-	-
Capital projects	-	-	-	-
Historical commission	-	-	-	-
Disaster relief	-	-	-	-
Unassigned	(76,046)	-	-	-
Total fund balances	<u>(58,553)</u>	<u>313,067</u>	<u>1,585,544</u>	<u>202,457</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,347,455</u>	<u>\$ 545,078</u>	<u>\$ 2,271,981</u>	<u>\$ 503,760</u>

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

Road and Bridge Precinct #4	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 285,634	\$ 1,077,369	\$ 1,140,303	\$ 5,296,302
48,945	3,680	57,681	1,834,175
29,678	49,580	-	621,798
-	-	1,037,464	1,053,820
-	-	-	17,493
<u>15,000</u>	<u>3,680</u>	<u>-</u>	<u>593,700</u>
<u>379,257</u>	<u>1,134,309</u>	<u>2,235,448</u>	<u>9,417,288</u>
191,391	-	60,622	1,508,769
14,286	-	18,047	274,465
-	-	-	146,943
-	-	362,681	593,700
<u>205,677</u>	<u>-</u>	<u>441,350</u>	<u>2,523,877</u>
-	-	-	1,258,038
-	-	987,855	989,608
<u>28,969</u>	<u>44,889</u>	<u>-</u>	<u>562,976</u>
<u>28,969</u>	<u>44,889</u>	<u>987,855</u>	<u>2,810,622</u>
-	-	-	17,493
144,611	-	-	2,245,679
-	-	38,362	38,362
-	-	591,465	591,465
-	-	54,000	54,000
-	-	199,012	199,012
-	1,089,420	-	1,089,420
-	-	54,064	54,064
-	-	20,349	20,349
-	-	186,098	186,098
-	-	172	172
-	-	9,127	9,127
-	-	8,942	8,942
<u>-</u>	<u>-</u>	<u>(355,348)</u>	<u>(431,394)</u>
<u>144,611</u>	<u>1,089,420</u>	<u>806,243</u>	<u>4,082,789</u>
<u>\$ 379,257</u>	<u>\$ 1,134,309</u>	<u>\$ 2,235,448</u>	<u>\$ 9,417,288</u>

VAN ZANDT COUNTY, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION (EXHIBIT 1)**

FISCAL YEAR ENDED SEPTEMBER 30, 2016

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Total fund balances governmental funds (Exhibit 3)	\$	4,082,789
Capital assets used in governmental activities are not current financial resources there, are not reported in the governmental funds balance sheet.		10,605,472
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the governmental funds balance sheet.		2,810,622
Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in the governmental funds balance sheet.	(	75,037)
Deferred outflows represent the consumption of net position that are applicable to a future reported period.		2,367,844
Deferred inflows is an acquisition of net assets that is applicable to a future reporting period.	(	108,065)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	(	<u>8,424,721</u>)
Net position of governmental activities	\$	<u>11,258,904</u>

VAN ZANDT COUNTY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	General	Road and Bridge Precinct #1	Road and Bridge Precinct #2	Road and Bridge Precinct #3
REVENUES				
Property taxes	\$ 8,207,198	\$ 549,734	\$ 668,647	\$ 559,746
Permits, licenses and fees	2,013,607	293,615	467,126	300,659
Investment earnings	14,181	1,161	1,964	1,172
Intergovernmental revenues	246,410	-	-	-
Other revenues and fees	<u>203,513</u>	<u>-</u>	<u>11,058</u>	<u>8,375</u>
Total revenues	<u>10,684,909</u>	<u>844,510</u>	<u>1,148,795</u>	<u>869,952</u>
EXPENDITURES				
Current:				
General government	2,935,328	-	-	-
Judicial	2,345,806	-	-	-
Public safety	4,573,597	-	-	-
Health and welfare	84,930	-	-	-
Conservation	79,998	-	-	-
Highways and bridges	38,412	989,741	2,724,574	1,206,568
Cultural and recreation	117,645	-	-	-
Sanitation	59,509	-	-	-
Capital outlay	154,862	185,000	29,000	-
Debt service:				
Principal retirement	164,069	14,630	17,772	-
Interest and fiscal charges	<u>13,974</u>	<u>492</u>	<u>2,508</u>	<u>-</u>
Total expenditures	<u>10,568,130</u>	<u>1,189,863</u>	<u>2,773,854</u>	<u>1,206,568</u>
Excess (deficiency) of revenues over (under) expenditures	<u>116,779</u>	<u>(345,353)</u>	<u>(1,625,059)</u>	<u>(336,616)</u>
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	268,059	1,260	-	-
Capital lease proceeds	-	142,640	-	-
Sale of assets	-	-	-	-
Transfers in	40,000	99,257	2,812,726	445,287
Transfers (out)	<u>(195,917)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>
Total other financing sources (uses)	<u>112,142</u>	<u>233,157</u>	<u>2,802,726</u>	<u>435,287</u>
Net change in fund balances	228,921	(112,196)	1,177,667	98,671
Fund balances, Beginning	<u>(287,474)</u>	<u>425,263</u>	<u>407,877</u>	<u>103,786</u>
Fund balances, Ending	<u>\$(58,553)</u>	<u>\$ 313,067</u>	<u>\$ 1,585,544</u>	<u>\$ 202,457</u>

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

Road and Bridge Precinct #4	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 538,012	\$ 928,761	\$ -	\$ 11,452,098
293,890	-	811,822	4,180,719
1,714	6,691	1,427	28,310
-	-	3,827,015	4,073,425
<u>201,776</u>	<u>-</u>	<u>2,787</u>	<u>427,509</u>
<u>1,035,392</u>	<u>935,452</u>	<u>4,643,051</u>	<u>20,162,061</u>
-	-	379,639	3,314,967
-	-	94,856	2,440,662
-	-	661,201	5,234,798
-	-	-	84,930
-	-	6,000	85,998
1,619,904	-	-	6,579,199
-	-	-	117,645
-	-	-	59,509
3,250	-	10,500	382,612
-	942,000	-	1,138,471
<u>-</u>	<u>212,128</u>	<u>-</u>	<u>229,102</u>
<u>1,623,154</u>	<u>1,154,128</u>	<u>1,152,196</u>	<u>19,667,893</u>
<u>(587,762)</u>	<u>(218,676)</u>	<u>3,490,855</u>	<u>494,168</u>
4,429	-	-	273,748
-	-	-	142,640
33,500	-	-	33,500
197,368	-	208,723	3,803,361
<u>(10,000)</u>	<u>-</u>	<u>(3,567,444)</u>	<u>(3,803,361)</u>
<u>225,297</u>	<u>-</u>	<u>(3,358,721)</u>	<u>449,888</u>
<u>(362,465)</u>	<u>(218,676)</u>	<u>132,134</u>	<u>944,056</u>
<u>507,076</u>	<u>1,308,096</u>	<u>674,109</u>	<u>3,138,733</u>
<u>\$ 144,611</u>	<u>\$ 1,089,420</u>	<u>\$ 806,243</u>	<u>\$ 4,082,789</u>

VAN ZANDT COUNTY, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Amounts report for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds \$ 944,056

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation in the current period exceeded capital outlay for County owned assets.

Expenditures for capital assets 290,310
Less: current year depreciation (1,055,240)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position. (33,830)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.

Property taxes 59,230
Court fines 23,639
Grant revenue 989,608

Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.

Compensated absences (76,423)
Net pension liability (88,502)

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued; whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Repayment of long-term liabilities 1,138,741
Issuance of long-term debt (142,640)

Interest expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds. 6,019

Change in net position of governmental activities \$ 2,054,968

VAN ZANDT COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2016

ASSETS

Cash and cash equivalents	\$ <u>4,461,012</u>
Total assets	<u>4,461,012</u>

LIABILITIES

Due to other agencies and individuals	<u>4,461,012</u>
Total liabilities	<u>\$ 4,461,012</u>

VAN ZANDT COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Van Zandt County (the County) is a public corporation and political subdivision of the state of Texas. The Commissioners' Court, which is made up of four commissioners and County Judge, is the general governing body of the County in accordance with Article 5, Paragraph 18 of the Texas Constitution. The County provides the following services as authorized by the statutes of the State of Texas: general government (e.g., tax collection), judicial (courts, juries, district attorney, etc.) public safety (sheriff, constables, jails and community supervision, etc.), health and welfare (assistance to indigents, veteran services, etc.), highways and bridges, cultural and recreation, conservation, and sanitation.

The accounting and reporting policies of the County relating to the fund included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *State and Local Governments – Audit and Accounting Guide* and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the County are described below.

The basic financial statements are prepared in conformity with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. The County's statement of net position includes both noncurrent assets and noncurrent liabilities of the County. In addition, the government-wide statement of activities reflects depreciation expenses on the County's capital assets, including infrastructure.

For financial reporting purposes, based on standards established by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, this financial statement presents 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 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. Under these standards, the County has no component units which are required to be reported, discretely or blended, in combination with the primary government.

Government-wide Financial Statements

The **government-wide financial statements** include the Statement of Net Position and the Statement of Activities. Government-wide statements report, except for County fiduciary activity, information on all of the activities of the County. The effect of interfund transfers has been removed from the government-wide statements, but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes, intergovernmental revenues, and charges for services.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Fines and forfeitures are recognized when they have been assessed and adjudicated and earned. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

The Statement of Activities reflects the degree to which the direct expenses of the County's programs are offset by those programs' revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or function. Program revenues for governmental activities include those generated from general government, judicial, public safety, highways and bridges, cultural and recreation, and sanitation. Taxes and other items not properly included in program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. The General Fund, the Road and Bridge Funds, and the Debt Service Fund are classified as major governmental funds. Each major fund is reported in separate columns in the fund financial statements. Non-major funds include Special Revenue and Capital Projects. The combined amounts for these funds are reflected in a single column in the Fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances. Detailed statements for all non-major funds are presented within Combining Schedules.

Fund-Level Financial Statements

Fund level financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized as soon as they are both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County considers revenues as available if they are collected within 60 days after the fiscal year ends. Expenditure generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when a payment is due.

Property tax revenues, the County’s primary revenue source, is susceptible to accrual and is considered available to the extent of delinquent taxes collected within 60 days after the end of the fiscal period. Grant and entitlement revenues are also subject to accrual. Encumbrances are used during the year and any liquidated items expire at year end.

Governmental funds are accounted for using the current financial resources measurement focus. This means that only current assets, current liabilities, and current deferred outflows/inflows of resources are generally included on their balance sheet. Their reported fund balance (net current assets and current deferred outflows of resources) is considered a measure of “available spending resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets and current deferred outflows of resources. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

The County’s accounts are organized and operated on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred outflows/inflows of resources, fund equity, revenues and expenses or expenditures. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Separate financial statements are provided for governmental funds and fiduciary funds, although the latter are excluded from the government-wide statements.

The County reports the following major governmental funds:

- The **General Fund** is the general operating fund of the County and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, permits, licenses and fees, intergovernmental revenues and investment earnings. Primary expenditures are for general government, judicial, public safety, health and welfare, conservation, highways and bridges, cultural and recreation and sanitation.

- The **Road and Bridge Special Revenue Funds** account for the activities associated with the building, maintaining, or improving roads, highways, and bridges within the County, including maintenance of road and bridge facilities. Major revenue sources include property taxes and charges for services.
- The **Debt Service Fund** is used to account for the payment of the County’s debt. Major revenue sources are from property taxes.

Additionally, the County reports the following fund type:

- The **Agency Funds** are used to account for assets that the County holds on behalf of others as their agent.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenue. Likewise, general revenue includes all taxes.

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

The County’s cash and cash equivalents are considered to be cash on hand, demand deposits, and Texas Local Government Investment Pool, and MBIA Municipal Investors.

Investments for the County are reported at fair value. The State Treasurer’s Investment Pool and MBIA Municipal Investors operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

Advance between funds, are reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectables. Trade amounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectables. The property tax receivable allowance is equal to 30 percent of outstanding property taxes as of September 30, 2016.

Property taxes are levied on October 1 and attach as an enforceable lien on property as of January 1. Statements are mailed on October 1, or as soon thereafter as possible, and are due upon receipt. All unpaid taxes become delinquent if not paid before February 1 of the following year.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The fund financial statements are offset by a reservation of fund balance which indicates they do not represents “available spendable resources.” Prepaids are accounted for using this consumption method. Under the consumption method, prepaids are recorded as expenditures when they are used.

4. Capital Assets

Capital assets, which include land, buildings, improvements, machinery and equipment, and infrastructure assets (e.g., roads and bridges) are reported in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$5,000 or more and estimated useful lives in excess of one year. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire an assets with equivalent service potential at the acquisition date.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	20-50
Improvements	5-50
Machinery and equipment	5-20

5. Compensated Absences

The County allows full time regular employees to accumulate unused vacation time, based on years of service, to a maximum of 20 days and unused sick time to a maximum of 60 days. Employees may also accumulate compensatory time up to a maximum of 30 days (60 days for law enforcement officers). Upon termination, vacation leave and compensatory time computed under these provisions will be paid to the employees if two weeks’ written notice is given. Accumulated sick leave is not paid upon termination, but will be paid only upon illness while in the employment of the County. All vacation pay is accrued when incurred in the government-wide financial statements.

The regular workweek is based on 40 hours actually worked. Overtime, unless required to be paid by Federal statutes, is accumulated as compensatory (comp) time and earned at time and half for non-exempt employees and at straight time for exempt employees. Comp time is accumulated and either taken off or paid at the employee's current rate of pay on termination, resignation, retirement or death.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under governmental activities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County did not have any items that qualified for reporting in this category other than the items related to the changes in net pension liability which are discussed below.

In addition to liabilities, the statement of financial position will sometimes report a separate section of deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to the future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has three types of items, which arise only under a modified accrual basis of accounting that qualifies for reporting this category. Accordingly, the items unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, grants and fines. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available.

The County also has deferred outflows related to the recording changes in its net pension liability. Certain changes in the net pension liability are recognized as pension expense over time instead of all beginning recognized in the year of occurrence. Experience gains or losses result from periodic studies by the County's actuary which adjust the net pension liability for actual experience for certain trend information that was previously assumed, for example the assumed dates of retirement of plan members. These experience gains or losses are recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining service lives of plan members. Changes in actuarial assumptions which adjust the net pension liability are also recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining service lives of plan members. The difference between projected investment return on pension investments and actual return on those contributions made by the County to the pension plan before year end but subsequent to the measurement date of the County's net pension liability are reported as deferred outflows of resources.

8. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

9. Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spend because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or, (b) imposed by law through constitutional provisions or enabling legislation.

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by board resolution of the Commissioners' Court, the County's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Commissioners' Court removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the County's intent to be used for specific purpose but are neither restricted nor committed. This intent is determined by the Commissioners' Court or County Auditor.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When an expenditure is incurred for purposes 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.

10. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the County or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

11. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expenses, information about the Fiduciary Net Position of the Texas County and District Retirement System (TCDRS) and additions to/deductions from TCERS's Fiduciary Net Position have been determined on the same basis as they are reported by TCERS. For this purpose, plan contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The governmental fund balance sheet includes reconciliations between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains the “Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.” The detail of the \$2,810,622 difference is as follows:

Property taxes	\$	562,976
Grants		989,608
Court receivables		<u>1,258,038</u>
Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net position of governmental activities	\$	<u>2,810,622</u>

Another element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.” The detail of this \$8,424,721 difference is as follows:

Certificates of obligation payable	\$(	5,969,000)
Notes payable obligations	(	460,382)
Compensated absences	(	476,887)
Net pension obligation	(	<u>1,518,452)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position governmental activities	\$(	<u>8,424,721)</u>

Another element of that reconciliation states that “capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.” The detail of this \$10,605,472 difference is as follows:

Beginning balance of capital assets, net of depreciation	\$	11,404,232
Capital asset additions, net of retirements		256,480
Depreciation of capital assets, current year	(	<u>1,055,240)</u>
	\$	<u>10,605,472</u>

B. Explanation of Certain Differences Between the Government Fund Statements of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The government fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation indicates that “governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The detail of this \$(764,930) difference is as follows:

Capital outlay	\$	290,310
Depreciation expense	(	<u>1,055,240</u>)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	\$	<u>(764,930)</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Expenditures Over Appropriations

For the year ended September 30, 2016, expenditures exceeded appropriations within the General Fund’s departments as follows: County Judge (\$299); County Auditor (\$1,413); Adult District Court (\$21,635); Department of Public Safety (\$60); and Collection (\$4,887).

B. Deficit Fund Balance

General Fund, Bullet Proof Vest Grant, Chapter 19, Homeland Security, VOICES Grant, Capital Projects Roads Precinct #4, ETCOG Residential Grant, Victim Coordinator Grant, and Juvenile Probation funds have deficit fund balances of (58,553), (\$5,430), (\$1,327), (\$303), (\$2,743), (\$53,436), (\$4,825) and (\$286,884), respectively. The County plans to cover these deficits with either transfers or greater revenues than expenditures in fiscal year 2017.

IV. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

Cash and investments as of September 30, 2016 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:	
Primary government	
Cash and cash equivalents	\$ <u>5,296,302</u>
 Total cash and cash equivalents	 \$ <u>5,296,302</u>
 Cash on hand	 4,975
Checking and savings account	698,282
External investment pools	<u>4,593,045</u>
	<u>\$ 5,296,302</u>

All deposits are held in the County's main depository or subdepository bank except funds held in trust by the Justice of the Peace offices number 1 and 4, and Auto Registration, which are not under a subdepository contract.

As of September 30, 2016, the County had the following cash equivalents:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool	\$ 3,848,705	44
MBIA Class	<u>744,340</u>	56
 Total fair value	 \$ <u>4,593,045</u>	

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, and (9) 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 deposits, (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, and (10) common trust test procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

The County's investment pools are 2a7-like pools. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Interest Rate Risk. In accordance with its investment policy, the County manages its exposure to declines in fair market values by limiting the average dollar-weighted maturity of its portfolio to a maximum of 365 days.

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the County's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations, those of its agencies and instrumentalities, or direct obligations of Texas or its agencies instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2016, the carrying value of the County's deposit balance was fully collateralized with securities held by the pledging financial institution in the County's name of by FDIC insurance.

Credit Risk. It is the County's policy, as defined in the Texas Public Funds Investment Act, to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization.

The State Comptroller of Public Accounts exercised oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poor's. As a requirement to maintain the rating weekly portfolio, information must be submitted to Standard & Poor's, as well as the Office of the Comptroller of Public Accounts for review.

The County also invests in Municipal Investors Service Corporation (MBIA), Texas Class. MBIA Texas Class is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two Acts provide for the creation of public funds investment pools and authorize eligible governmental entities to invest their public funds and funds under their control through the investment pools. MBIA is currently rated AAAM by Standard & Poor's and has an investment objective of achieving and maintaining a stable net asset value of \$1.00 per share.

Receivables

Receivables as of year-end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectable accounts, are as follows:

	<u>General</u>	<u>Road & Bridge</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:					
Taxes	\$ 634,634	\$ 182,823	\$ 70,828	\$ -	\$ 888,285
Accounts	181,975	335,287	3,680	57,681	578,623
Fines and fees	<u>12,580,379</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,580,379</u>
Gross receivables	<u>13,396,988</u>	<u>518,110</u>	<u>74,508</u>	<u>57,681</u>	<u>14,047,287</u>
Less: allowance for uncollectibles	<u>(11,515,216)</u>	<u>(54,850)</u>	<u>(21,248)</u>	<u>-</u>	<u>(11,591,314)</u>
Net total receivables	<u>\$ 1,881,772</u>	<u>\$ 463,260</u>	<u>\$ 53,260</u>	<u>\$ 57,681</u>	<u>\$ 2,455,973</u>

Governmental funds report deferred revenues in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund:			
Delinquent property taxes receivable	\$ 402,211	\$ -	\$ 402,211
Court fines and fees receivable	1,258,038	-	1,258,038
Grants receivable	1,753	-	1,753
Road & Bridge 1-4:			
Delinquent property taxes receivable	115,876	-	115,876
Debt service:			
Delinquent property taxes receivable	44,889	-	44,889
Nonmajor Funds:			
Grants receivable	<u>987,855</u>	<u>-</u>	<u>987,855</u>
Governmental Funds	<u>\$ 2,810,622</u>	<u>\$ -</u>	<u>\$ 2,810,622</u>

Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Reclassifications/ Adjustments	Ending Balance
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 514,749	\$ -	\$ -	\$ -	\$ 514,749
Total capital assets, not being depreciated	<u>514,749</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>514,749</u>
Capital assets, being depreciated:					
Buildings and improvements	7,788,798	-	-	-	7,788,798
Machinery and equipment	8,250,620	290,309	(230,911)	5,300	8,315,318
Infrastructure	8,317,078	-	-	(5,300)	8,311,778
Total capital assets being depreciated	<u>24,356,496</u>	<u>290,309</u>	<u>(230,911)</u>	<u>-</u>	<u>24,415,894</u>
Less accumulated depreciation:					
Buildings and improvements	(4,407,741)	(274,606)	-	-	(4,682,347)
Machinery and equipment	(6,826,559)	(364,249)	188,241	(1,607)	(7,004,174)
Infrastructure	(2,232,713)	(416,385)	8,841	1,607	(2,638,650)
Total accumulated depreciation	<u>(13,467,013)</u>	<u>(1,055,240)</u>	<u>197,082</u>	<u>-</u>	<u>(14,325,171)</u>
Total capital assets, being depreciated, net	<u>10,889,483</u>	<u>(764,931)</u>	<u>(33,829)</u>	<u>-</u>	<u>10,090,723</u>
Governmental activities capital assets, net	<u>\$ 11,404,232</u>	<u>\$(764,931)</u>	<u>\$(33,829)</u>	<u>\$ -</u>	<u>\$ 10,605,472</u>

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

Governmental activities:	
General government	\$ 371,542
Public safety	261,244
Highways and bridges	<u>422,454</u>
Total depreciation expense - governmental activities	<u>\$ 1,055,240</u>

Interfund Receivables, Payables and Transfers

The composition of interfund balances of as September 30, 2016, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Road & Bridge Precinct #1	\$ 105,263
General Fund	Road & Bridge Precinct #3	107,076
General Fund	Nonmajor Fund	168,010
Debt Service	General Fund	3,680
Road & Bridge Precinct #4	Road & Bridge Precinct #3	15,000
Road & Bridge Precinct #2	Nonmajor Fund	194,671
		<u>\$ 593,700</u>

	Transfer In			Total
	General	Road & Bridge 1-4	Nonmajor Governmental	
Transfer out:				
General	\$ -	\$ -	\$ 195,917	\$ 195,917
Road & Bridge 1-4	40,000		-	40,000
Nonmajor governmental	-	3,554,638	12,806	3,567,444
Total transfers	<u>\$ 40,000</u>	<u>\$ 3,554,638</u>	<u>\$ 208,723</u>	<u>\$ 3,803,361</u>

Long-Term Liabilities

The County has issued certificates of obligation in prior years for the construction and purchase of capital assets. The proceeds were used to construct a jail, improve county infrastructure and purchasing buildings for county use. The County has also entered into financing contracts or notes with Government Capital Finance Corporation for the purchase of capital assets such as computer systems, road and bridge equipment, and law enforcement vehicles. Outstanding certificates of obligation and notes as of September 30, 2016 are comprised of the following issues:

<u>Certificates of Obligation:</u> Name	Original Issue Amount	Maturity Date	Interest Rate	Current Balance
Series 2004 Combination Tax and Revenue Certificates of Obligation	\$ 1,500,000	2/15/2019	4.65%	\$ 395,000
Series 2008 Certificates of Obligation	6,375,000	4/30/2023	3.39%	3,370,000
Series 2010 Certificates of Obligation	4,099,000	12/15/2020	3.02%	2,204,000
				<u>\$ 5,969,000</u>

Notes Payable:

Name	Original Issue Amount	Maturity Date	Interest Rate	Current Balance
Governmental Capital Corporation - Contract #6209	125,000	1/15/2017	2.66%	\$ 31,800
Governmental Capital Corporation - Contract #6464	125,000	4/15/2018	3.20%	51,444
Governmental Capital Corporation - Contract #6485	41,960	4/15/2017	4.53%	10,845
Governmental Capital Corporation - Contract #6722	73,924	8/1/2018	4.31%	38,018
Governmental Capital Corporation - Contract #6795	125,000	8/1/2018	4.31%	64,412
Governmental Capital Corporation - Contract #6851	150,000	12/5/2019	3.20%	121,223
Governmental Capital Corporation - Contract #6235	149,105	12/5/2019	3.20%	142,640
				<u>\$ 460,382</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Adjustments	Ending Balance	Due Within One Year	Interest
Governmental activities							
Certificates of obligation	\$ 6,911,000	\$ -	\$ 942,000	\$ -	\$ 5,969,000	\$ 975,000	\$ 211,828
Notes/Leases	514,483	142,640	196,741	-	460,382	185,150	16,988
Net Pension Liability	(191,643)	2,290,760	580,665	-	1,518,452	-	-
Compensated absences	400,464	477,979	401,556	-	476,887	95,377	-
Total governmental activity							
Long-term liabilities	<u>\$ 7,634,304</u>	<u>\$ 2,911,379</u>	<u>\$ 2,120,962</u>	<u>\$ -</u>	<u>\$ 8,424,721</u>	<u>\$ 1,255,527</u>	<u>\$ 228,816</u>

For the governmental activities, compensated absences are generally liquidated by the General Fund and Road & Bridge funds.

Debt Service Requirements

Debt service requirements for certificates of obligation are as follows:

Year Ending September 30,	Principal	Interest	Total Requirements
2017	\$ 975,000	\$ 189,998	\$ 1,164,998
2018	1,007,000	156,610	1,163,610
2019	1,045,000	121,985	1,166,985
2020	934,000	89,467	1,023,467
2021	963,000	59,273	1,022,273
2022-2023	<u>1,045,000</u>	<u>53,393</u>	<u>1,098,393</u>
Total	<u>\$ 5,969,000</u>	<u>\$ 670,726</u>	<u>\$ 6,639,726</u>

Debt Service requirements for notes are as follows:

Year Ending September 30,	Principal	Interest	Total Requirements
2017	\$ 190,150	\$ 11,467	\$ 201,617
2018	153,207	6,169	159,376
2019	115,798	2,079	117,877
2020	<u>1,227</u>	<u>1,018</u>	<u>2,245</u>
Total	<u>\$ 460,382</u>	<u>\$ 20,733</u>	<u>\$ 481,115</u>

V. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The County's risk management program encompasses various means of protecting the County against loss by obtaining property, casualty, liability and other coverage through participation in the Texas Association of Counties – County Government Risk Management Pool, a public entity risk pool. The County pays an annual premium for its coverage. As claims are filed, the County pays the applicable deductible amount and the risk pool pays the additional amounts over the deductible, up to the applicable limit of liability. As of September 30, 2016, the County had not liability for unpaid claims or adjustments under policies carried with the risk pool. During the year ended September 30, 2016, there was no reduction in insurance coverage from the prior year. There were no settlements in the prior three fiscal years, which exceeded insurance coverage carried by the County.

As of October 1, 2004, employees of the County were covered by a health insurance plan. All premiums were paid to a licensed insurer. The plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

VI. CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, many constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

There are currently claims and lawsuits pending against the County. It is the opinion of the County Attorney and County Staff that there is no pending litigation against the County that, if decided against the County, would have material adverse effect upon the operations of the County.

VII. DEFINED BENEFIT PENSION PLAN

Plan Description

Van Zandt County participates in a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (“TCDRS”). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent, multiple-employer, public employee retirement system consisting of nontraditional defined benefit pension plans. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tcdrs.org.

All full and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.

Benefits Provided. TCDRS provides retirement, disability and survivor benefits for all eligible employees. Benefit terms are established by the TCDRS Act. The benefit terms may be amended as of January 1, each year, but must remain in conformity with the Act.

Members can retire at ages 60 and above with eight or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee’s contribution 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 contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act. Updated annuity purchase rates will go into effect for post-2017 benefit accruals earned after 2017. Benefits accrued before 2018 will not be impacted by this update. This change was reflected in the 2015 actuarial valuation.

Plan Membership

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	128
Inactive employees entitled to but not yet receiving benefits	257
Active employees	<u>235</u>
	<u>620</u>

Contributions

The contribution rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employee gross earnings, as adopted by the employer's governing body. Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer's plan. Under the state law governing TCDRS, the contribution rate for each entity is determined annually by the actuary and approved by the TCDRS Board of Trustees. The replacement life entry age actuarial cost method is used in determining the contribution rate. The actuarially determined rate is the estimated amount necessary to fund benefits in an orderly manner for each participant over his or her career so that sufficient funds are accumulated by the time benefit payments begin, with an additional amount to finance any unfunded accrued liability

Employees for the County were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the County were 8.16% and 7.94% in calendar years 2015 and 2016, respectively. The County's contributions to TCDRS for the year ended September 30, 2016, were \$ 559,065 and were equal to the required contributions.

Net Pension Liability of the County

The County's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2015 actuarial evaluation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.5% per year
Investment rate of return	8.0%, net of pension plan investment expense, including inflation

Mortality rates for active members, retirees, and beneficiaries were based on the following:

Depositing members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.
Service retirees, beneficiaries and non-depositing members	The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females.
Disabled retirees	RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

The actuarial assumptions that determined the total pension liability as of December 31, 2015, were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2012, except for mortality assumptions. Mortality assumptions were updated for the 2015 valuation to reflect projected improvements.

The long-term expected rate of return on pension plan investments is 8.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. The application of the investment return assumption was changed for purposes of determining plan liabilities in the 2015 actuarial valuation. All plan liabilities are now valued using an 8% discount rate. Previously, some liabilities were valued using a 7% discount rate and others were valued using a 9% discount rate.

The long-term expected rate of return on TCDRS is determined by adding inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information below are based on January 2016 information for a 7 to 10 year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. The target allocation and best estimates of geometric real rates return for each major assets class are summarized in the following table:

Asset Class	Benchmark	Target Allocation⁽¹⁾	Geometric Real Rate of Return (Expected minus Inflation)⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	14.50%	5.45%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	14.00%	8.45%
Global Equities	MSCI World (net) Index	1.50%	5.75%
International Equities - Developed	MSCI World Ex USA (net)	10.00%	5.45%
International Equities - Emerging	MSCI World Ex USA (net)	8.00%	6.45%
Investment-Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	1.00%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	5.10%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	5.09%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	5.00%	6.40%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	8.10%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	3.00%	4.00%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	6.80%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁴⁾	5.00%	6.90%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	25.00%	5.25%

⁽¹⁾ Target asset allocation adopted at the April 2016 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return in addition to assumed inflation of 1.6% per Cliffwater's 2016 capital market assumptions.

⁽³⁾ Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

⁽⁴⁾ Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

Discount Rate

The discount rates used to measure the Total Pension Liability was 8.1%. The projection of cash flows used to determine the discount rate assumed that the employee and employer contributions will be made at the rates specified in the statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2014	\$ 24,023,497	\$ 24,215,140	\$(191,643)
Changes for the year:			
Service cost	796,066	-	796,066
Interest on total pension liability ⁽¹⁾	1,932,289	-	1,932,289
Effect of plan changes ⁽²⁾	(98,883)	-	(98,883)
Effect of economic/demographic gains or losses	(136,245)	-	(136,245)
Effect of assumptions changes or inputs	267,104	-	267,104
Refund of contributions	(205,175)	(205,175)	-
Benefit payments	(1,101,952)	(1,101,952)	-
Administrative expenses	-	(17,320)	17,320
Member contributions	-	498,099	(498,099)
Net investment income	-	(24,407)	24,407
Employer contributions	-	580,642	(580,642)
Other ⁽³⁾	-	13,222	(13,222)
Balance at 12/31/2015	<u>\$ 25,476,701</u>	<u>\$ 23,958,249</u>	<u>\$ 1,518,452</u>

⁽¹⁾ Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

⁽²⁾ Reflects new annuity purchase rates applicable to all TCDRS employers effective January 1, 2018.

⁽³⁾ Relates to allocation of system-wide items.

The required schedule of changes in the County's net pension liability and related ratios immediately following the notes to the financial statements presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the total pension liability.

Sensitivity Analysis

The following presents the net pension liability of the County, calculated using the discount rate of 8.10%, as well as what the Van Zandt County net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	7.1%	8.1%	9.1%
Total pension liability	\$ 28,591,764	\$ 25,476,701	\$ 22,879,779
Fiduciary net position	<u>23,958,249</u>	<u>23,958,249</u>	<u>23,958,249</u>
Net pension liability/(asset)	<u>\$ 4,633,515</u>	<u>\$ 1,518,452</u>	<u>\$(1,078,470)</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TCDRS financial report. The report may be obtained on the Internet at www.tcdrs.org

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the County recognized pension expense of \$652,180. At September 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 108,065
Changes in actuarial assumptions	178,069	-
Net difference between projected and actual investment earnings	1,778,297	-
Contributions made subsequent to the measurement date	<u>411,478</u>	<u>-</u>
Total	<u>\$ 2,367,844</u>	<u>\$ 108,065</u>

Country contributions subsequent to the measurement date of \$411,478 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended September 30,</u>	
2017	\$ 486,223
2018	503,457
2019	459,838
2020	398,783

**REQUIRED SUPPLEMENTARY
INFORMATION**

VAN ZANDT COUNTY, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE COUNTY'S NET PENSION LIABILITY
AND RELATED RATIOS**

SEPTEMBER 30, 2016

Plan Year Ended December 31	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 782,515	\$ 796,066
Interest on total pension liability	1,820,701	1,932,289
Effect of plan changes	-	(98,883)
Effect of assumption changes or inputs	-	267,104
Effect of economic/demographic (gains) or losses	(51,704)	(136,245)
Benefit payments/refunds of contributions	<u>(1,220,569)</u>	<u>(1,307,127)</u>
Net change in total pension liability	1,330,943	1,453,204
Total pension liability, beginning	<u>22,692,554</u>	<u>24,023,497</u>
Total pension liability, ending (a)	<u>\$ 24,023,497</u>	<u>\$ 25,476,701</u>
Fiduciary Net Position		
Employer contributions	\$ 552,153	\$ 580,642
Member contributions	453,117	498,099
Investment income net of investment expenses	1,557,818	(24,407)
Benefit payments/refunds of contributions	(1,220,569)	(1,307,127)
Administrative expenses	(18,133)	(17,320)
Other	<u>(1,752)</u>	<u>13,222</u>
Net change in fiduciary net position	1,322,634	(256,891)
Fiduciary net position, beginning	<u>22,892,506</u>	<u>24,215,140</u>
Fiduciary net position, ending (b)	\$ 24,215,140	\$ 23,958,249
Net pension liability/(asset), ending = (a)-(b)	<u>\$ (191,643)</u>	<u>\$ 1,518,452</u>
Fiduciary net position as a % of total pension liability	100.80%	94.04%
Pensionable covered payroll	\$ 6,473,107	\$ 7,115,698
Net pension liability as a % of covered payroll	-2.96%	21.34%

Notes to the Schedule:

This schedule will present 10 years of information once it is accumulated.

VAN ZANDT COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
SEPTEMBER 30, 2016

Fiscal Year Ended September 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	552,153	552,153	-	6,473,107	8.5%
2015	559,065	559,065	-	6,781,850	8.2%
2016	563,702	563,705	-	7,032,802	8.0%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.00%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions	No changes in plan provisions are reflected in the Schedule of Employer Contributions.

Note: This schedule is required to have 10 years of information, but the information prior to 2014 is not available.

VAN ZANDT COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND
DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget Original	Budget Final	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Property Taxes:				
Taxes - current	\$ 7,867,526	\$ 7,934,866	\$ 7,867,526	\$(67,340)
Taxes - delinquent	202,283	200,000	202,283	2,283
Penalty and collection fees	137,389	140,000	137,389	(2,611)
Total Property Taxes	<u>8,207,198</u>	<u>8,274,866</u>	<u>8,207,198</u>	<u>(67,668)</u>
Fees of Office:				
County judge	13,916	13,000	13,916	916
County sheriff	61,232	70,000	61,232	(8,768)
County clerk fees	345,105	350,000	345,105	(4,895)
County library fees	8,956	7,000	8,956	1,956
Tyler eagle internet	15,736	11,000	15,736	4,736
Tax assessor-collector	461,898	433,000	461,898	28,898
Child safety-tax office	81,414	72,500	81,414	8,914
District attorney	26,873	20,000	26,873	6,873
District clerk	132,059	122,100	132,059	9,959
Justice of the peace	130,964	191,525	130,964	(60,561)
Constable	24,298	17,500	24,298	6,798
Probation	66	110	66	(44)
Jury fees	19,138	7,958	19,138	11,180
District court	143,642	190,000	143,642	(46,358)
Justice court	314,907	320,000	314,907	(5,093)
Legal fees/reimbursements	136,897	151,000	136,897	(14,103)
Citizens collection station	61,784	54,950	61,784	6,834
Inmate telephone revenue	34,722	28,000	34,722	6,722
Total fees	<u>2,013,607</u>	<u>2,059,643</u>	<u>2,013,607</u>	<u>(46,036)</u>
Intergovernmental Revenues:				
Intergovernmental revenues	246,410	246,410	246,410	-
Total Intergovernmental Revenues	<u>246,410</u>	<u>246,410</u>	<u>246,410</u>	<u>-</u>
Investment Earnings:				
Depository interest	2,800	6,800	14,181	7,381
Total Investment Earnings	<u>2,800</u>	<u>6,800</u>	<u>14,181</u>	<u>7,381</u>
Other Revenues and Fees:				
Rentals	8,300	8,300	7,200	(1,100)
Party reimbursement	-	-	1,931	1,931
Lease-adult probation	2,000	2,000	1,738	(262)
Tax sale excess proceeds	-	5,114	8,856	3,742
Other revenues	52,000	59,000	182,327	123,327
Open records request	250	250	1,461	1,211
Grant proceeds	500	500	-	(500)
Total Other Revenues and Fees	<u>63,050</u>	<u>75,164</u>	<u>203,513</u>	<u>128,349</u>
Total Revenues	<u>\$ 10,533,065</u>	<u>\$ 10,662,883</u>	<u>\$ 10,684,909</u>	<u>\$ 22,026</u>

VAN ZANDT COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND
DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget Original	Budget Final	Actual	Variance With Final Budget Positive (Negative)
EXPENDITURES				
General Government:				
County judge	\$ 145,731	\$ 145,731	\$ 145,960	\$(229)
Commissioners' court	350	350	67	283
County clerk	299,114	299,114	286,893	12,221
Elections	77,143	77,143	72,456	4,687
Non-department	397,875	442,720	418,479	24,241
Contracts	608,120	613,506	610,268	3,238
Veterans	5,872	5,872	5,844	28
Collection department	74,578	74,578	65,580	8,998
County auditor	213,180	213,180	214,593	(1,413)
County treasurer	141,349	141,349	129,256	12,093
Tax collector	298,956	298,956	291,284	7,672
Data processing	501,140	516,254	479,136	37,118
Public buildings	199,705	222,705	215,512	7,193
Total General Government	<u>2,963,113</u>	<u>3,051,458</u>	<u>2,935,328</u>	<u>116,130</u>
Judicial System:				
County court	13,431	10,500	6,655	3,845
Juvenile county court	7,500	7,700	6,249	1,451
District courts	359,362	434,362	427,491	6,871
Adult district court	322,000	322,000	343,635	(21,635)
County court at law	370,109	370,109	358,580	11,529
District clerk	234,379	234,379	230,846	3,533
Justices of the peace	484,113	471,988	433,560	38,428
District attorney	558,620	558,620	521,352	37,268
Capital murder	-	17,438	17,438	-
Total Judicial System	<u>2,349,514</u>	<u>2,427,096</u>	<u>2,345,806</u>	<u>81,290</u>
Public Safety:				
Constables	225,997	231,722	227,985	3,737
Adult probation	1,600	1,600	97	1,503
Sheriff's department	2,032,891	2,231,393	2,153,061	78,332
Jail	2,169,802	2,169,802	2,155,004	14,798
Department of public safety	37,390	37,390	37,450	(60)
Total Public Safety	<u>4,467,680</u>	<u>4,671,907</u>	<u>4,573,597</u>	<u>98,310</u>
Conservation:				
Extension service	81,496	81,496	79,998	1,498
Total Conservation	<u>\$ 81,496</u>	<u>\$ 81,496</u>	<u>\$ 79,998</u>	<u>\$ 1,498</u>

VAN ZANDT COUNTY, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND**

**DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget Original	Budget Final	Actual	Variance With Final Budget Positive (Negative)
EXPENDITURES (Cont'd)				
Culture and Recreation:				
County free library	\$ 107,471	\$ 107,471	\$ 99,663	\$ 7,808
Office	<u>18,253</u>	<u>18,253</u>	<u>17,982</u>	<u>271</u>
Total Culture and Recreation	<u>125,724</u>	<u>125,724</u>	<u>117,645</u>	<u>8,079</u>
Highways and Bridges:				
Support	<u>38,856</u>	<u>38,856</u>	<u>38,412</u>	<u>444</u>
Total Highways and Bridges	<u>38,856</u>	<u>38,856</u>	<u>38,412</u>	<u>444</u>
Sanitation:				
Collection	<u>54,622</u>	<u>54,622</u>	<u>59,509</u>	<u>(4,887)</u>
Total Sanitation	<u>54,622</u>	<u>54,622</u>	<u>59,509</u>	<u>(4,887)</u>
Indigent Health Fund:				
Indigent health	40,031	40,031	35,101	4,930
Office	<u>161,050</u>	<u>161,050</u>	<u>49,829</u>	<u>111,221</u>
Total Indigent Health	<u>201,081</u>	<u>201,081</u>	<u>84,930</u>	<u>116,151</u>
Capital Outlay:				
Public buildings	13,250	112,256	110,560	1,696
Jail	26,033	26,033	7,714	18,319
Sheriff department	<u>-</u>	<u>36,621</u>	<u>36,588</u>	<u>33</u>
Total Capital Outlay	<u>\$ 39,283</u>	<u>\$ 174,910</u>	<u>\$ 154,862</u>	<u>\$ 20,048</u>

VAN ZANDT COUNTY, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget Original	Budget Final	Actual	Variance With Final Budget Positive (Negative)
EXPENDITURES (Cont'd)				
Debt Service:				
Principal	\$ 168,571	\$ 168,571	\$ 164,069	\$ 4,502
Interest	14,402	14,402	13,974	428
Total Debt Service	182,973	182,973	178,043	4,930
Total Expenditures	10,504,342	11,010,123	10,568,130	441,993
Excess of Revenues Over Expenditures	28,723	(347,240)	116,779	464,019
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	-	114,281	268,059	153,778
Transfers in	40,000	35,000	40,000	5,000
Transfers out	(198,000)	(198,000)	(195,917)	2,083
Total Other Financing Sources (Uses)	(158,000)	(48,719)	112,142	160,861
NET CHANGE IN FUND BALANCE	(129,277)	(395,959)	228,921	624,880
FUND BALANCE, SEPTEMBER 30, 2015	(287,474)	(287,474)	(287,474)	-
FUND BALANCE, SEPTEMBER 30, 2016	\$(416,751)	\$(683,433)	\$(58,553)	\$ 624,880

VAN ZANDT COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SPECIAL REVENUE FUND - ROAD AND BRIDGE - PRECINCT 1
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget Original	Budget Final	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Tax Revenue				
Taxes - current	\$ 544,066	\$ 544,066	\$ 528,133	\$(15,933)
Taxes - delinquent	13,500	13,500	12,378	(1,122)
Penalty/interest	9,000	9,000	9,223	223
Total Tax Revenue	<u>566,566</u>	<u>566,566</u>	<u>549,734</u>	<u>(16,832)</u>
Permits, Licenses and Fees:				
Other Fees	<u>290,407</u>	<u>290,407</u>	<u>293,615</u>	<u>3,208</u>
Total Permits, Licenses and Fees	<u>290,407</u>	<u>290,407</u>	<u>293,615</u>	<u>3,208</u>
Investment Earnings:				
Depository interest	<u>-</u>	<u>-</u>	<u>1,161</u>	<u>1,161</u>
Total Investment Earnings	<u>-</u>	<u>-</u>	<u>1,161</u>	<u>1,161</u>
Total Revenues	<u>856,973</u>	<u>856,973</u>	<u>844,510</u>	<u>(12,463)</u>
EXPENDITURES				
Current:				
Highways and bridges	<u>878,561</u>	<u>1,078,901</u>	<u>989,741</u>	<u>89,160</u>
Total Highways and Bridges	<u>878,561</u>	<u>1,078,901</u>	<u>989,741</u>	<u>89,160</u>
Capital Outlay:				
Equipment	<u>16,500</u>	<u>16,500</u>	<u>185,000</u>	<u>(168,500)</u>
Total Capital Outlay	<u>16,500</u>	<u>16,500</u>	<u>185,000</u>	<u>(168,500)</u>
Debt Service:				
Principal payments	15,195	15,195	14,630	565
Interest and fiscal charges	<u>525</u>	<u>525</u>	<u>492</u>	<u>33</u>
Total Debt Service	<u>15,720</u>	<u>15,720</u>	<u>15,122</u>	<u>598</u>
Total Expenditures	<u>910,781</u>	<u>1,111,121</u>	<u>1,189,863</u>	<u>(78,742)</u>
Excess of Revenues Over (Under) Expenditures	<u>(53,808)</u>	<u>(254,148)</u>	<u>(345,353)</u>	<u>(91,205)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from the Sale of Assets	-	-	142,640	142,640
Insurance proceeds	-	1,260	1,260	-
Transfers in	-	99,257	99,257	-
Transfers out	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(10,000)</u>	<u>90,517</u>	<u>233,157</u>	<u>142,640</u>
NET CHANGE IN FUND BALANCE	<u>(63,808)</u>	<u>(163,631)</u>	<u>(112,196)</u>	<u>51,435</u>
FUND BALANCE, SEPTEMBER 30, 2015	<u>425,263</u>	<u>425,263</u>	<u>425,263</u>	<u>-</u>
FUND BALANCE, SEPTEMBER 30, 2016	<u>\$ 361,455</u>	<u>\$ 261,632</u>	<u>\$ 313,067</u>	<u>\$ 51,435</u>

VAN ZANDT COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SPECIAL REVENUE FUND - ROAD AND BRIDGE- PRECINCT 2
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget Original	Budget Final	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Tax Revenue:				
Taxes - current	\$ 655,394	\$ 655,394	\$ 636,200	\$(19,194)
Taxes - delinquent	16,500	16,500	21,337	4,837
Penalty/interest	10,000	10,000	11,110	1,110
Total Tax Revenue	<u>681,894</u>	<u>681,894</u>	<u>668,647</u>	<u>(13,247)</u>
Permits, Licenses and Fees:				
Other fees	442,407	445,407	467,126	21,719
Total Permits, Licenses and Fees	<u>442,407</u>	<u>445,407</u>	<u>467,126</u>	<u>21,719</u>
Investment Earnings:				
Depository interest	-	-	1,964	1,964
Total Investment Earnings	<u>-</u>	<u>-</u>	<u>1,964</u>	<u>1,964</u>
Other Revenues:				
Donations	-	18,308	11,058	(7,250)
Total Other Revenues	<u>-</u>	<u>18,308</u>	<u>11,058</u>	<u>(7,250)</u>
Total Revenues	<u>1,124,301</u>	<u>1,145,609</u>	<u>1,148,795</u>	<u>3,186</u>
EXPENDITURES				
Current:				
Highways and bridges	1,038,825	3,962,859	2,724,574	1,238,285
Total Highways and Bridges	<u>1,038,825</u>	<u>3,962,859</u>	<u>2,724,574</u>	<u>1,238,285</u>
Capital Outlay:				
Capital outlay	20,000	30,000	29,000	1,000
Total Capital Outlays	<u>20,000</u>	<u>30,000</u>	<u>29,000</u>	<u>1,000</u>
Debt Service:				
Principal payments	17,870	17,870	17,772	98
Interest and fiscal charges	2,410	2,410	2,508	(98)
Total Debt Service	<u>20,280</u>	<u>20,280</u>	<u>20,280</u>	<u>-</u>
Total Expenditures	<u>1,079,105</u>	<u>4,013,139</u>	<u>2,773,854</u>	<u>1,239,285</u>
Excess of Revenues Over (Under) Expenditures	45,196	(2,867,530)	(1,625,059)	1,242,471
OTHER FINANCING SOURCES (USES)				
Transfers in	-	2,812,726	2,812,726	-
Transfers out	(10,000)	(10,000)	(10,000)	-
Total Other Financing Source (Uses)	<u>(10,000)</u>	<u>2,802,726</u>	<u>2,802,726</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	35,196	(64,804)	1,177,667	1,242,471
FUND BALANCE, SEPTEMBER 30, 2015	<u>407,877</u>	<u>407,877</u>	<u>407,877</u>	<u>-</u>
FUND BALANCE, SEPTEMBER 30, 2016	<u>\$ 443,073</u>	<u>\$ 343,073</u>	<u>\$ 1,585,544</u>	<u>\$ 1,242,471</u>

VAN ZANDT COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SPECIAL REVENUE FUND - ROAD AND BRIDGE - PRECINCT 3
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget Original	Budget Final	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Tax Revenue:				
Taxes - current	\$ 553,439	\$ 553,439	\$ 537,231	\$(16,208)
Taxes - delinquent	14,500	14,500	13,133	(1,367)
Penalty/interest	9,500	9,500	9,382	(118)
Total Tax Revenue	<u>577,439</u>	<u>577,439</u>	<u>559,746</u>	<u>(17,693)</u>
Permits, Licenses and Fees:				
Other fees	294,328	294,328	300,659	6,331
Total Permits, Licenses and Fees	<u>294,328</u>	<u>294,328</u>	<u>300,659</u>	<u>6,331</u>
Investment Earning:				
Depository interest	-	-	1,172	1,172
Total Investment Earning	<u>-</u>	<u>-</u>	<u>1,172</u>	<u>1,172</u>
Other Revenue:				
Donations	-	7,000	7,075	75
Other misc. revenue	-	-	1,300	1,300
Total Other Revenue	<u>-</u>	<u>7,000</u>	<u>8,375</u>	<u>1,375</u>
Total Revenues	<u>871,767</u>	<u>878,767</u>	<u>869,952</u>	<u>(8,815)</u>
EXPENDITURES				
Current:				
Highways and bridges	799,331	1,276,618	1,206,568	70,050
Total Highways and Bridges	<u>799,331</u>	<u>1,276,618</u>	<u>1,206,568</u>	<u>70,050</u>
Total Expenditures	<u>799,331</u>	<u>1,276,618</u>	<u>1,206,568</u>	<u>70,050</u>
Excess of Revenues Over (Under) Expenditures	<u>72,436</u>	<u>(397,851)</u>	<u>(336,616)</u>	<u>61,235</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	445,287	445,287	-
Transfers out	(10,000)	(10,000)	(10,000)	-
Total Other Financing Sources (Uses)	<u>(10,000)</u>	<u>435,287</u>	<u>435,287</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>62,436</u>	<u>37,436</u>	<u>98,671</u>	<u>61,235</u>
FUND BALANCE, SEPTEMBER 30, 2015	<u>103,786</u>	<u>103,786</u>	<u>103,786</u>	<u>-</u>
FUND BALANCE, SEPTEMBER 30, 2016	<u>\$ 166,222</u>	<u>\$ 141,222</u>	<u>\$ 202,457</u>	<u>\$ 61,235</u>

VAN ZANDT COUNTY, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
SPECIAL REVENUE FUND - ROAD AND BRIDGE - PRECINCT 4
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget Original	Budget Final	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Tax Revenue:				
Taxes - current	\$ 533,094	\$ 533,094	\$ 517,482	\$(15,612)
Taxes - delinquent	16,500	16,500	11,493	(5,007)
Penalty/interest	7,150	7,150	9,037	1,887
Total Tax Revenue	<u>556,744</u>	<u>556,744</u>	<u>538,012</u>	<u>(18,732)</u>
Permits, Licenses and Fees:				
Other fees	317,983	317,983	293,890	(24,093)
Total Permits, Licenses and Fees	<u>317,983</u>	<u>317,983</u>	<u>293,890</u>	<u>(24,093)</u>
Investment Earning:				
Depository interest	-	-	1,714	1,714
Total Investment Earning	<u>-</u>	<u>-</u>	<u>1,714</u>	<u>1,714</u>
Other Revenue:				
Donations	-	201,887	201,776	(111)
Total Other Revenues	<u>-</u>	<u>201,887</u>	<u>201,776</u>	<u>(111)</u>
Total Revenues	<u>874,727</u>	<u>1,076,614</u>	<u>1,035,392</u>	<u>(41,222)</u>
EXPENDITURES				
Current:				
Highways and bridges	863,678	1,609,496	1,619,904	(10,408)
Total Highway and Bridges	<u>863,678</u>	<u>1,609,496</u>	<u>1,619,904</u>	<u>(10,408)</u>
Capital Outlay:				
Equipment	-	33,500	3,250	30,250
Total Capital Outlay	<u>-</u>	<u>33,500</u>	<u>3,250</u>	<u>30,250</u>
Total Expenditures	<u>863,678</u>	<u>1,642,996</u>	<u>1,623,154</u>	<u>19,842</u>
Excess of Revenues Over (Under) Expenditures	<u>11,049</u>	<u>(566,382)</u>	<u>(587,762)</u>	<u>(21,380)</u>
OTHER FINANCING SOURCES (USES)				
Sale of asset	-	33,500	33,500	-
Insurance proceeds	-	-	4,429	4,429
Transfers in	-	143,931	197,368	53,437
Transfers out	(10,000)	(10,000)	(10,000)	-
Total Other Financing Sources (Uses)	<u>(10,000)</u>	<u>167,431</u>	<u>225,297</u>	<u>57,866</u>
NET CHANGE IN FUND BALANCE	1,049	(398,951)	(362,465)	36,486
FUND BALANCE, SEPTEMBER 30, 2015	<u>507,076</u>	<u>507,076</u>	<u>507,076</u>	<u>-</u>
FUND BALANCE, SEPTEMBER 30, 2016	<u>\$ 508,125</u>	<u>\$ 108,125</u>	<u>\$ 144,611</u>	<u>\$ 36,486</u>

VAN ZANDT COUNTY, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2016

Budgetary Information

The Commissioners' Court adopted an "appropriated budget" for the General Fund and Road and Bridge Precincts #1 – 4, which is included in the Special Revenue Funds. The County is required to present the adopted and final amended budgeted revenue and expenditures for each of these funds. The County compares the final amended budget to actual revenue and expenditures.

The following procedures are followed in establishing the budget:

1. Prior to September 1, the County prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them. The budget is prepared on the GAAP basis of accounting.
2. Public meetings are conducted to obtain taxpayer comments.
3. The budget is then legally enacted through adoption by the Commissioners' Court. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Court. Amendments are presented to the Court at its regular meetings. Each amendment must have Court approval. As required by law, such amendments made before the fact, are reflected in the official minutes of the Court, and are not made after fiscal year-end. Because the County has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Court. All budget appropriations lapse at year-end.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at September 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. The County had no outstanding end-of-year encumbrances.

COMBINING STATEMENTS

VAN ZANDT COUNTY, TEXAS

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

SEPTEMBER 30, 2016

	Law Library	Records Management	Building Security	District Attorney Check Collection
ASSETS				
Cash and investments	\$ 50,822	\$ 574,573	\$ 3,705	\$ 19,406
Receivables (net of allowance of uncollectibles)				
Accounts	2,835	23,601	2,238	134
Due from other Governments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total Assets	 <u>53,657</u>	 <u>598,174</u>	 <u>5,943</u>	 <u>19,540</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	6,709	-	-
Accrued liabilities	-	-	1,467	166
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total Liabilities	 <u>-</u>	 <u>6,709</u>	 <u>1,467</u>	 <u>166</u>
 DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - grants	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Fund Balances:				
Restricted:				
Court technology and security	-	-	4,476	-
Records management	-	591,465	-	-
Judicial	-	-	-	19,374
Public safety	-	-	-	-
Law library	53,657	-	-	-
Conservation	-	-	-	-
Economic development	-	-	-	-
Capital projects	-	-	-	-
Historical commission	-	-	-	-
Disaster relief	-	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total Fund Balances	 <u>53,657</u>	 <u>591,465</u>	 <u>4,476</u>	 <u>19,374</u>
 Total liabilities and fund balances	 <u>\$ 53,657</u>	 <u>\$ 598,174</u>	 <u>\$ 5,943</u>	 <u>\$ 19,540</u>

District Attorney Supplemental	LEOSE	Bullet Proof Vest Grant	Lonestar Library Grant	Justice Court Technology	Chapter 19
\$ 4,620	\$ 16,147	\$ -	\$ 407	\$ 24,668	\$ -
-	-	-	-	934	-
-	-	-	-	-	-
<u>4,620</u>	<u>16,147</u>	<u>-</u>	<u>407</u>	<u>25,602</u>	<u>-</u>
-	-	-	-	-	-
287	-	-	-	-	-
-	-	5,430	-	-	1,327
<u>287</u>	<u>-</u>	<u>5,430</u>	<u>-</u>	<u>-</u>	<u>1,327</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	25,602	-
-	-	-	-	-	-
4,333	-	-	-	-	-
-	16,147	-	-	-	-
-	-	-	407	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	(5,430)	-	-	(1,327)
<u>4,333</u>	<u>16,147</u>	<u>(5,430)</u>	<u>407</u>	<u>25,602</u>	<u>(1,327)</u>
<u>\$ 4,620</u>	<u>\$ 16,147</u>	<u>\$ -</u>	<u>\$ 407</u>	<u>\$ 25,602</u>	<u>\$ -</u>

VAN ZANDT COUNTY, TEXAS

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

SEPTEMBER 30, 2016

	Justice Court Building Security	County Road Funds	Asset Forfeiture	Abatement Officer
ASSETS				
Cash and investments	\$ 8,057	\$ 5,055	\$ 125,378	\$ 45,547
Receivables (net of allowance of uncollectibles)				
Accounts	226	-	-	11,900
Due from other Governments	-	-	-	-
	<u>8,283</u>	<u>5,055</u>	<u>125,378</u>	<u>57,447</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	-	587	601
Accrued liabilities	-	-	951	3,079
Due to other funds	-	-	-	-
	<u>-</u>	<u>-</u>	<u>1,538</u>	<u>3,680</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>1,538</u>	<u>3,680</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - grants	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted:				
Court technology and security	8,283	-	-	-
Records management	-	-	-	-
Judicial	-	-	-	-
Public safety	-	5,055	123,840	53,767
Law library	-	-	-	-
Conservation	-	-	-	-
Economic development	-	-	-	-
Capital projects	-	-	-	-
Historical commission	-	-	-	-
Disaster relief	-	-	-	-
Unassigned	-	-	-	-
	<u>8,283</u>	<u>5,055</u>	<u>123,840</u>	<u>53,767</u>
Total Fund Balances	<u>8,283</u>	<u>5,055</u>	<u>123,840</u>	<u>53,767</u>
Total liabilities and fund balances	<u>\$ 8,283</u>	<u>\$ 5,055</u>	<u>\$ 125,378</u>	<u>\$ 57,447</u>

Homeland Security	VOICES Grant	Solid Waste Grant	Historical Commission	Capital Projects Roads Precinct #1
\$ -	\$ -	\$ 203	\$ 9,127	\$ 172
-	-	-	-	-
-	-	-	-	-
-	-	203	9,127	172
-	-	-	-	-
-	-	-	-	-
303	2,743	-	-	-
303	2,743	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	203	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	172
-	-	-	9,127	-
-	-	-	-	-
(303)	(2,743)	-	-	-
(303)	(2,743)	203	9,127	172
\$ -	\$ -	\$ 203	\$ 9,127	\$ 172

VAN ZANDT COUNTY, TEXAS

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

SEPTEMBER 30, 2016

	Capital Projects Roads Precinct #4	Supplemental Guardianship	County Child Abuse	Appellate Justice
ASSETS				
Cash and investments	\$ 1	\$ 24,042	\$ 4,281	\$ 1,090
Receivables (net of allowance of uncollectible)				
Accounts	-	440	41	399
Due from other Governments	-	-	-	-
	<u>1</u>	<u>24,482</u>	<u>4,322</u>	<u>1,489</u>
Total Assets				
	<u>1</u>	<u>24,482</u>	<u>4,322</u>	<u>1,489</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	-	-	-
Accrued liabilities	-	-	-	-
Due to other funds	53,437	-	-	-
	<u>53,437</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities				
	<u>53,437</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - grants	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted:				
Court technology and security	-	-	-	-
Records management	-	-	-	-
Judicial	-	24,482	4,322	1,489
Public safety	-	-	-	-
Law library	-	-	-	-
Conservation	-	-	-	-
Economic development	-	-	-	-
Capital projects	-	-	-	-
Historical commission	-	-	-	-
Disaster relief	-	-	-	-
Unassigned	(53,436)	-	-	-
	<u>(53,436)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances				
	<u>(53,436)</u>	<u>24,482</u>	<u>4,322</u>	<u>1,489</u>
Total liabilities and fund balances				
	\$ <u>1</u>	\$ <u>24,482</u>	\$ <u>4,322</u>	\$ <u>1,489</u>

<u>Technology Resources</u>	<u>Juvenile Probation</u>	<u>Soil Conservation District</u>	<u>ETCOG Residential Grant</u>	<u>Ben Wheeler Water Supply Grant</u>	<u>Little Hope Water Supply Grant</u>
\$ 1	\$ -	\$ 20,349	\$ -	\$ -	\$ -
-	14,933	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1	14,933	20,349	-	-	-
<u>1</u>	<u>14,933</u>	<u>20,349</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	52,611	-	-	-	-
-	9,644	-	-	-	-
-	239,562	-	1,762	-	-
<u>-</u>	<u>301,817</u>	<u>-</u>	<u>1,762</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	20,349	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	(286,884)	-	(1,762)	-	-
<u>1</u>	<u>(286,884)</u>	<u>20,349</u>	<u>(1,762)</u>	<u>-</u>	<u>-</u>
\$ <u>1</u>	\$ <u>14,933</u>	\$ <u>20,349</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

VAN ZANDT COUNTY, TEXAS

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

SEPTEMBER 30, 2016

	Golden Water Supply Grant	Victim Coordinator Grant	Capital Credit Economic Development	Van Tornado Assistance
ASSETS				
Cash and investments	\$ -	\$ -	\$ 186,098	\$ -
Receivables (net of allowance of uncollectible Accounts	-	-	-	-
Due from other Governments	1,362	11,870	-	794,264
 Total Assets	1,362	11,870	186,098	794,264
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	114	-	-
Accrued liabilities	-	2,453	-	-
Due to other funds	-	14,128	-	43,989
 Total Liabilities	-	16,695	-	43,989
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - grants	-	-	-	757,887
Total deferred inflows of resources	-	-	-	757,887
Fund Balances:				
Restricted:				
Court technology and security	-	-	-	-
Records management	-	-	-	-
Judicial	-	-	-	-
Public safety	-	-	-	-
Law library	-	-	-	-
Conservation	-	-	-	-
Economic development	-	-	186,098	-
Capital projects	-	-	-	-
Historical commission	-	-	-	-
Disaster relief	-	-	-	(7,612)
Unassigned	1,362	(4,825)	-	-
 Total Fund Balances	1,362	(4,825)	186,098	(7,612)
 Total liabilities and fund balances	\$ 1,362	\$ 11,870	\$ 186,098	\$ 794,264

FEMA Dec 2015 Storm	FEMA April 2016 Storm	Contribution Relief Fund	Total Nonmajor Governmental Funds
\$ 471	\$ -	\$ 16,083	\$ 1,140,303
-	-	-	57,681
<u>67,556</u>	<u>162,412</u>	<u>-</u>	<u>1,037,464</u>
<u>68,027</u>	<u>162,412</u>	<u>16,083</u>	<u>2,235,448</u>
-	-	-	60,622
-	-	-	18,047
<u>-</u>	<u>-</u>	<u>-</u>	<u>362,681</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>441,350</u>
<u>67,556</u>	<u>162,412</u>	<u>-</u>	<u>987,855</u>
<u>67,556</u>	<u>162,412</u>	<u>-</u>	<u>987,855</u>
-	-	-	38,362
-	-	-	591,465
-	-	-	54,000
-	-	-	199,012
-	-	-	54,064
-	-	-	20,349
-	-	-	186,098
-	-	-	172
-	-	-	9,127
471	-	16,083	8,942
<u>-</u>	<u>-</u>	<u>-</u>	<u>(355,348)</u>
<u>471</u>	<u>-</u>	<u>16,083</u>	<u>806,243</u>
<u>\$ 471</u>	<u>\$ 162,412</u>	<u>\$ 16,083</u>	<u>\$ 2,235,448</u>

VAN ZANDT COUNTY, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Law Library	Records Management	Building Security	District Attorney Check Collection
REVENUES				
Permits, licenses and fees	\$ 29,925	\$ 274,857	\$ 26,676	\$ 2,851
Intergovernmental	-	-	-	-
Investment earnings	142	611	-	4
Other	-	-	-	-
	<u>30,067</u>	<u>275,468</u>	<u>26,676</u>	<u>2,855</u>
EXPENDITURES				
Current:				
General government	-	115,355	49,299	4,642
Judicial	27,316	16,421	-	-
Public safety	-	-	-	-
Conservation	-	-	-	-
Capital outlay	-	-	-	-
	<u>27,316</u>	<u>131,776</u>	<u>49,299</u>	<u>4,642</u>
Total Expenditures	<u>27,316</u>	<u>131,776</u>	<u>49,299</u>	<u>4,642</u>
EXCESS (DEFICIENCY) OVER REVENUES OVER (UNDER) EXPENDITURES	2,751	143,692	(22,623)	(1,787)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	25,000	-
Transfers out	-	-	-	-
	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	2,751	143,692	2,377	(1,787)
FUND BALANCES, BEGINNING	<u>50,906</u>	<u>447,773</u>	<u>2,099</u>	<u>21,161</u>
FUND BALANCES, ENDING	<u>\$ 53,657</u>	<u>\$ 591,465</u>	<u>\$ 4,476</u>	<u>\$ 19,374</u>

District Attorney Supplemental	LEOSE	Bullet Proof Vest Grant	Lonestar Library Grant	Justice Court Technology	Chapter 19
\$ -	\$ -	\$ -	\$ -	\$ 11,782	\$ -
15,000	6,642	-	32	-	1,891
13	-	-	-	7	-
-	-	-	-	-	-
<u>15,013</u>	<u>6,642</u>	<u>-</u>	<u>32</u>	<u>11,789</u>	<u>1,891</u>
35,991	-	-	-	-	331
-	-	-	-	-	-
-	2,286	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>35,991</u>	<u>2,286</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>331</u>
(20,978)	4,356	-	32	11,789	1,560
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(20,978)	4,356	-	32	11,789	1,560
<u>25,311</u>	<u>11,791</u>	<u>(5,430)</u>	<u>375</u>	<u>13,813</u>	<u>(2,887)</u>
<u>\$ 4,333</u>	<u>\$ 16,147</u>	<u>\$(5,430)</u>	<u>\$ 407</u>	<u>\$ 25,602</u>	<u>\$(1,327)</u>

VAN ZANDT COUNTY, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Justice Court Building Security	County Road Funds	Asset Forfeiture	Abatement Officer
REVENUES				
Permits, licenses and fees	\$ 2,836	\$ -	\$ 34,887	\$ 154,470
Intergovernmental	-	-	-	60,072
Investment earnings	-	-	271	-
Other	-	-	-	-
	<u>2,836</u>	<u>-</u>	<u>35,158</u>	<u>214,542</u>
Total Revenues				
	<u>2,836</u>	<u>-</u>	<u>35,158</u>	<u>214,542</u>
EXPENDITURES				
Current:				
General government	1,416	-	25,059	-
Judicial	-	-	-	-
Public safety	-	-	826	175,809
Conservation	-	-	-	-
Capital outlay	-	-	-	10,500
	<u>1,416</u>	<u>-</u>	<u>25,885</u>	<u>186,309</u>
Total Expenditures				
	<u>1,416</u>	<u>-</u>	<u>25,885</u>	<u>186,309</u>
EXCESS (DEFICIENCY) OVER REVENUES OVER (UNDER) EXPENDITURES	1,420	-	9,273	28,233
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	(12,806)	-
	<u>-</u>	<u>-</u>	<u>(12,806)</u>	<u>-</u>
Total Other Financing Sources (Uses)				
	<u>-</u>	<u>-</u>	<u>(12,806)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	1,420	-	(3,533)	28,233
FUND BALANCES, BEGINNING	<u>6,863</u>	<u>5,055</u>	<u>127,373</u>	<u>25,534</u>
FUND BALANCES, ENDING	<u>\$ 8,283</u>	<u>\$ 5,055</u>	<u>\$ 123,840</u>	<u>\$ 53,767</u>

Homeland Security	VOICES Grant	Solid Waste Grant	Historical Commission	Capital Projects Roads Precinct #1
\$ -	\$ -	\$ -	\$ -	\$ -
2,700	47,738	-	-	-
-	-	-	-	-
-	-	-	1,880	-
<u>2,700</u>	<u>47,738</u>	<u>-</u>	<u>1,880</u>	<u>-</u>
-	-	-	616	-
-	46,934	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>46,934</u>	<u>-</u>	<u>616</u>	<u>-</u>
2,700	804	-	1,264	-
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>2,700</u>	<u>804</u>	<u>-</u>	<u>1,264</u>	<u>-</u>
(3,003)	(3,547)	203	7,863	172
<u>\$(303)</u>	<u>\$(2,743)</u>	<u>\$ 203</u>	<u>\$ 9,127</u>	<u>\$ 172</u>

VAN ZANDT COUNTY, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Capital Projects Roads Precinct #4	Supplemental Guardianship	County Child Abuse	Appellate Justice
REVENUES				
Permits, licenses and fees	\$ -	\$ 4,420	\$ 494	\$ 4,244
Intergovernmental	-	-	-	-
Investment earnings	-	32	-	-
Other	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>-</u>	<u>4,452</u>	<u>494</u>	<u>4,244</u>
EXPENDITURES				
Current:				
General government	-	770	-	-
Judicial	-	-	-	4,185
Public safety	-	-	-	-
Conservation	-	-	-	-
Capital outlay	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>770</u>	<u>-</u>	<u>4,185</u>
EXCESS (DEFICIENCY) OVER REVENUES OVER (UNDER) EXPENDITURES	-	3,682	494	59
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	<u>(53,437)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(53,437)</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(53,437)</u>	<u>3,682</u>	<u>494</u>	<u>59</u>
FUND BALANCES, BEGINNING	<u>1</u>	<u>20,800</u>	<u>3,828</u>	<u>1,430</u>
FUND BALANCES, ENDING	<u><u>\$ (53,436)</u></u>	<u><u>\$ 24,482</u></u>	<u><u>\$ 4,322</u></u>	<u><u>\$ 1,489</u></u>

<u>Technology Resources</u>	<u>Juvenile Probation</u>	<u>Soil Conservation District</u>	<u>ETCOG Residential Grant</u>	<u>Ben Wheeler Water Supply Grant</u>	<u>Little Hope Water Supply Grant</u>
\$ -	\$ 200,145	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	72,485
-	-	59	-	-	-
-	907	-	-	-	-
<u>-</u>	<u>201,052</u>	<u>59</u>	<u>-</u>	<u>-</u>	<u>72,485</u>
-	-	-	1,762	-	72,485
-	-	-	-	-	-
-	482,280	-	-	-	-
-	-	6,000	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>482,280</u>	<u>6,000</u>	<u>1,762</u>	<u>-</u>	<u>72,485</u>
-	(281,228)	(5,941)	(1,762)	-	-
-	167,917	3,000	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>167,917</u>	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	(113,311)	(2,941)	(1,762)	-	-
<u>1</u>	<u>(173,573)</u>	<u>23,290</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 1</u>	<u>\$(286,884)</u>	<u>\$ 20,349</u>	<u>\$(1,762)</u>	<u>\$ -</u>	<u>\$ -</u>

VAN ZANDT COUNTY, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Golden Water Supply Grant	Victim Coordinator Grant	Capital Credit Economic Development	Van Tornado Assistance
REVENUES				
Permits, licenses and fees	\$ -	\$ -	\$ 64,235	\$ -
Intergovernmental	9,590	41,502	-	1,413,899
Investment earnings	-	-	288	-
Other	-	-	-	-
	<u>9,590</u>	<u>41,502</u>	<u>64,523</u>	<u>1,413,899</u>
Total Revenues	<u>9,590</u>	<u>41,502</u>	<u>64,523</u>	<u>1,413,899</u>
EXPENDITURES				
Current:				
General government	8,228	57,315	2,500	1,291
Judicial	-	-	-	-
Public safety	-	-	-	-
Conservation	-	-	-	-
Capital outlay	-	-	-	-
	<u>8,228</u>	<u>57,315</u>	<u>2,500</u>	<u>1,291</u>
Total Expenditures	<u>8,228</u>	<u>57,315</u>	<u>2,500</u>	<u>1,291</u>
EXCESS (DEFICIENCY) OVER REVENUES OVER (UNDER) EXPENDITURES	1,362	(15,813)	62,023	1,412,608
OTHER FINANCING SOURCES (USES)				
Transfers in	-	12,806	-	-
Transfers out	-	-	-	(1,348,787)
	<u>-</u>	<u>12,806</u>	<u>-</u>	<u>(1,348,787)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>12,806</u>	<u>-</u>	<u>(1,348,787)</u>
NET CHANGE IN FUND BALANCES	1,362	(3,007)	62,023	63,821
FUND BALANCES, BEGINNING	<u>-</u>	<u>(1,818)</u>	<u>124,075</u>	<u>(71,433)</u>
FUND BALANCES, ENDING	<u>\$ 1,362</u>	<u>\$ (4,825)</u>	<u>\$ 186,098</u>	<u>\$ (7,612)</u>

FEMA Dec 2015 Storm	FEMA April 2016 Storm	Contribution Relief Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 811,822
2,155,464	-	-	3,827,015
-	-	-	1,427
-	-	-	2,787
<u>2,155,464</u>	<u>-</u>	<u>-</u>	<u>4,643,051</u>
2,579	-	-	379,639
-	-	-	94,856
-	-	-	661,201
-	-	-	6,000
-	-	-	10,500
<u>2,579</u>	<u>-</u>	<u>-</u>	<u>1,152,196</u>
2,152,885	-	-	3,490,855
-	-	-	208,723
<u>(2,152,414)</u>	<u>-</u>	<u>-</u>	<u>(3,567,444)</u>
<u>(2,152,414)</u>	<u>-</u>	<u>-</u>	<u>(3,358,721)</u>
471	-	-	132,134
-	-	16,083	674,109
<u>\$ 471</u>	<u>\$ -</u>	<u>\$ 16,083</u>	<u>\$ 806,243</u>

VAN ZANDT COUNTY, TEXAS

**OTHER SUPPLEMENTARY INFORMATION
DEBT SERVICE FUND
DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budget Original	Budget Final	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Tax Revenue:				
Taxes - current	\$ 736,349	\$ 736,349	\$ 877,616	\$ 141,267
Taxes - delinquent	27,500	27,500	28,481	981
Penalty/interest	18,500	18,500	22,664	4,164
Total Tax Revenue	782,349	782,349	928,761	146,412
Investment Earning:				
Depository interest	250	250	6,691	6,441
Total Investment Earnings	250	250	6,691	6,441
Total Revenues	782,599	782,599	935,452	152,853
EXPENDITURES				
Debt Service:				
Principal payments	942,000	942,000	942,000	-
Interest and fiscal charges	211,805	211,828	211,828	-
Debt service fees	300	300	300	-
Total Debt Service	1,154,105	1,154,128	1,154,128	-
Total Expenditures	1,154,105	1,154,128	1,154,128	-
Excess of Revenues Over (Under) Expenditures	(371,506)	(371,529)	(218,676)	152,853
FUND BALANCE, SEPTEMBER 30, 2015	1,308,096	1,308,096	1,308,096	-
FUND BALANCE, SEPTEMBER 30, 2016	\$ 936,590	\$ 936,567	\$ 1,089,420	\$ 152,853

VAN ZANDT COUNTY, TEXAS

**COMBINING BALANCE SHEET
ALL AGENCY FUNDS**

SEPTEMBER 30, 2016

	<u>District Clerk</u>	<u>County Clerk</u>	<u>Sheriff</u>	<u>District Attorney</u>
ASSETS				
Cash and Cash equivalents	\$ <u>1,265,536</u>	\$ <u>751,966</u>	\$ <u>90,972</u>	\$ <u>92,005</u>
Total Assets	<u>1,265,536</u>	<u>751,966</u>	<u>90,972</u>	<u>92,005</u>
LIABILITIES				
Due to other agencies and individuals	<u>1,265,536</u>	<u>751,966</u>	<u>90,972</u>	<u>92,005</u>
Total Liabilities	<u>\$ 1,265,536</u>	<u>\$ 751,966</u>	<u>\$ 90,972</u>	<u>\$ 92,005</u>

<u>CSCD</u>	<u>Juvenile Probation</u>	<u>Tax Assessor/ Collector</u>	<u>Justice of the Peace</u>	<u>Constable</u>	<u>Total Agency Funds</u>
\$ <u>909,128</u>	\$ <u>126,566</u>	\$ <u>1,188,983</u>	\$ <u>32,741</u>	\$ <u>3,115</u>	\$ <u>4,461,012</u>
<u>909,128</u>	<u>126,566</u>	<u>1,188,983</u>	<u>32,741</u>	<u>3,115</u>	<u>4,461,012</u>
<u>909,128</u>	<u>126,566</u>	<u>1,188,983</u>	<u>32,741</u>	<u>3,115</u>	<u>4,461,012</u>
\$ <u><u>909,128</u></u>	\$ <u><u>126,566</u></u>	\$ <u><u>1,188,983</u></u>	\$ <u><u>32,741</u></u>	\$ <u><u>3,115</u></u>	\$ <u><u>4,461,012</u></u>

**SINGLE AUDIT
AND COMPLIANCE**



P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

To the Honorable County Judge
and Members of the Commissioners' Court
Van Zandt County, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Van Zandt County, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Van Zandt County, Texas' basic financial statements, and have issued our report thereon dated August 22, 2017.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the County'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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses: 2016-001, 2016-002, 2016-003, 2016-004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Van Zandt County, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2016-001, 2016-005, and 2016-006.

Van Zandt County, Texas' Response to Findings

Van Zandt County, Texas' response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Van Zandt County, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Pattillo, Brown + Hill, L.L.P.

Waco, Texas
August 22, 2017



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH UNIFORM GUIDANCE

To the Honorable County Judge and
Members of the Commissioners Court
Van Zandt County, Texas

Report on Compliance for Each Major Federal Program

We have audited Van Zandt County, Texas' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Van Zandt County, Texas' major federal programs for the year ended September 30, 2016. Van Zandt County, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Van Zandt County, Texas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about Van Zandt County, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Van Zandt County, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Report on Internal Control over Compliance

Management of Van Zandt County, Texas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Van Zandt County, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Van Zandt County, Texas' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-007.

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

The County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
August 22, 2017

VAN ZANDT COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Federal Grant/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantor's Number	Total Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed through the Texas Department of Agriculture:				
National School Lunch Program	10.555	N/A	\$ 15,208	\$ -
Total U.S. Department of Agriculture			<u>15,208</u>	<u>-</u>
U.S. Department of Housing and Urban Development				
Passed through Texas Department of Agriculture:				
Community Development Block Grant	14.228	7214056	8,228	-
Community Development Block Grant	14.228	713026	<u>74,453</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>82,681</u>	<u>-</u>
U.S. Department of Justice				
Direct Program:				
State Criminal Alien Assistance Program	16.606	2015-AP-BX-0102	<u>1,753</u>	<u>-</u>
Passed through Office of the Governor:				
Victim Coordinators Grant	16.575	2830702	<u>41,502</u>	<u>-</u>
Total U.S. Department of Justice			<u>43,255</u>	<u>-</u>
U.S. Department of Health and Human Services				
Passed through Office of the Governor				
Child Support Enforcement	93.563	N/A	<u>693</u>	<u>-</u>
Passed Through Texas Department of Family and Protective Services:				
Foster Care Title IV- E	93.658	23939566	991	-
Foster Care Title IV- E	93.658	23939570	<u>7,573</u>	<u>-</u>
Total passed through Texas Department of Family and Protective Services			<u>8,564</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>9,257</u>	<u>-</u>
U.S. Department of Homeland Security				
Passed through Texas Department of Public Safety				
Disaster Grants - Public Assistance	97.036	PA-06-TX-4223	1,993,817	-
Disaster Grants - Public Assistance	97.036	PA-06-TX-4255	<u>2,155,464</u>	<u>-</u>
Total passed through Texas Department of Public Safety			<u>4,149,281</u>	<u>-</u>
Passed through Office of the Governor:				
Homeland Security Grant - Interoperable Comm LETPA	97.067	2959201	<u>50,072</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>4,199,353</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 4,349,754</u>	<u>\$ -</u>

VAN ZANDT COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

1. GENERAL

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal award programs of Van Zandt County, Texas. The County's reporting entity is defined in Note 1 of the financial statements. Federal awards received directly from federal agencies, as well as awards passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note 1 of the financial statements. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

3. INDIRECT COSTS

The County has elected not to use the 10% de minimis indirect cost rate as allowed in the uniform Guidance.

VAN ZANDT COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted?

No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? 2016-007

Significant deficiency(ies) identified? None reported

Type of auditors' report issued on compliance for major federal programs

Unqualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of Uniform Guidance.

2016-007

Identification of major programs:

CFDA Number(s)
#97.036

Name of Federal Program or Cluster:
Flood Assistance

Dollar threshold used to distinguish between type A and type B federal programs

\$750,000

Auditee qualified as low-risk auditee for federal single audit?

No

VAN ZANDT COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

**Findings Relating to the Financial Statements
Which Are Required to be Reported in
Accordance with Generally Accepted
Auditing Standards:**

Finding 2016-001 – Pooled Cash (FinClear) Account – Unauthorized Borrowing of Funds

Criteria: Pooling of cash may promote unauthorized borrowing of cash between funds. If a fund uses more of the pooled cash than it is entitled to use, then the fund has borrowed from one of the other funds.

Condition: The County had several funds with deficit balances in the fund’s pooled cash (FinClear) account, including the General Fund. As a result, cash in funds with restrictive purposes, such as the Special Revenue funds of the County, were “borrowed” to cover the deficit cash balances in other funds. Lack of monitoring and review of pooled cash balances to prevent unauthorized borrowings.

Effect: Cash intended for specific purposes was borrowed inappropriately as cash can only be used for its intended purposes.

Recommendation: The cash balances of funds intended for specific purposes should be maintained in separate accounts to prevent unauthorized borrowings. Alternatively, a procedure for review of the pooled cash balances could be implemented to identify issues timely, so transfers of cash from TexPool or other sources can be initiated to cover deficits.

**Responsible Official’s
Response:**

Unauthorized borrowing of funds from cash in funds with restrictive purposes remains a problem for Van Zandt County Government as adequate revenue for the County’s General Fund has not and is not currently being provided to cover General Fund expenditures. The practice of not providing revenue to cover the expenditures of the General Fund Operations of the County is poor fiscal management and creates financial reporting issues for Van Zandt County Government. In addition, the general Fund does not have a Cash Reserve Fund available to draw upon to cover cash shortages. Van Zandt County’s Auditors Officer is in agreement that separate checking accounts will need to be maintained for Special Revenue Funds to prevent unauthorized borrowing. The FY 2018 budget has an additional auditor added to the current staff. This person will aid in maintaining and reconciling these accounts once the set up is complete.

Finding 2016-002 – Accounting Payable Processing

Criteria: Due care and diligence should be exercised by County personnel responsible for accounts payable processing to ensure bills are entered into the system with minimal error and no duplications. A vendor verification process should be in place to ensure new vendors are valid. Incompatible duties should be separated to mitigate risk.

Condition: During work performed, eight instances of duplicate checks being mailed were noted, with seven of those checks being returned by vendor for voiding. Numerous other instances were noted where duplicate checks were prepared, but were identified and voided prior to be mailed to vendors. Upon review of the County's general ledger, numerous instances of duplicate entries and subsequent correction or void checks were noted. The County has no vendor verification process in place to ensure vendors are valid. Vendor checks are prepared by the Treasurer's Office, sent to the County Auditor's Office for signature and then returned to the County Treasurer for distribution. Inadequate controls over the processing of accounts payable as well as lack of due care and diligence when entering bills to be paid.

Effect: The duplicate payment of invoices results in a reduction of County's cash that should not occur, especially during times when cash flow is tight. Duplicate entries and their subsequent correction results in the audit trail being difficult to follow with regards to the County's books as there are many unnecessary debts and credits that appear in the expenditure accounts. Duplicate entries should be a very seldom occurrence. With no vendor verification process, there is a potential for payments to be made to fictitious vendors. Since the County Treasurer's office prepares vendor checks, signed checks could be altered prior to distribution.

Recommendation: The County should revisit the procedures performed by the Treasurer's Office for accounts payable processing to determine what controls and processes need to be implemented or added to keep errors at a minimum. If improvements does not occur, the County should consider moving the accounts payable processing to the County Auditor's Office, with the Treasurer's Office being responsible only for the printing of the checks. The County should develop and implement a vendor verification process to mitigate risk of fictitious vendors. The procedure should be performed by the County Auditor's Office, since the County Treasurer's Office is responsible for setting up vendors in the system. Signed vendor checks should be distributed by personnel other than County Treasurer's Office personnel.

Responsible Official's

Response:

The County Treasurer and County Auditor Offices have agreed that when a W-9 for a new vendor is received; the vendor information will be given to the Auditor's Office to make a telephone call to verify the Vendor does exist. After the verification the Treasurer's Office will be notified to set up the new vendor. Also, the Auditor's Office will begin stuffing and mailing the accounts payable checks after the Treasurer and the Auditor signs the check. However, there were instances of duplicate invoices being paid and multiple in and out entries within expenditure accounts.

Finding 2016-003 – Segregation of Duties – JP #3

Criteria:

In a limited size office, complete segregation of duties is difficult to achieve. Processes can be put in place that when followed in a prescribed order, help to mitigate fraud risk.

Condition:

With regards to disbursements, the Clerk prepares the checks and presents them to the elected official for review and signature. The elected official then returns the checks to the clerk for the second signature and the clerk mails the check. The clerk is also responsible for preparing the bank reconciliation. As a result, fraud risk is increased as the person preparing the checks should not distribute the checks and reconcile the bank statement. Checks could potentially be altered and concealed since the person preparing the checks and distributing them also reconciles the bank statements. This is caused by lack of supervisory controls.

Effect:

Increased risk of fraud or error.

Recommendation:

The clerk should sign checks first and then give to the elected official for review and signature. The elected official should then seal check in envelope and distribute. The signed checks should not be returned to the clerk who prepared them. The elected official should also receive the unopened bank statement and review the transactions for appropriateness. The elected official should then either prepare the reconciliation or have the clerk prepare the reconciliation and then review it.

Responsible Official's

Response:

Agree with recommendation outlined above by Audit Firm.

Finding 2016-004 – Segregation of Duties – Sheriff's Office

Criteria:

Incompatible duties should be segregated in order to mitigate fraud risk.

Condition:

Improper segregation of duties was noted as the same employee is responsible for preparing and mailing cash disbursements and reconciling the bank statements. This employee also has access to blank check stock and is an authorized signer on the bank accounts.

Effect: Increased risk of fraud or error.

Recommendation: To improve controls, the employee who prepares the checks and has custody of the blank check stock should not have signature authority. Also, another employee should be responsible for reviewing signed checks along with their supporting documentation and should distribute them. Unopened bank statements should be received by the elected official for opening and review of the activity for appropriateness. The statement can then be forwarded to the employee responsible for preparing the bank reconciliation. Once complete, the bank reconciliations should be reviewed and approved by the elected official and County Auditor's office.

Responsible Official's Response:

Agree with Independent Auditor's recommendation. County Auditor will work with Sheriff's Department to implement appropriate procedure. The new person assigned to the County Auditor's office would have the ability to add controls to this office.

Finding 2016-05 – Purchase Order System and Budget Compliance

Criteria: The purpose of the purchase order system is to give the County means for overseeing the warrant process to ensure that the expenditures of any department do not exceed the budget appropriation for the department, which is outlined in Texas Local Government Code Section 111.092.

Condition: Expenditures exceeded appropriations in some County departments. Purchase orders were approved for which no budget appropriation was available and no amendment was obtained.

Effect: Noncompliance with Texas Local Government Code with regards to budget.

Recommendation: All departments should obtain purchase orders when required by policy. Purchase orders should not be issued and approved unless an unexpected balance remains in the line item to which the department is requesting the purchase be charged. Budget amendments, including line item transfers, should be prepared and approved by Commissioners' Court prior to the purchase order being approved. All County departments should evaluate each potential purchase carefully to ensure its absolute necessity for the operations of the County and forego unnecessary spending of taxpayer money in order to reduce expenditures and improve County's finances.

Responsible Official's Response:

County Auditor's Office agrees with recommendation.

Finding 2016-06 – Procurement Procedures over Capital Assets

<u>Criteria:</u>	There are several laws and procedures that govern purchases at the County. Capital assets that exceed a purchase price of \$50,000 are required to go out for bids under the Texas Local Government Code. The County also requires a purchase order for items that cost more than \$100.
<u>Condition and Context:</u>	The County purchased a motor grader that cost greater than \$50,000, but did not document that they went out for bids. The County also purchased a Chevy Tahoe for \$15,500 and no purchase order was completed.
<u>Cause:</u>	The purchase of the Tahoe was completed without a purchase order. This was a purchase out of a commissary account and the department that purchased the vehicle did not feel that a purchase order was required due to the purchase coming from restricted funds. The Commissioners' Court did approve the purchase of the motor grader in court but did not get any bids on that purchase.
<u>Effect:</u>	The County was not in compliance with Texas procurement laws or the County purchasing policy for these two purchases.
<u>Recommendation:</u>	The County should follow the purchasing policy that they have approved. This policy requires a purchase order for all items as a method showing proper approval for purchases. The County should also seek a reverse auction or request bids by informing potential vendors of specifications for used equipment when looking to purchase used equipment. With the purchasing function being under the County Auditor's office, a representative from that office should attend annual purchasing/procurement training annually. Purchasing laws and regulations change a lot and these trainings are a good way to stay informed of changes to these laws. In conjunction with the annual training, the County should also update their purchasing policy on an annual basis as well.
<u>Responsible Official's Response:</u>	The County Auditor's office agrees with the recommendation.

**Findings and Questioned
Costs for Federal Awards**

Finding 2016-007

Federal Grantor:	Department of Homeland Security
Program:	Disaster Grants – Public Assistance (PA-06-TX-4223, PA-06-TX-4255)
Compliance Requirement:	Procurement
Criteria:	Per 2 CFR 200.213, recipients of federal awards are prohibited from contracting with or making sub-awards to parties that are suspended, debarred or otherwise excluded from or ineligible for participation in federal or state assistance programs or activities.
Condition:	We identified instances in which no documentation could be provided by the County for the verification of vendor suspension or debarment status. The condition exists because of a lack of procurement procedures regarding suspended and debarred vendors or sub-awardees.
Effect:	The County could inadvertently make a sub-award to or contract with a suspended, debarred or otherwise excluded party. These costs could be subject to disallowance by a federal granting agency. In our testing, however, we did not note a situation where the County made a sub-award or contracted with suspended, debarred or otherwise excluded parties.
Recommendation:	We recommend the County implement a policy to verify that each entity it contracts with or makes sub-awards to is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the System for Award Management (www.sam.gov) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. Additionally, management or representatives of management should periodically conduct independent reviews of procurements and contracting activities to determine whether policies and procedures are being followed as intended.
Management's Response:	Before contracting or making any sub-awards in relation to federal funding, Van Zandt County will verify the suspension, debarment or exclusion status of any vendors to avoid awarding contracts to those not eligible for participation in federal or state assistance program activities. Van Zandt County will use www.sam.gov to accomplish this.

VAN ZANDT COUNTY, TEXAS

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

YEAR ENDED SEPTEMBER 30, 2016

**Findings Relating to the Financial Statements
Which Are Required to be Reported in
Accordance with Generally Accepted
Auditing Standards:**

Finding 2015-002 – Pooled Cash (FinClear) Account – Unauthorized Borrowing of Funds

Criteria: Pooling of cash may promote unauthorized borrowing of cash between funds. If a fund uses more of the pooled cash than it is entitled to use, then the fund has borrowed from one of the other funds.

Condition and Context: The County had several funds with deficit balances in the fund’s pooled cash (FinClear) account, including the General Fund. As a result, cash in funds with restrictive purposes, such as the Special Revenue funds of the County, were “borrowed” to cover the deficit cash balances in other funds.

Cause: Lack of monitoring and review of pooled cash balances to prevent unauthorized borrowings.

Recommendation: The cash balances of funds intended for specific purposes should be maintained in separate accounts to prevent unauthorized borrowings. Alternatively, a procedure for review of the pooled cash balances could be implemented to identify issues timely, so transfers of cash from TexPool or other sources can be initiated to cover deficits.

**Responsible Official’s
Response:** Unauthorized borrowing of funds from cash in funds with restrictive purposes remains a problem for Van Zandt County Government as adequate revenue for the County’s General Fund has not and is not currently being provided to cover General Fund expenditures. The practice of not providing revenue to cover the expenditures of the General Fund Operations of the County is poor fiscal management and creates financial reporting issues for Van Zandt County Government. In addition, the general Fund does not have a Cash Reserve Fund available to draw upon to cover cash shortages. Van Zandt County’s Auditors Officer is in agreement that separate checking accounts will need to be maintained for Special Revenue Funds to prevent unauthorized borrowing

Current Status: See current year finding 2016-001.

Finding 2015-003 – Fee Office Deposit of Funds With County Treasurer

<u>Criteria:</u>	According to Texas Local Government Code, Chapter 113, Subchapter B, Section 113.022, Time for Making Deposits, a county officer or other person who receives money shall deposit the money with the county treasurer on or before the next regular business day after the date on which the money is received. If this deadline cannot be met, the officer or person must deposit the money, without exception, on or before the fifth business day after the day on which the money is received. In all cases, the treasurer shall deposit the money on or before the seventh business day after the date the treasurer receives the money.
<u>Condition and Context:</u>	The County’s fee offices and departments are depositing funds with the treasurer monthly. In some cases, the County official took longer than a month to deposit the funds with the treasurer.
<u>Cause:</u>	Failure to follow Texas Local Government Code with respect to depositing of funds with the treasurer.
<u>Effect:</u>	The County is not complying with this section of the Texas Local Government Code. Also, the County is missing the opportunity to utilize the funds to meet the County’s obligations and improve cash flow.
<u>Recommendation:</u>	County fee offices and other departments should evaluate and make changes to processes in order to comply with the Texas Local Government Code with regards to time for making deposits with the treasurer.
<u>Responsible Official’s Response:</u>	The County Auditor’s Office agrees with the recommendation. In order to implement new procedures as to the deposit of funds from the County’s fee officers we will need to coordinate with the Treasurer’s Office and Commissioners’ Court to address staffing and job commitment. Suggest we phase the process in and begin with District and County Clerk Offices making daily deposits to the Treasurer’s Office.
<u>Current Status:</u>	The County Auditor has reviewed the receipts of the fee office deposits and feels that these offices are depositing their funds on a timely basis. The audit also reconciles or tests the reconciliations of these fee office accounts monthly. We consider this matter resolved.

Finding 2015-004 – Accounting Payable Processing

<u>Criteria:</u>	Due care and diligence should be exercised by County personnel responsible for accounts payable processing to ensure bills are entered into the system with minimal error and no duplications. A vendor verification process should be in place to ensure new vendors are valid. Incompatible duties should be separated to mitigate risk.
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Condition and Context: During work performed, eight instances of duplicate checks being mailed were noted, with seven of those checks being returned by vendor for voiding. Numerous other instances were noted where duplicate checks were prepared, but were identified and voided prior to be mailed to vendors. Upon review of the County's general ledger, numerous instances of duplicate entries and subsequent correction or void checks were noted. The County has no vendor verification process in place to ensure vendors are valid. Vendor checks are prepared by the Treasurer's Office, sent to the County Auditor's Office for signature and then returned to the County Treasurer for distribution.

Cause: Inadequate controls over the processing of accounts payable as well as lack of due care and diligence when entering bills to be paid.

Effect: The duplicate payment of invoices results in a reduction of County's cash that should not occur, especially during times when cash flow is tight. Duplicate entries and their subsequent correction results in the audit trail being difficult to follow with regards to the County's books as there are many unnecessary debts and credits that appear in the expenditure accounts. Duplicate entries should be a very seldom occurrence. With no vendor verification process, there is a potential for payments to be made to fictitious vendors. Since the County Treasurer's office prepares vendor checks, signed checks could be altered prior to distribution.

Recommendation: The County should revisit the procedures performed by the Treasurer's Office for accounts payable processing to determine what controls and processes need to be implemented or added to keep errors at a minimum. If improvements does not occur, the County should consider moving the accounts payable processing to the County Auditor's Office, with the Treasurer's Office being responsible only for the printing of the checks. The County should develop and implement a vendor verification process to mitigate risk of fictitious vendors. The procedure should be performed by the County Auditor's Office, since the County Treasurer's Office is responsible for setting up vendors in the system. Signed vendor checks should be distributed by personnel other than County Treasurer's Office personnel.

Responsible Official's Response: The County Treasurer and County Auditor Offices have agreed that when a W-9 for a new vendor is received; the vendor information will be given to the Auditor's Office to make a telephone call to verify the Vendor does exist. After the verification the Treasurer's Office will be notified to set up the new vendor. Also, the Auditor's Office will begin stuffing and mailing the accounts payable checks after the Treasurer and the Auditor signs the check.

Current Status: See current year finding 2016-002.

Finding 2015-005 – Segregation of Duties – County Treasurer’s Office

Criteria: Incompatible duties should be segregated in order to mitigate fraud risk.

Condition and Context: The County Treasurer’s assistant has control over too many incompatible functions including receiving mail, receipting money, access to check stock, preparing checks, authorized signer on banks accounts and access to undeposited funds.

Cause: Lack of proper controls and small office size.

Effect: Increased fraud risk.

Recommendations: Duties should be split with the County Treasurer or the additional assistant position should be filled to assign some of the duties. Access to check stock and undeposited funds should be limited.

Responsible Officer’s Response: Staffing is an issue in the Treasurer’s Office. The Treasurer’s Office handles Humane Resources, Accounts Payable and Receipting. The Treasurer opens the mail and receipts all money. The assistant Treasurer does not perform these duties. The Assistant Treasurer is currently an authorized signed on checking accounts as the Treasurer is away at times. However, we are recommending that the Assistant Treasurer be removed as an authorized signer on all County Checking Accounts. A daily deposit should be made as money should not be in the Treasurer’s safe for more than one evening/day.

Current Status: The Assistant Treasurer no longer has the ability to receipt money within the accounting software. The County Auditor also reconciles the Financial Clearing Account each month. We consider this matter resolved.

Finding 2015-006 – Segregation of Duties – County Clerk’s Office

Criteria: Incompatible duties should be segregated in order to mitigate fraud risk.

Condition and Context: Improper segregation of duties was noted as the County Clerk handles deposits, disbursement and reconciling of the bank statement.

Cause: Lack of proper controls and small office size.

Effect: Increased fraud risk.

Recommendation: Duties should be split amongst the County Clerk and the employees in the office to provide improved segregation.

Responsible Official's

Response:

The County Clerk will prepare the daily deposit. In order to check the deposit she has prepared a Summary Sheet of the previous day's work. The Summary Sheet reflects each clerk's daily totals for cash and checks that will be deposited at the bank. The cash and check totals from the Summary Sheet are compared to the daily deposit for accuracy. The County Clerk and a clerk verifying the deposit total will compare the deposit slip to the Summary Sheet and each will sign the Summary Sheet acknowledging the deposit amount reconciles to the Summary Sheet Cash and Check total. A third party, other than the County Clerk or the Clerk verifying the deposit slip amount and Summary Sheet total, will then make the deposit at the bank.

Current Status:

This is a small office within the County. The daily deposits are processed and put into the County Clerk fee account. A check is cut at the end of each month to disburse the applicable funds to the Financial Clearing Account. This monthly deposit and reconciliation are reviewed by the County Auditor's Office. We consider this issue resolved.

Finding 2015-007 – Segregation of Duties – District Attorney's Office

Criteria:

Incompatible duties should be segregated in order to mitigate fraud risk.

Condition and Context:

Improper segregation of duties was noted as the same employee is responsible for receiving and opening the mail, issuing receipts, preparing cash disbursements and reconciling the bank statements. The employee also has access to blank check stock and is an authorized signer on the bank accounts.

Cause:

Lack of proper controls and small office size.

Effect:

Increased fraud risk.

Recommendation:

Mail should be received by another employee, who prepares a list of money received before giving it to the employee responsible for receipting. This list should then be compared to the receipt to ensure agreement. The other incompatible duties should be divided amongst different employees so that one employee is not handling all of them. For example, the employee responsible for preparing checks should not be responsible for bank reconciliations, as altered checks could be covered up by an individual having both of these duties. The duties being divided amongst the other employees would not be their primary responsibility at the office and would not consume a significant amount of time.

Responsible Official's

Response:

While the stated fraud risk is acknowledged, the institution of the recommendation is not feasible due to limited human resources. The employee responsible for the receiving and opening of mail, issuing receipts, preparing cash disbursements and reconciling bank statements is also responsible for reception services, theft by check services, bail bond forfeiture services, and document scanning. The District Attorney's Office is not equipped with additional personnel capable of assuming the "incompatible duties" while also fulfilling their primary responsibilities within their scope of employment.

The District Attorney disagrees with the statement regarding lack of proper control. The employee who has access to blank check stock cannot negotiate a check without two (2) authorized signatories executing the check. The District Attorney is the only other authorized signatory on the account and has complete access to all systems wherein money within the office is received and disbursed. The District Attorney review each of the payees prior to executing a financial instrument.

In addition, as an additional financial control, the Van Zandt County Auditor's Office completes a monthly financial audit of the referenced account. As a proposed solution, the District Attorney would allow a member of the Van Zandt County Auditor's Office to reconcile the monthly bank statement to address the issue of having the same employee preparing checks and also reconciling the bank statement.

Funds are rarely received by U.S. Mail. The vast majority of funds are received in person or by telephone payments, so segregating mail responsibilities will not achieve the state purpose or prevent fraud.

Current Status:

We consider this issue resolved.

Finding 2015-008 – Segregation of Duties – JP #3

Criteria:

In a limited size office, complete segregation of duties is difficult to achieve. Processes can be put in place that when followed in a prescribed order, help to mitigate fraud risk.

Condition and Context:

With regards to disbursements, the Clerk prepares the checks and presents them to the elected official for review and signature. The elected official then returns the checks to the clerk for the second signature and the clerk mails the check. The clerk is also responsible for preparing the bank reconciliation. As a result, fraud risk is increased as the person preparing the checks should not distribute the checks and reconcile the bank statement. Checks could potentially be altered and concealed since the person preparing the checks and distributing them also reconciles the bank statements.

Cause: Lack of supervisory controls.
Effect: Increased fraud risk.

Recommendation: The clerk should sign checks first and then give to the elected official for review and signature. The elected official should then seal check in envelope and distribute. The signed checks should not be returned to the clerk who prepared them. The elected official should also receive the unopened bank statement and review the transactions for appropriateness. The elected official should then either prepare the reconciliation or have the clerk prepare the reconciliation and then review it.

Responsible Official's Response: Agree with recommendation outlined above by Audit Firm.

Current Status: See current year finding 2016-003.

Finding 2015-009 – Segregation of Duties – Sheriff's Office

Criteria: Incompatible duties should be segregated in order to mitigate fraud risk.

Condition and Context: Improper segregation of duties was noted as the same employee is responsible for preparing and mailing cash disbursements and reconciling the bank statements. This employee also has access to blank check stock and is an authorized signer on the bank accounts.

Cause: Improper segregation of duties.

Effect: Increased fraud risk.

Recommendation: To improve controls, the employee who prepares the checks and has custody of the blank check stock should not have signature authority. Also, another employee should be responsible for reviewing signed checks along with their supporting documentation and should distribute them. Unopened bank statements should be received by the elected official for opening and review of the activity for appropriateness. The statement can then be forwarded to the employee responsible for preparing the bank reconciliation. Once complete, the bank reconciliations should be reviewed and approved by the elected official.

Responsible Official's Response: Agree with Independent Auditor's recommendation. County Auditor will work with Sheriff's Department to implement appropriate procedure.

Current Status: See current year finding 2016-004.

Finding 2015-010 – Segregation of Duties – District Clerk

<u>Criteria:</u>	In a limited size office, complete segregation of duties is difficult to achieve. Processes can be put in place that when followed in a prescribed order, help to mitigate fraud risk.
<u>Condition and Context:</u>	With regards to disbursements, the District Clerk prepares the checks and signs them along with the chief deputy. The District Clerk is also responsible for mailing the signed checks as well as reconciling the bank statement. Fraud risk is increased as the person preparing the checks should not distribute the checks and reconcile the bank statement. Checks could potentially be altered and concealed since the person preparing the checks and distributing them also reconciles the bank statements.
<u>Cause:</u>	Improper segregation of duties and small office size.
<u>Effect:</u>	Increased fraud risk.
<u>Recommendations:</u>	The chief deputy responsible for reviewing the checks and signing as the second signature should distribute the checks. They should not be returned to the District Clerk for mailing.
<u>Responsible Official's Response:</u>	The District Clerk indicates that the policy of the chief deputy responsible for reviewing the checks and signing as the second signature does currently distribute the checks. The County does not disagree with the recommendation.
<u>Current Status:</u>	This is a small office within the County. The daily deposits are processed and put into the District Clerk fee account. A check is cut at the end of each month to disburse the applicable funds to the Financial Clearing Account. This monthly deposit and reconciliation are reviewed by the County Auditor's Office. We consider this issue resolved.

Finding 2015-011 – Purchase Order System and Budget Compliance

<u>Criteria:</u>	The purpose of the purchase order system is to give the County means for overseeing the warrant process to ensure that the expenditures of any department do not exceed the budget appropriation for the department, which is outlined in Texas Local Government Code Section 111.092.
<u>Condition and Context:</u>	Expenditures exceeded appropriations in several County departments.
<u>Cause:</u>	Purchase orders were approved for which no budget appropriation was available and no amendment was obtained. Also, could be caused by departments not obtaining purchase order as required.

Effect: Noncompliance with Texas Local Government Code with regards to budget.

Recommendation: All departments should obtain purchase orders when required by policy. Purchase orders should not be issued and approved unless an unexpected balance remains in the line item to which the department is requesting the purchase be charged. Budget amendments, including line item transfers, should be prepared and approved by Commissioners' Court prior to the purchase order being approved. All County departments should evaluate each potential purchase carefully to ensure its absolute necessity for the operations of the County and forego unnecessary spending of taxpayer money in order to reduce expenditures and improve County's finances.

Responsible Official's Response:

County Auditor's Office agrees with recommendation.

Current Status:

See current year finding 2016-005.

Findings 2015-012 – Capital Assets

Criteria: A complete and accurate fixed assets listing should be maintained by the County. A system to capture information necessary to identify new fixed asset additions should be in place. A complete inventory of fixed assets should be conducted to identify assets no longer owned by the County and which should be removed from the fixed asset listing.

Condition and Context: While performing work on fixed assets, several new fixed assets that should have been included on the listing were not. Also, fixed assets were on the listing that were no longer owned by the County and should have been removed.

Cause: Control failure in the system of tracking fixed asset additions and deletions.

Effect: Incomplete listing of fixed assets own by County.

Recommendation: The County's system for identifying fixed asset additions and deletions should be revisited to ensure the system allows for the capture of all fixed asset additions and deletions and make any necessary changes to the system. The County should conduct a complete and thorough inventory of fixed assets in order to properly update the fixed asset listing.

Responsible Official's Response:

The fixed assets that should have been included on the fixed assets listing represented a telephone system for the Sheriff's Department and Adult Probation and there appeared to be confusion as to whether or not the asset should be added to fixed assets.

In order to capture all fixed asset additions the Account Payable Register is reviewed monthly in order to monitor capital expenditures that would be included in fixed assets.

The County does not need to conduct a complete and thorough inventory of fixed assets in order to properly update the fixed asset listing.

Current Status: We consider this issue resolved.

Finding 2015-013 – Late Remittance of Payroll Taxes and Withholding

Criteria: According to the IRS Circular E Employer’s Tax Guide, the County is a semiweekly schedule depositor of payroll taxes and withholding. Thus, if the payday falls on a Wednesday, Thursday and/or Friday, then taxes should be deposited with the IRS by the following Wednesday. If the payday falls on a Saturday, Sunday, Monday and/or Tuesday, then taxes should be deposited with the IRS by the following Friday.

Condition and Context: The County’s payroll taxes and withholding for a payroll in May 2015 did not get deposited with the IRS until December 2015. Even though the deposit was reflected as outstanding on the bank reconciliation for months, the issue was not identified.

Cause: Lack of internal control over the remitting of payroll taxes and withholding to the IRS.

Effect: The County did not comply with federal payroll rules and regulations and may owe a penalty to the IRS for the late remittance.

Recommendation: The County should develop and implement an internal control procedure to ensure payroll taxes and withholding are remitted to the IRS within the required timeframes.

Responsible Official’s Response: The County Treasurer’s routine is to complete payroll on Wednesday for a pay day of Friday, the direct deposit is to me made by noon Wednesday for employees to be paid on Friday. On Thursday, the County Treasurer, processes payroll payables, which include payroll taxes, and will make the taxes be paid on the same day as the pay date. The County Treasurer missed the payroll tax payment in error. The form was filed as if completed but actually had not been paid. Payroll taxes were paid at a later date upon becoming aware of the non-payment. County Auditor will also work with the County Treasurer’s Office and implement a checklist to confirm all required payroll procedures have been completed.

Current Status: We consider this issued resolved.