

UPSHUR COUNTY

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
SEPTEMBER 30, 2016**

WITH INDEPENDENT AUDITORS' REPORT

UPSHUR COUNTY, TEXAS

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UPSHUR COUNTY, TEXAS

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FINANCIAL SECTION

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

INDEPENDENT AUDITORS' REPORT

To the Honorable County Judge
Commissioners' Court
Upshur 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 Upshur County, Texas, (the "County"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information on pages 4-7 and 34-36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements 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 June 27, 2017 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

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

Waco, Texas
June 27, 2017

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**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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UPSHUR COUNTY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Upshur County, Texas (the "County") Financial Report presents a narrative overview and analysis of the financial activities of the primary government for the fiscal year ended September 30, 2016.

FINANCIAL HIGHLIGHTS

- The County's total net position increased by \$594,908, 5%, over the course of this year's operations.
- The total government-wide assets and deferred outflows of resources of the County exceeded the liabilities and deferred inflows of resources at September 30, 2016, by \$13,034,819 and are reported as total net position of the primary government. Of this amount, \$5,977,196 (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors. \$995,427 is restricted for specific purposes (restricted net position), and \$6,062,196 is invested in capital assets, net of related debt.
- As of September 30, 2016, the County governmental funds reported combined fund balances of \$3,185,218, which represents a 21% percent increase from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements, which are comprised of the following three components: 1) governmental-wide financial statements; 2) fund financial statements and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements are designed to provide readers with a broad overview of County finances, in a manner similar to a private-sector business.

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

The Statement of Activities presents information that indicates how net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of these 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 in part a portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, public safety, legal, and library.

Fund Financial Statements are groupings of related accounts that are 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 finance-related legal requirements. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds. The County does not have any proprietary 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 funds 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 the County's near-term financing requirements.

Because the focus of governmental funds is narrower than 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The County maintains 35 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the major governmental funds. Data from other governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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 statements because the resources of those funds are not available to support the County's own programs.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found starting on page 17 of this report.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

A significant portion of the County's current fiscal year net position (47% percent) reflects its investments in capital assets (e.g. land, improvements, buildings, equipment, infrastructure) less any related debt used to acquire these assets that is outstanding. The main use of these capital assets is to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

One portion of the County's current fiscal year net position (46% percent) represents unrestricted net position, which may be used to meet the County's ongoing obligations to citizens and creditors.

The following table indicates changes in net position for governmental activities.

UPSHUR COUNTY'S CHANGES IN NET POSITION

| | Governmental Activities 2016 | Governmental Activities 2015 |
|-------------------------------------|------------------------------------|------------------------------------|
| | <u>2016</u> | <u>2015</u> |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 2,450,778 | \$ 2,318,467 |
| Operating grants and contributions | 1,076,797 | 707,215 |
| Capital grants and contributions | 424,964 | 129,729 |
| General revenues: | | |
| Taxes - levied for general purposes | 10,692,362 | 10,330,743 |
| Sales taxes | 1,019,486 | 978,309 |
| Miscellaneous | 638,033 | 532,324 |
| Gain on sale of capital assets | - | 256,701 |
| Investment earnings | <u>10,167</u> | <u>8,998</u> |
| Total revenues | <u>16,312,587</u> | <u>15,262,486</u> |
| Expenses: | | |
| General government | 6,818,284 | 5,921,315 |
| Public safety | 4,263,375 | 4,086,763 |
| Public transportation | 2,714,407 | 2,427,445 |
| Legal | 1,745,264 | 1,591,337 |
| Library | <u>176,349</u> | <u>164,629</u> |
| Total expenses | <u>15,717,679</u> | <u>14,191,489</u> |
| Change in net position | 594,908 | 1,070,997 |
| Net position - beginning | <u>11,595,317</u> | <u>8,810,207</u> |
| Prior period adjustment | <u>844,594</u> | <u>1,714,113</u> |
| Net position - ending | <u>\$ 13,034,819</u> | <u>\$ 11,595,317</u> |

FINANCIAL ANALYSIS OF MAJOR FUNDS

Governmental Funds. The County's major general government functions are contained in the General Fund. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At September 30, 2016, the County's governmental funds reported combined fund balances of \$3,185,218, an increase of 21% from the prior year.

The General Fund is the chief operating fund of the County. At September 30, 2016, the General Fund reported revenues of \$15,015,926 and expenditures of \$15,026,696.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, actual revenues were more than budgeted estimates by \$262,411. Actual expenditures were more than budgeted estimates by \$459,715. Actual other financing sources were more than budgeted estimates by \$387,403. The net effect resulted in a positive variance of \$190,099.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The County's investment in capital assets for its governmental activities as of September 30, 2016, amounted to \$6,866,853 (net of accumulated depreciation). This investment in capital assets includes land, buildings, furniture and equipment, and other tangible and intangible assets.

For further information regarding capital assets, see Note 4.

Long-term Debt. At September 30, 2016, the County had total long-term debt outstanding of \$3,289,073. Refer to Note 4 for further information on the County's long-term debt.

ECONOMIC FACTORS

The budget was adopted based on estimated balances that would be available at the end of fiscal year 2016 and estimated revenues to be received in fiscal year 2017.

For 2016-2017, the property tax rate is \$0.5698 per \$100 valuation.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the County Auditor's Office, P. O. Box 730, Gilmer, Texas, 75644.

**BASIC
FINANCIAL STATEMENTS**

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UPSHUR COUNTY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Cash and investments | \$ 3,453,671 |
| Receivables, net of allowances for uncollectibles | 3,645,448 |
| Prepaid expenses | 143,102 |
| Due from other sources | 316,277 |
| Capital assets: | |
| Land | 460,998 |
| Buildings | 9,482,620 |
| Furniture and equipment | 6,784,880 |
| Less: accumulated depreciation | <u>(9,861,645)</u> |
| Total capital assets, net of accumulated depreciation | <u>6,866,853</u> |
| Total assets | <u>14,425,351</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows related to pensions | <u>3,087,521</u> |
| Total deferred outflows of resources | <u>3,087,521</u> |
| LIABILITIES | |
| Accounts payable and accrued liabilities | 848,697 |
| Noncurrent liabilities: | |
| Due within one year | 303,768 |
| Due in more than one year | <u>2,985,305</u> |
| Total liabilities | <u>4,137,770</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows related to pensions | <u>340,283</u> |
| Total deferred inflows of resources | <u>340,283</u> |
| NET POSITION | |
| Net investment in capital assets | 6,062,196 |
| Restricted for: | |
| Other purposes | 995,427 |
| Unrestricted | <u>5,977,196</u> |
| Total net position | <u>\$ 13,034,819</u> |

The accompanying notes are an integral part of these financial statements.

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UPSHUR COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE 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 | \$ 6,818,284 | \$ 1,837,769 | \$ 667,938 | \$ 424,964 | \$(3,887,613) |
| Public safety | 4,263,375 | 104,268 | 275,996 | - | (3,883,111) |
| Public transportation | 2,714,407 | - | 91,160 | - | (2,623,247) |
| Legal | 1,745,264 | 481,294 | 41,703 | - | (1,222,267) |
| Library | 176,349 | 27,447 | - | - | (148,902) |
| Total governmental activities | \$ 15,717,679 | \$ 2,450,778 | \$ 1,076,797 | \$ 424,964 | (11,765,140) |
| General revenues: | | | | | |
| Taxes: | | | | | |
| Property taxes, levied for general purposes | | | | | 10,692,362 |
| Sales taxes | | | | | 1,019,486 |
| Investment earnings | | | | | 10,167 |
| Miscellaneous | | | | | 638,033 |
| Total general revenues | | | | | 12,360,048 |
| Change in net position | | | | | 594,908 |
| Net position, beginning | | | | | 11,595,317 |
| Prior period adjustment | | | | | 844,594 |
| Net position, beginning as restated | | | | | 12,439,911 |
| Net position, ending | | | | | \$ 13,034,819 |

The accompanying notes are an integral part of these financial statements.

UPSHUR COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

| | General | Other Governmental Funds | Total Governmental Funds |
|--|--------------|--------------------------------|--------------------------------|
| ASSETS | | | |
| Cash and investments | \$ 2,451,511 | \$ 1,002,160 | \$ 3,453,671 |
| Receivables (net of allowance for uncollectibles) | 3,529,781 | 115,667 | 3,645,448 |
| Prepaid expenses | 141,950 | 1,152 | 143,102 |
| Due from other funds | 27,848 | - | 27,848 |
| Due from other governments | 179,953 | 136,324 | 316,277 |
| Total assets | 6,331,043 | 1,255,303 | 7,586,346 |
| LIABILITIES | | | |
| Liabilities: | | | |
| Accounts payable and accrued liabilities | 716,256 | 132,441 | 848,697 |
| Due to other funds | - | 27,848 | 27,848 |
| Total liabilities | 716,256 | 160,289 | 876,545 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue - property taxes | 2,385,020 | 112,037 | 2,497,057 |
| Unavailable revenue - court fines and fees | 896,920 | - | 896,920 |
| Unavailable revenue - grants | 130,606 | - | 130,606 |
| Total deferred inflows of resources | 3,412,546 | 112,037 | 3,524,583 |
| FUND BALANCES | | | |
| Nonspendable: | | | |
| Prepaid items | 141,950 | 1,152 | 143,102 |
| Restricted for: | | | |
| County and district clerk services | - | 22,141 | 22,141 |
| Court security and technology | - | 137,563 | 137,563 |
| District Attorney | - | 32,539 | 32,539 |
| Law library | - | 2,801 | 2,801 |
| Drug enforcement | - | 5,163 | 5,163 |
| Elections | - | 49,332 | 49,332 |
| Federal and state grants | - | 604,579 | 604,579 |
| Forfeiture | - | 61,792 | 61,792 |
| Judicial education | - | 32,540 | 32,540 |
| Law enforcement | - | 16,298 | 16,298 |
| Debt service | - | 19,406 | 19,406 |
| Other | - | 11,273 | 11,273 |
| Unassigned | 2,060,291 | (13,602) | 2,046,689 |
| Total fund balances | 2,202,241 | 982,977 | 3,185,218 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 6,331,043 | \$ 1,255,303 | \$ 7,586,346 |

The accompanying notes are an integral part of these financial statements.

UPSHUR COUNTY, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Amounts reported for governmental activities in the statement of net position are different because:

| | |
|--|----------------------|
| Total fund balances - governmental funds | \$ 3,185,218 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 6,866,853 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | 3,524,583 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | (<u>541,835</u>) |
| Net position of governmental activities | \$ <u>13,034,819</u> |

UPSHUR COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | General | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------------------|--------------------------------|
| REVENUES | | | |
| Taxes | \$ 11,622,668 | \$ 11,722 | \$ 11,634,390 |
| Licenses and permits | 800,934 | - | 800,934 |
| Intergovernmental | 752,726 | 508,894 | 1,261,620 |
| Charges for services | 1,129,582 | 292,259 | 1,421,841 |
| Fines and forfeitures | 366,614 | 28,767 | 395,381 |
| Interest | 9,896 | 271 | 10,167 |
| Miscellaneous | <u>333,506</u> | <u>39,476</u> | <u>372,982</u> |
| Total revenues | <u>15,015,926</u> | <u>881,389</u> | <u>15,897,315</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General governmental | 5,758,740 | 488,284 | 6,247,024 |
| Public safety | 3,992,512 | 60,124 | 4,052,636 |
| Public transportation | 2,658,984 | - | 2,658,984 |
| Legal | 1,497,903 | 220,248 | 1,718,151 |
| Library | 173,609 | - | 173,609 |
| Capital outlay | 697,948 | - | 697,948 |
| Debt service: | | | |
| Principal | <u>247,000</u> | <u>-</u> | <u>247,000</u> |
| Total expenditures | <u>15,026,696</u> | <u>768,656</u> | <u>15,795,352</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>(10,770)</u> | <u>112,733</u> | <u>101,963</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from sale of assets | 41,769 | 17,447 | 59,216 |
| Proceeds from capital leases | <u>387,403</u> | <u>-</u> | <u>387,403</u> |
| Total other financing sources and (uses) | <u>429,172</u> | <u>17,447</u> | <u>446,619</u> |
| NET CHANGE IN FUND BALANCES | 418,402 | 130,180 | 548,582 |
| FUND BALANCES, BEGINNING | <u>1,783,839</u> | <u>852,797</u> | <u>2,636,636</u> |
| FUND BALANCES, ENDING | <u>\$ 2,202,241</u> | <u>\$ 982,977</u> | <u>\$ 3,185,218</u> |

The accompanying notes are an integral part of these financial statements.

UPSHUR COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Amounts reported for governmental activities in the Statement of Activities (page 9) are different because:

| | |
|---|-------------------|
| Net change in fund balances - total governmental funds (page 12) | \$ 548,582 |
| 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 capital outlays exceeded depreciation in the current period. | 19,460 |
| The issuance of long-term debt (e.g., bonds, leases) 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. This amount is the net effect of these differences in the treatment of long-term debt and related items. | (78,618) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | 415,272 |
| 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. | <u>(309,788)</u> |
| Change in net position of governmental activities (page 9) | <u>\$ 594,908</u> |

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UPSHUR COUNTY, TEXAS

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|---------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Taxes | \$ 11,438,713 | \$ 11,438,713 | \$ 11,622,668 | \$ 183,955 |
| Licenses and permits | 807,000 | 807,000 | 800,934 | (6,066) |
| Intergovernmental | 186,385 | 703,850 | 752,726 | 48,876 |
| Charges for services | 1,075,617 | 1,137,617 | 1,129,582 | (8,035) |
| Fines | 430,100 | 368,100 | 366,614 | (1,486) |
| Interest | 6,980 | 6,980 | 9,896 | 2,916 |
| Miscellaneous | <u>225,200</u> | <u>291,255</u> | <u>333,506</u> | <u>42,251</u> |
| Total revenues | <u>14,169,995</u> | <u>14,753,515</u> | <u>15,015,926</u> | <u>262,411</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General governmental | 5,638,903 | 5,684,668 | 5,758,740 | (74,072) |
| Public safety | 3,906,761 | 3,930,325 | 3,992,512 | (62,187) |
| Public transportation | 2,492,685 | 2,765,426 | 2,658,984 | 106,442 |
| Legal | 1,493,854 | 1,530,212 | 1,497,903 | 32,309 |
| Library | 167,805 | 173,805 | 173,609 | 196 |
| Capital outlay | <u>272,000</u> | <u>482,545</u> | <u>697,948</u> | <u>(215,403)</u> |
| Total expenditures | <u>13,972,008</u> | <u>14,566,981</u> | <u>15,026,696</u> | <u>(459,715)</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>197,987</u> | <u>186,534</u> | <u>(10,770)</u> | <u>(197,304)</u> |
| OTHER FINANCING SOURCES | | | | |
| Proceeds from sale of assets | 40,000 | 41,769 | 41,769 | - |
| Proceeds from capital leases | <u>-</u> | <u>-</u> | <u>387,403</u> | <u>387,403</u> |
| Total other financing sources | <u>40,000</u> | <u>41,769</u> | <u>429,172</u> | <u>387,403</u> |
| NET CHANGE IN FUND BALANCES | 237,987 | 228,303 | 418,402 | 190,099 |
| FUND BALANCES, BEGINNING | <u>1,783,839</u> | <u>1,783,839</u> | <u>1,783,839</u> | <u>-</u> |
| FUND BALANCES, ENDING | <u>\$ 2,021,826</u> | <u>\$ 2,012,142</u> | <u>\$ 2,202,241</u> | <u>\$ 190,099</u> |

The accompanying notes are an integral part of these financial statements.

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UPSHUR COUNTY, TEXAS

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

SEPTEMBER 30, 2016

| | <u>Private Purpose Trusts</u> | <u>Agency Funds</u> |
|------------------------------|-----------------------------------|----------------------------|
| ASSETS | | |
| Cash and investments | \$ <u>424,687</u> | \$ <u>2,495,735</u> |
| Total assets | \$ <u><u>424,687</u></u> | \$ <u><u>2,495,735</u></u> |
| LIABILITIES | | |
| Due to others | \$ - | \$ 2,495,735 |
| Unearned revenue | <u>178,610</u> | <u>-</u> |
| Total liabilities | \$ <u><u>178,610</u></u> | \$ <u><u>2,495,735</u></u> |
| NET POSITION | | |
| Held in trust for school use | \$ <u><u>246,077</u></u> | \$ <u><u>-</u></u> |

The accompanying notes are an integral part of these financial statements.

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UPSHUR COUNTY, TEXAS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

SEPTEMBER 30, 2016

| | <u>Private Purpose Trusts</u> |
|--------------------------------|-----------------------------------|
| ADDITIONS | |
| Contributions: | |
| Lease of land | \$ 202,232 |
| Total contributions | <u>202,232</u> |
| Investment earnings: | |
| Interest | <u>760</u> |
| Total investment earnings | <u>760</u> |
| Total additions | <u>202,992</u> |
| DEDUCTIONS | |
| Available fund allocation | 240,000 |
| Taxes | <u>13,714</u> |
| Total deductions | <u>253,714</u> |
| CHANGE IN NET POSITION | (50,722) |
| NET POSITION, BEGINNING | <u>296,799</u> |
| NET POSITION, ENDING | <u>\$ 246,077</u> |

The accompanying notes are an integral part of these financial statements.

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UPSHUR COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Upshur County, Texas, (the County) uses a commission form of government under the laws and statutes of the constitution of the State of Texas. The County provides various services to advance the welfare, health, morals, comfort, safety, and convenience of the County and its inhabitants. A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

A. Reporting Entity

In 1991, GASB issued Statement No. 14, "The Financial Reporting Entity," which established standards for defining and reporting on the financial reporting entity. The discussion that follows includes not only the minimum guidelines for an entity's inclusion in the County's financial statements, but also the reasons that certain entities were excluded from the statements.

The definition of the reporting entity is based primarily on the notion of financial accountability. The elected officials governing Upshur County are accountable to their constituents for their public policy decisions, regardless of whether those decisions are carried out directly through the operations of the County or by their appointees through the operations of a separate entity. Therefore, the County is not only financially accountable for the organizations that make up its legal entity, it is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the County.

Depending upon the significance of the County's financial and operational relationships with various separate entities, the organizations are classified as blended or discretely presented component units, related organizations, joint ventures, or jointly governed organizations, and the financial disclosure is treated accordingly.

Related Organizations

The County's officials are also responsible for appointing the members of the boards of other organizations, but the County's accountability for these organizations do not extend beyond making the appointments. The Commissioners' Court or specific committees of the Commissioners' Court appoint members of many organizations. Positions on these boards are appointed in certain instances in entirety, partially, or with Commissioners' Court members.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The government has no business-type activities, or component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. 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. 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the County.

The County reports the following major governmental fund:

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

Additionally, the County reports the following fund types:

The ***Private-purpose Trust Funds*** are used to account for investments, interest, rents and royalties for the benefit of various school districts in the County. The revenues are distributed to the various school districts.

Agency Funds are used to account for assets held by the County as an agent for individuals and other governments. Agency Funds are custodial in nature and do not include measurements of results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

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.

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

Cash and Investments

The County's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The County pools cash resources of some funds and invests these funds jointly. Each fund owns a pro rata share of the cash and investments. The County is entitled to invest in obligations of the United States, the State of Texas, and certificates of deposit of state or national banks or savings and loan associations within the state. Investments are stated at fair value.

Investment earnings are allocated to the respective funds based on the cash balances outstanding at the end of each month.

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.”

All trade and property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 24% of the total tax receivable balance.

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.

Prepaid Items

Certain payments to vendor reflect costs applicable to future accounting period and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

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 has only the following items that qualify for reporting in this category:

- Pension contributions after the measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a five year period.
- Difference in expected and actual pension experience – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has the following items that qualify for reporting in this category:

- Unavailable revenue – The governmental funds report unavailable revenues from three sources: property taxes, court fines and fees, and grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Differenced between expected and actual experience on plan investments – This difference is deferred and amortized over a five year period.

Capital Assets

Donated capital assets are recorded at acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

Compensated Absences

The Upshur County personnel policy permits employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the County does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements.

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.

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 spent 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 court 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 a specific purpose but are neither restricted nor committed. This intent can be expressed by Brandy Lee, 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 expenditures are incurred for purposes for which both restricted and unassigned fund balance is available, the County considers restricted funds to have been spent first. When expenditures are 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.

Net Position

Net position represents the difference between assets, deferred outflows/inflows of resources 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 is 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.

Prior Period Adjustment

A prior period adjustment was made to beginning net assets in the amount of an increase of \$844,594 to reflect changes to the capital asset listing.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental fund* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “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 details of this \$19,460 difference are as follows:

| | |
|--|-------------------|
| Capital outlay | \$ 773,932 |
| Loss on disposal of asset | (124,529) |
| Depreciation expense | <u>(629,943)</u> |
| Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> | \$ <u>19,460</u> |

Another element of that reconciliation states, “Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$415,272 difference are as follows:

| | |
|--|-------------------|
| Unavailable revenue - property taxes | \$ 77,458 |
| Unavailable revenue - court fines and fees | 207,208 |
| Unavailable revenue - grants | <u>130,606</u> |
| Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> | \$ <u>415,272</u> |

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Formal budgetary integration is employed as a management control device during the year for the General Fund. This budget is adopted on the cash basis. Once approved, the Commissioners’ Court may amend the legally adopted budget when unexpected modifications are required in estimated revenue and appropriations.

B. Deficit Fund Equities

Special Revenue Fund

As of September 30, 2016, the Law Library Fund had a deficit fund balance of (\$13,602). The County plans to fund these deficits through transfers from the General Fund.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2016, the County had the following investments for the Private Purpose Trusts Fund:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Weighted Average Maturity (Days)</u> |
|------------------------|-------------------|---|
| TexPool | \$ 42,209 | 44 |

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 deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

Public Funds Investment Pools

Public funds investment pools in Texas (“Pools”) are established under the authority of the Interlocal Cooperation Act Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the “Act”), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAAM or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one-half of one percent of the value of its shares.

The County’s investments in Pools are reported at an amount determined by the fair value per share of the Pool’s underlying portfolio, unless the Pool is 2a7-like, in which case they are reported at share value. 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 a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940.

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 or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2016, \$5,965,867 of the County's \$7,152,670 deposit balance was collateralized with securities held by the pledging financial institution. The remaining balance, \$1,186,803 was covered by FDIC insurance.

Credit Risk. It is the County's policy 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 County's investment pool is rated AAAM by Standard & Poor's Investors Service.

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.

B. Receivables

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

| | <u>General</u> | <u>Nonmajor Funds</u> | <u>Total</u> |
|-------------------|---------------------|---------------------------|---------------------|
| Receivables: | | | |
| Taxes | \$ 2,631,379 | \$ 113,377 | \$ 2,744,756 |
| Adjudicated fines | 896,920 | - | 896,920 |
| Miscellaneous | <u>1,482</u> | <u>2,290</u> | <u>3,772</u> |
| Total receivables | <u>\$ 3,529,781</u> | <u>\$ 115,667</u> | <u>\$ 3,645,448</u> |

C. Capital Assets

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

Primary Government

| | Beginning Balance | Increases | Decreases | Adjustments | Ending Balance |
|--|----------------------|-------------------|----------------------|-------------------|---------------------|
| Government activities: | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 416,314 | \$ 44,684 | \$ - | \$ - | \$ 460,998 |
| Total capital assets not being depreciated | <u>416,314</u> | <u>44,684</u> | <u>-</u> | <u>-</u> | <u>460,998</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings | 9,482,620 | - | - | - | 9,482,620 |
| Furniture and equipment | <u>5,633,064</u> | <u>729,248</u> | <u>(421,386)</u> | <u>843,954</u> | <u>6,784,880</u> |
| Total capital assets being depreciated | <u>15,115,684</u> | <u>729,248</u> | <u>(421,386)</u> | <u>843,954</u> | <u>16,267,500</u> |
| Less accumulated depreciation: | | | | | |
| Buildings | 4,996,979 | 155,865 | - | - | 5,152,844 |
| Furniture and equipment | <u>4,532,220</u> | <u>474,078</u> | <u>(296,857)</u> | <u>(640)</u> | <u>4,708,801</u> |
| Total accumulated depreciation | <u>9,529,199</u> | <u>629,943</u> | <u>(296,857)</u> | <u>(640)</u> | <u>9,861,645</u> |
| Total capital assets, being depreciated, net | <u>5,586,485</u> | <u>99,305</u> | <u>(124,529)</u> | <u>844,594</u> | <u>6,405,855</u> |
| Governmental activities capital assets, net | <u>\$ 6,002,799</u> | <u>\$ 143,989</u> | <u>\$ (124,529)</u> | <u>\$ 844,594</u> | <u>\$ 6,866,853</u> |

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

| | |
|--|-------------------|
| Governmental activities: | |
| General government | \$ 483,157 |
| Public safety | <u>146,786</u> |
| Total depreciation expense - governmental activities | <u>\$ 629,943</u> |

D. Interfund Receivables, Payables and Transfers

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

Due to/from Other Funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|-----------------------|-------------------------|
| General fund | Nonmajor governmental | \$ <u>27,848</u> |
| Total | | \$ <u><u>27,848</u></u> |

Balances resulted from the time lag between the dates that 1) interfund goods and services are provided on reimbursable expenditures, 2) transactions are recorded in the accounting system, and 3) payment between funds are made.

E. Long-term Debt

General long-term debt consisted of the following as of September 30, 2016:

Changes in Long-term Liabilities

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|---------------------|---------------------|---------------------------|--------------------------------|
| Governmental Activities | | | | | |
| Capital leases | \$ 664,254 | \$ 387,403 | \$ 247,000 | \$ 804,657 | \$ 151,810 |
| Net Pension Liability | (946,083) | 3,124,097 | 451,589 | 1,726,425 | - |
| Compensated absences | <u>819,776</u> | <u>485,465</u> | <u>547,250</u> | <u>757,991</u> | <u>151,958</u> |
| Governmental activity long-term liabilities | <u>\$ 537,947</u> | <u>\$ 3,996,965</u> | <u>\$ 1,245,839</u> | <u>\$ 3,289,073</u> | <u>\$ 303,768</u> |

The County entered into lease agreements for equipment. The future minimum lease obligations are as follows:

| | |
|------|-------------------|
| 2017 | \$ 151,810 |
| 2018 | 151,810 |
| 2019 | <u>501,037</u> |
| | <u>\$ 804,657</u> |

V. OTHER INFORMATION

A. 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 for which the County carries commercial insurance. The County participates in a risk management program through Texas Association of Counties for workers' compensation coverage.

The County has not had any significant reductions in insurance coverage from coverage in the prior year. The amount of settlements has not exceeded insurance coverage in any of the previous three years.

During the year ended September 30, 1990, the County established an employee medical benefit plan (the Plan) to self-insure claims up to \$75,000 per year for each individual covered; claims above \$75,000 are covered by a stop-loss insurance policy. The County and its covered employees contribute to the fund to pay claims and stop-loss insurance premiums. At September 30, 2016, officials believe that the County has made provisions sufficient to cover estimated claims, including claims incurred, but not yet reported.

The County is the defendant in a number of lawsuits arising principally in the normal course of operations. In the opinion of the management, the outcome of these lawsuits will not have a material adverse effect on the accompanying combined financial statements and accordingly, no provision for losses has been recorded.

The County participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the County has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2016, may be impaired. In the opinion of the County, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

B. Retirement Plan

Plan Description

The 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 age 60 and above with 8 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 contributions 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.

Employees covered by benefit terms

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 | 146 |
| Inactive employees entitled to but not yet receiving benefits | 154 |
| Active employees | <u>204</u> |
| | <u><u>504</u></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 6.81% and 6.58% in calendar years 2015 and 2016, respectively. The County's contributions to TCDRS for the year ended September 30, 2016, were \$457,380, and were equal to the required contributions.

Net Pension Liability

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 valuation 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 rate used to measure the Total Pension Liability was 8.1%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in 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 active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period 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 | \$ 31,843,512 | \$ 32,789,595 | \$(946,083) |
| Changes for the year: | | | |
| Service cost | 788,144 | - | 788,144 |
| Interest on total pension liability ⁽¹⁾ | 2,547,645 | - | 2,547,645 |
| Effect of plan changes ⁽²⁾ | (73,696) | - | (73,696) |
| Effect of economic/demographic gains or losses | (178,427) | - | (178,427) |
| Effect of assumptions changes or inputs | 348,733 | - | 348,733 |
| Refund of contributions | (149,099) | (149,099) | - |
| Benefit payments | (1,711,814) | (1,711,815) | 1 |
| Administrative expenses | - | (23,151) | 23,151 |
| Member contributions | - | 463,120 | (463,120) |
| Net investment income | - | (114,861) | 114,861 |
| Employer contributions | - | 450,549 | (450,549) |
| Other ⁽³⁾ | - | (15,765) | 15,765 |
| Balance at 12/31/2015 | <u>\$ 33,414,998</u> | <u>\$ 31,688,573</u> | <u>\$ 1,726,425</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.

Sensitivity Analysis

The following presents the net pension liability of the County, calculated using the discount rate of 8.1%, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.1%) or 1-percentage-higher (9.1%) than the current rate:

| | Current | | |
|-------------------------------|---------------------|-----------------------|-----------------------|
| | 1% Decrease 7.1% | Discount Rate 8.1% | 1% Increase 9.1% |
| Total pension liability | \$ 37,310,983 | \$ 33,414,998 | \$ 30,143,190 |
| Fiduciary net position | <u>31,688,573</u> | <u>31,688,573</u> | <u>31,688,573</u> |
| Net pension liability/(asset) | <u>\$ 5,622,410</u> | <u>\$ 1,726,425</u> | <u>\$(1,545,383)</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 \$767,430. At September 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ - | \$ 340,283 |
| Changes in actuarial assumptions | 261,550 | - |
| Difference between projected and actual investment earnings | 2,441,388 | - |
| Contributions subsequent to the measurement date | <u>384,583</u> | <u>-</u> |
| Total | <u>\$ 3,087,521</u> | <u>\$ 340,283</u> |

\$384,583 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expenses as follows:

| For The Year Ended September 30, | |
|-------------------------------------|------------|
| 2016 | \$ 569,487 |
| 2017 | 569,487 |
| 2018 | 672,719 |
| 2019 | 550,962 |

UPSHUR COUNTY, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

SEPTEMBER 30, 2016

| Plan Year Ended December 31 | 2015 | 2014 |
|--|----------------------|----------------------|
| | | |
| Total Pension Liability | | |
| Service Cost | \$ 788,144 | \$ 789,263 |
| Interest total pension liability | 2,547,645 | 2,446,329 |
| Effect of plan changes | (73,696) | - |
| Effect of assumption changes or inputs | 348,733 | - |
| Effect of economic/demographic (gains) or losses | (178,427) | (412,926) |
| Benefit payments/refunds of contributions | (1,860,913) | (1,557,281) |
| Net change in total pension liability | 1,571,486 | 1,265,385 |
| Total pension liability - beginning | <u>31,843,512</u> | <u>30,578,127</u> |
| Total pension liability - ending (a) | <u>\$ 33,414,998</u> | <u>\$ 31,843,512</u> |
| Plan Fiduciary Net Position | | |
| Employer contributions | \$ 450,549 | \$ 469,153 |
| Member contributions | 463,120 | 452,976 |
| Investment income net of investment expenses | (114,861) | 2,146,140 |
| Benefit payments refunds of contributions | (1,860,914) | (1,557,281) |
| Administrative expenses | (23,151) | (24,740) |
| Other | (15,765) | (192,261) |
| Net change in plan fiduciary net position | (1,101,022) | 1,293,987 |
| Plan fiduciary net position - beginning | <u>32,789,595</u> | <u>31,495,608</u> |
| Plan fiduciary net position - ending (b) | <u>31,688,573</u> | <u>32,789,595</u> |
| Net pension liability / (asset), ending (a) - (b) | <u>\$ 1,726,425</u> | <u>\$(946,083)</u> |
| Fiduciary net position as a percentage of total pension liability | 94.83% | 102.97% |
| Pensionable covered payroll | \$ 6,615,994 | \$ 6,471,084 |
| Net pension liability as a percentage of covered payroll | 26.09% | -14.62% |

Information for the previous 8 years is not available. GASB 68 was implemented in fiscal year 2015.

UPSHUR COUNTY, TEXAS

SCHEDULE OF EMPLOYER CONTRIBUTIONS

SEPTEMBER 30, 2016

| Fiscal Year Ended September 30 | Actuarially Determined Contribution | Actual Employer Contribution | Contribution Deficiency (Excess) | Pensionable Covered Payroll (1) | Actual Contribution as a % of Covered Payroll |
|---|--|---|---|--|--|
| 2014 | \$ 524,542 | \$ 524,542 | \$ - | \$ 6,466,763 | 8.1% |
| 2015 | 454,689 | 454,689 | - | 6,572,191 | 6.9% |
| 2016 | 457,380 | 457,380 | - | 6,892,415 | 6.6% |

(1) Payroll is calculated based on contributions as reported to TCDRS.

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

UPSHUR COUNTY, TEXAS

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

SEPTEMBER 30, 2016

Valuation Timing Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contributions rates:

| | |
|---|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level percentage of payroll, closed |
| Remaining Amortization Period | 0 years (based on contribution rate calculated in 12/31/2015) |
| Asset Valuation Method | 5-year smoothed market |
| Inflation | 3.0% |
| Salary Increases | Varies by age and service. 4.9% average over career including |
| 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 Reflected in the Schedule | Effective with the 2015 calendar year, employer contributions reflect that a 100% CPI COLA was adopted. |

COMBINING FUND STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for revenues that are legally restricted for expenditure for particular purposes. The County's Special Revenue Funds are as follows:

CETRZ

Sheriff's Special

District Clerk Records

D. A. Forfeiture

Records Management Fee

Records Management and Other

Courthouse Security

Local Law Enforcement Block Grant

County and District Court Preservation

Family Violence Intervention Program

Project Lifesaver

County and District Technology

Law Library

D. A. State

D. A. Art 53.08 Fees

Law Enforcement Education

Judicial Education

Child Protection Fee

Arson Task Force

Election Refund

FEMA

Drug Interdiction

Justice of the Peace Court Technology

Pritchett Water Supply Grant

District Clerk Record Archive

JP Courthouse Security

Records Archive Fee

Texas Parks & Wildlife Fines

JP Bond Account

Victims' Assistance Grant

Court Initiated Guardianship

Asset Forfeiture DEA

Pretrial Intervention Program

Union Grove Water Grant

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DEBT SERVICE FUND

The *Debt Service Fund* is used to account for the accumulation of resources and payment of certificate of obligation principal and interest from governmental resources.

UPSHUR COUNTY, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Special Revenue | | |
|---|-----------------|----------------------|------------------------------|
| | 104 | 271 | 222 |
| | CETRZ | Sheriff's Special | District Clerk Records |
| ASSETS | | | |
| Cash and investments | \$ 6,225 | \$ 33,895 | \$ 13,506 |
| Receivables (net of allowance for uncollectibles) | - | - | - |
| Prepaid expense | - | - | - |
| Due from other governments | - | - | - |
| Total assets | 6,225 | 33,895 | 13,506 |
| LIABILITIES | | | |
| Accounts payable | - | 1,678 | - |
| Due to other funds | - | - | - |
| Total liabilities | - | 1,678 | - |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue - property taxes | - | - | - |
| Total deferred inflows of resources | - | - | - |
| FUND BALANCES | | | |
| Nonspendable: | | | |
| Prepaid items | - | - | - |
| Restricted for: | | | |
| Child protection | - | - | - |
| County and district clerk services | - | - | 13,506 |
| Court security and technology | - | - | - |
| District Attorney | - | - | - |
| Drug enforcement | - | - | - |
| Elections | - | - | - |
| Federal and state grants | - | - | - |
| Forfeiture | - | - | - |
| Judicial education | - | - | - |
| Law enforcement | - | 32,217 | - |
| Debt service | - | - | - |
| Other | 6,225 | - | - |
| Unassigned | - | - | - |
| Total fund balances | 6,225 | 32,217 | 13,506 |
| Total liabilities, deferred inflows, and fund balances | \$ 6,225 | \$ 33,895 | \$ 13,506 |

UPSHUR COUNTY, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Special Revenue | | |
|---|---|----------------------|--------------------------------------|
| | 300 | 274 | 221 |
| | Family Violence Intervention Program | Project Lifesaver | County and District Technology |
| ASSETS | | | |
| Cash and investments | \$ - | \$ 5,048 | \$ 5,434 |
| Receivables (net of allowance for uncollectibles) | - | - | - |
| Prepaid expense | - | - | - |
| Due from other governments | 7,430 | - | - |
| Total assets | 7,430 | 5,048 | 5,434 |
| LIABILITIES | | | |
| Accounts payable | - | - | - |
| Due to other funds | 7,430 | - | - |
| Total liabilities | 7,430 | - | - |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue - property taxes | - | - | - |
| Total deferred inflows of resources | - | - | - |
| FUND BALANCES | | | |
| Nonspendable: | | | |
| Prepaid items | - | - | - |
| Restricted for: | | | |
| Child protection | - | - | - |
| County and district clerk services | - | - | - |
| Court security and technology | - | - | 5,434 |
| District Attorney | - | - | - |
| Drug enforcement | - | - | - |
| Elections | - | - | - |
| Federal and state grants | - | - | - |
| Forfeiture | - | - | - |
| Judicial education | - | - | - |
| Law enforcement | - | - | - |
| Debt service | - | - | - |
| Other | - | 5,048 | - |
| Unassigned | - | - | - |
| Total fund balances | - | 5,048 | 5,434 |
| Total liabilities, deferred inflows, and fund balances | \$ 7,430 | \$ 5,048 | \$ 5,434 |

Special Revenue

| 202 | 255 | 272 | 229 | 203 | 275 |
|------------------|------------------------|---------------------------------|-----------------------|----------------------------|------------------------|
| Law Library | D.A. Art 53.08 Fees | Law Enforcement Education | Judicial Education | Child Protection Fee | Arson Task Force |
| \$ 2,909 | \$ 169 | \$ 41,265 | \$ 5,288 | \$ 2,901 | \$ 323 |
| - | - | - | - | - | - |
| - | - | 1,152 | - | - | - |
| - | - | - | - | - | - |
| <u>2,909</u> | <u>169</u> | <u>42,417</u> | <u>5,288</u> | <u>2,901</u> | <u>323</u> |
| 2,511 | - | - | 125 | - | - |
| 14,000 | - | - | - | - | - |
| <u>16,511</u> | <u>-</u> | <u>-</u> | <u>125</u> | <u>-</u> | <u>-</u> |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | 1,152 | - | - | - |
| - | - | - | - | 2,901 | - |
| - | - | - | - | - | - |
| - | 169 | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | 41,265 | - | - | - |
| - | - | - | - | - | - |
| - | - | - | 5,163 | - | - |
| - | - | - | - | - | 323 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| <u>(13,602)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>(13,602)</u> | <u>169</u> | <u>42,417</u> | <u>5,163</u> | <u>2,901</u> | <u>323</u> |
| <u>\$ 2,909</u> | <u>\$ 169</u> | <u>\$ 42,417</u> | <u>\$ 5,288</u> | <u>\$ 2,901</u> | <u>\$ 323</u> |

UPSHUR COUNTY, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Special Revenue | | |
|---|--------------------|-----------|----------------------|
| | 226 | 303 | 290 |
| | Election Refund | FEMA | Drug Interdiction |
| ASSETS | | | |
| Cash and investments | \$ 47,042 | \$ 19,928 | \$ 2,801 |
| Receivables (net of allowance for uncollectibles) | 2,290 | - | - |
| Prepaid expense | - | - | - |
| Due from other governments | - | - | - |
| Total assets | 49,332 | 19,928 | 2,801 |
| LIABILITIES | | | |
| Accounts payable | - | - | - |
| Due to other funds | - | - | - |
| Total liabilities | - | - | - |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue - property taxes | - | - | - |
| Total deferred inflows of resources | - | - | - |
| FUND BALANCES | | | |
| Nonspendable: | | | |
| Prepaid items | - | - | - |
| Restricted for: | | | |
| Child protection | - | - | - |
| County and district clerk services | - | - | - |
| Court security and technology | - | - | - |
| District Attorney | - | - | - |
| Drug enforcement | - | - | 2,801 |
| Elections | 49,332 | - | - |
| Federal and state grants | - | 19,928 | - |
| Forfeiture | - | - | - |
| Judicial education | - | - | - |
| Law enforcement | - | - | - |
| Debt service | - | - | - |
| Other | - | - | - |
| Unassigned | - | - | - |
| Total fund balances | 49,332 | 19,928 | 2,801 |
| Total liabilities, deferred inflows, and fund balances | \$ 49,332 | \$ 19,928 | \$ 2,801 |

UPSHUR COUNTY, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | <u>Special Revenue</u> | | |
|---|--------------------------------|--|---|
| | 184 | 308 | 230 |
| | <u>JP Bond Account</u> | <u>Victims' Assistance Grant</u> | <u>Court Initiated Guardianship</u> |
| ASSETS | | | |
| Cash and investments | \$ 4,981 | \$ - | \$ 19,240 |
| Receivables (net of allowance for uncollectibles) | - | - | - |
| Prepaid expense | - | - | - |
| Due from other governments | - | 6,418 | - |
| Total assets | <u>4,981</u> | <u>6,418</u> | <u>19,240</u> |
| LIABILITIES | | | |
| Accounts payable | 4,981 | - | - |
| Due to other funds | - | 6,418 | - |
| Total liabilities | <u>4,981</u> | <u>6,418</u> | <u>-</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue - property taxes | - | - | - |
| Total deferred inflows of resources | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES | | | |
| Nonspendable: | | | |
| Prepaid items | - | - | - |
| Restricted for: | | | |
| Child protection | - | - | 19,240 |
| County and district clerk services | - | - | - |
| Court security and technology | - | - | - |
| District Attorney | - | - | - |
| Drug enforcement | - | - | - |
| Elections | - | - | - |
| Federal and state grants | - | - | - |
| Forfeiture | - | - | - |
| Judicial education | - | - | - |
| Law enforcement | - | - | - |
| Debt service | - | - | - |
| Other | - | - | - |
| Unassigned | - | - | - |
| | <u>-</u> | <u>-</u> | <u>19,240</u> |
| Total liabilities, deferred inflows, and fund balances | <u>\$ 4,981</u> | <u>\$ 6,418</u> | <u>\$ 19,240</u> |

| Special Revenue | | | | |
|----------------------|-------------------------------|-------------------------|-------------------|--------------------------|
| 270 | 251 | 321 | 400/401 | |
| Asset Forfeiture DEA | Pretrial Intervention Program | Union Grove Water Grant | Debt Service | Total Governmental Funds |
| \$ 16,298 | \$ 23,923 | \$ - | \$ 18,066 | \$ 1,002,160 |
| - | - | - | 113,377 | 115,667 |
| - | - | - | - | 1,152 |
| - | - | - | - | 136,324 |
| <u>16,298</u> | <u>23,923</u> | <u>-</u> | <u>131,443</u> | <u>1,255,303</u> |
| - | - | - | - | 132,441 |
| - | - | - | - | 27,848 |
| - | - | - | - | 160,289 |
| - | - | - | 112,037 | 112,037 |
| - | - | - | 112,037 | 112,037 |
| - | - | - | - | 1,152 |
| - | - | - | - | 22,141 |
| - | - | - | - | 604,579 |
| - | - | - | - | 137,563 |
| - | 23,923 | - | - | 32,539 |
| - | - | - | - | 2,801 |
| - | - | - | - | 49,332 |
| - | - | - | - | 61,792 |
| 16,298 | - | - | - | 16,298 |
| - | - | - | - | 5,163 |
| - | - | - | - | 32,540 |
| - | - | - | 19,406 | 19,406 |
| - | - | - | - | 11,273 |
| - | - | - | - | (13,602) |
| <u>16,298</u> | <u>23,923</u> | <u>-</u> | <u>19,406</u> | <u>982,977</u> |
| <u>\$ 16,298</u> | <u>\$ 23,923</u> | <u>\$ -</u> | <u>\$ 131,443</u> | <u>\$ 1,255,303</u> |

UPSHUR COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Special Revenue | | |
|--|-----------------|----------------------|------------------------------|
| | 104 | 271 | 222 |
| | CETZRZ | Sheriff's Special | District Clerk Records |
| REVENUES | | | |
| Taxes | \$ 4,018 | \$ - | \$ - |
| Intergovernmental | - | - | - |
| Charges for services | - | - | 3,888 |
| Fines and forfeitures | - | 10,591 | - |
| Interest | - | 94 | - |
| Miscellaneous | - | - | - |
| Total revenues | 4,018 | 10,685 | 3,888 |
| EXPENDITURES | | | |
| General government | - | - | - |
| Public safety | - | 49,360 | - |
| Legal | - | - | 2,531 |
| Total expenditures | - | 49,360 | 2,531 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 4,018 | (38,675) | 1,357 |
| OTHER FINANCING SOURCES (USES) | | | |
| Sale of capital assets | - | 17,447 | - |
| Total other financing sources (uses) | - | 17,447 | - |
| NET CHANGE IN FUND BALANCES | 4,018 | (21,228) | 1,357 |
| FUND BALANCES, BEGINNING | 2,207 | 53,445 | 12,149 |
| FUND BALANCES, ENDING | \$ 6,225 | \$ 32,217 | \$ 13,506 |

Special Revenue

| 250 | 224 | 201 | 200 | 276 | 220 |
|--------------------|------------------------------|------------------------------------|------------------------|---|--|
| D.A. Forfeiture | Records Management Fee | Records Management and Other | Courthouse Security | Local Law Enforcement Block Grant | County and District Court Preservation |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - |
| - | 86,208 | 10,038 | 18,337 | - | 7,080 |
| 6,293 | - | - | - | - | - |
| 10 | - | - | 104 | - | - |
| - | - | - | - | 2,500 | - |
| <u>6,303</u> | <u>86,208</u> | <u>10,038</u> | <u>18,441</u> | <u>2,500</u> | <u>7,080</u> |
| - | 36,093 | 5,000 | - | - | - |
| - | - | - | - | 2,498 | - |
| 3,996 | - | - | 47,280 | - | - |
| <u>3,996</u> | <u>36,093</u> | <u>5,000</u> | <u>47,280</u> | <u>2,498</u> | <u>-</u> |
| <u>2,307</u> | <u>50,115</u> | <u>5,038</u> | <u>(28,839)</u> | <u>2</u> | <u>7,080</u> |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 2,307 | 50,115 | 5,038 | (28,839) | 2 | 7,080 |
| <u>6,140</u> | <u>106,439</u> | <u>73,646</u> | <u>70,581</u> | <u>597</u> | <u>56,386</u> |
| <u>\$ 8,447</u> | <u>\$ 156,554</u> | <u>\$ 78,684</u> | <u>\$ 41,742</u> | <u>\$ 599</u> | <u>\$ 63,466</u> |

UPSHUR COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Special Revenue | | |
|--|---|----------------------|--------------------------------------|
| | 300 | 274 | 221 |
| | Family Violence Intervention Program | Project Lifesaver | County and District Technology |
| REVENUES | | | |
| Taxes | \$ - | \$ - | \$ - |
| Intergovernmental | 40,059 | - | - |
| Charges for services | - | - | 846 |
| Fines and forfeitures | - | - | - |
| Interest | - | - | - |
| Miscellaneous | 36,976 | - | - |
| Total revenues | 77,035 | - | 846 |
| EXPENDITURES | | | |
| General government | - | - | - |
| Public safety | - | - | - |
| Legal | 77,035 | - | 1,014 |
| Total expenditures | 77,035 | - | 1,014 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | - | - | (168) |
| OTHER FINANCING SOURCES (USES) | | | |
| Sale of capital assets | - | - | - |
| Total other financing sources (uses) | - | - | - |
| NET CHANGE IN FUND BALANCES | - | - | (168) |
| FUND BALANCES, BEGINNING | - | 5,048 | 5,602 |
| FUND BALANCES, ENDING | \$ - | \$ 5,048 | \$ 5,434 |

Special Revenue

| 202 | 255 | 272 | 229 | 203 | 275 |
|----------------------------|------------------------|---------------------------------|------------------------|----------------------------|------------------------|
| Law Library | D.A. Art 53.08 Fees | Law Enforcement Education | Judicial Education | Child Protection Fee | Arson Task Force |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | 6,490 | - | - | - |
| 24,886 | - | - | 700 | - | - |
| - | 140 | - | - | 2,570 | - |
| - | - | - | - | - | - |
| <u>24,886</u> | <u>140</u> | <u>6,490</u> | <u>700</u> | <u>2,570</u> | <u>-</u> |
| - | - | - | 402 | - | - |
| - | - | 136 | - | 5,000 | - |
| 25,200 | - | - | - | - | - |
| <u>25,200</u> | <u>-</u> | <u>136</u> | <u>402</u> | <u>5,000</u> | <u>-</u> |
| (314) | 140 | 6,354 | 298 | (2,430) | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| (314) | 140 | 6,354 | 298 | (2,430) | - |
| <u>(13,288)</u> | <u>29</u> | <u>36,063</u> | <u>4,865</u> | <u>5,331</u> | <u>323</u> |
| <u><u>\$ (13,602)</u></u> | <u><u>\$ 169</u></u> | <u><u>\$ 42,417</u></u> | <u><u>\$ 5,163</u></u> | <u><u>\$ 2,901</u></u> | <u><u>\$ 323</u></u> |

UPSHUR COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Special Revenue | | |
|--|--------------------|-----------|----------------------|
| | 226 | 303 | 290 |
| | Election Refund | FEMA | Drug Interdiction |
| REVENUES | | | |
| Taxes | \$ - | \$ - | \$ - |
| Intergovernmental | - | - | - |
| Charges for services | 28,996 | - | - |
| Fines and forfeitures | - | - | - |
| Interest | - | - | 6 |
| Miscellaneous | - | - | - |
| Total revenues | 28,996 | - | 6 |
| EXPENDITURES | | | |
| General government | 1,421 | - | - |
| Public safety | - | - | - |
| Legal | - | - | - |
| Total expenditures | 1,421 | - | - |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 27,575 | - | 6 |
| OTHER FINANCING SOURCES (USES) | | | |
| Sale of capital assets | - | - | - |
| Total other financing sources (uses) | - | - | - |
| NET CHANGE IN FUND BALANCES | 27,575 | - | 6 |
| FUND BALANCES, BEGINNING | 21,757 | 19,928 | 2,795 |
| FUND BALANCES, ENDING | \$ 49,332 | \$ 19,928 | \$ 2,801 |

Special Revenue

| 227 | 320 | 223 | 228 | 225 | 702 |
|---|---------------------------------------|--|------------------------------|---------------------------|---|
| Justice the Peace Court Technology | Pritchett Water Supply Grant | District Clerk Record Archive | JP Courthouse Security | Records Archive Fee | Texas Parks and Wildlife Fines |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | 129,664 | - | - | - | - |
| - | - | 6,471 | 1,600 | 85,440 | - |
| 6,464 | - | - | - | - | - |
| - | - | 29 | - | - | - |
| - | - | - | - | - | - |
| <u>6,464</u> | <u>129,664</u> | <u>6,500</u> | <u>1,600</u> | <u>85,440</u> | <u>-</u> |
| 6,080 | 129,664 | - | 932 | 24,180 | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| <u>6,080</u> | <u>129,664</u> | <u>-</u> | <u>932</u> | <u>24,180</u> | <u>-</u> |
| <u>384</u> | <u>-</u> | <u>6,500</u> | <u>668</u> | <u>61,260</u> | <u>-</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 384 | - | 6,500 | 668 | 61,260 | - |
| <u>66,905</u> | <u>-</u> | <u>11,803</u> | <u>22,430</u> | <u>212,806</u> | <u>-</u> |
| <u>\$ 67,289</u> | <u>\$ -</u> | <u>\$ 18,303</u> | <u>\$ 23,098</u> | <u>\$ 274,066</u> | <u>\$ -</u> |

UPSHUR COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Special Revenue | | |
|--|-----------------------|---------------------------------|------------------------------------|
| | 184 | 308 | 230 |
| | JP Bond Account | Victims' Assistance Grant | Court Initiated Guardianship |
| REVENUES | | | |
| Taxes | \$ - | \$ - | \$ - |
| Intergovernmental | - | 48,169 | - |
| Charges for services | - | - | 2,820 |
| Fines and forfeitures | - | - | - |
| Interest | - | - | - |
| Miscellaneous | - | - | - |
| Total revenues | - | 48,169 | 2,820 |
| EXPENDITURES | | | |
| General government | - | - | - |
| Public safety | - | - | - |
| Legal | - | 48,169 | - |
| Total expenditures | - | 48,169 | - |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | - | - | 2,820 |
| OTHER FINANCING SOURCES (USES) | | | |
| Sale of capital assets | - | - | - |
| Total other financing sources (uses) | - | - | - |
| NET CHANGE IN FUND BALANCES | - | - | 2,820 |
| FUND BALANCES, BEGINNING | - | - | 16,420 |
| FUND BALANCES, ENDING | \$ - | \$ - | \$ 19,240 |

Special Revenue

| 270 | 251 | 321 | 400/401 | |
|----------------------------|-------------------------------------|-------------------------------|------------------|--------------------------------|
| Asset Forfeiture DEA | Pretrial Intervention Program | Union Grove Water Grant | Debt Service | Total Governmental Funds |
| \$ - | \$ - | \$ - | \$ 7,704 | \$ 11,722 |
| - | - | 284,512 | - | 508,894 |
| - | 14,949 | - | - | 292,259 |
| 2,709 | - | - | - | 28,767 |
| 28 | - | - | - | 271 |
| - | - | - | - | 39,476 |
| <u>2,737</u> | <u>14,949</u> | <u>284,512</u> | <u>7,704</u> | <u>881,389</u> |
| - | - | 284,512 | - | 488,284 |
| 3,130 | - | - | - | 60,124 |
| - | 15,023 | - | - | 220,248 |
| <u>3,130</u> | <u>15,023</u> | <u>284,512</u> | <u>-</u> | <u>768,656</u> |
| (393) | (74) | - | 7,704 | 112,733 |
| - | - | - | - | 17,447 |
| - | - | - | - | 17,447 |
| (393) | (74) | - | 7,704 | 130,180 |
| <u>16,691</u> | <u>23,997</u> | <u>-</u> | <u>11,702</u> | <u>852,797</u> |
| <u>\$ 16,298</u> | <u>\$ 23,923</u> | <u>\$ -</u> | <u>\$ 19,406</u> | <u>\$ 982,977</u> |

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AGENCY FUNDS

Agency Funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments and/or other funds. The County's Agency Funds are as follows:

State Fees

Child Safety

District Clerk Trust

District Clerk Bond

District Clerk Registry Account

County Clerk Bond Account

County Clerk Registry Account

Tax Assessor/Collector General

Tax Assessor/Collector TXDOT

Tax Assessor/Collector Boat and Motor

Tax Assessor/Collector Auto Sales Tax

Tax Assessor/Collector Special Inventory

Tax Assessor/Collector Credit Card Merchant

Sheriff Cash Bond

Jail Inmate Welfare

Jail Inmate Trust

Probation Office Juvenile

Probation Office Adult

District Attorney Operating

District Attorney Trust

UPSHUR COUNTY, TEXAS

COMBINING BALANCE SHEET

ALL AGENCY FUNDS

AS OF SEPTEMBER 30, 2016

| | <u>State Fees</u> | <u>Child Safety</u> | <u>District Clerk Trust</u> | <u>District Clerk Bond</u> |
|----------------------|-------------------------|-------------------------|-------------------------------------|------------------------------------|
| ASSETS | | | | |
| Cash and investments | \$ <u>84,118</u> | \$ <u>260</u> | \$ <u>239,800</u> | \$ <u>72,151</u> |
| Total assets | \$ <u><u>84,118</u></u> | \$ <u><u>260</u></u> | \$ <u><u>239,800</u></u> | \$ <u><u>72,151</u></u> |
| LIABILITIES | | | | |
| Due to others | \$ <u>84,118</u> | \$ <u>260</u> | \$ <u>239,800</u> | \$ <u>72,151</u> |
| Total liabilities | \$ <u><u>84,118</u></u> | \$ <u><u>260</u></u> | \$ <u><u>239,800</u></u> | \$ <u><u>72,151</u></u> |

| <u>District Clerk Registry Account</u> | <u>County Clerk Bond Account</u> | <u>County Clerk Registry Account</u> | <u>Tax Assessor/ Collector General</u> | <u>Tax Assessor/ Collector TXDOT</u> | <u>Tax Assessor/ Collector Boat and Motor</u> | <u>Tax Assessor/ Collector Auto Sales Tax</u> |
|--|--|--|--|--|---|---|
| \$ <u>228,916</u> | \$ <u>24,695</u> | \$ <u>323,539</u> | \$ <u>64,885</u> | \$ <u>214,401</u> | \$ <u>7,891</u> | \$ <u>28,389</u> |
| \$ <u>228,916</u> | \$ <u>24,695</u> | \$ <u>323,539</u> | \$ <u>64,885</u> | \$ <u>214,401</u> | \$ <u>7,891</u> | \$ <u>28,389</u> |
| \$ <u>228,916</u> | \$ <u>24,695</u> | \$ <u>323,539</u> | \$ <u>64,885</u> | \$ <u>214,401</u> | \$ <u>7,891</u> | \$ <u>28,389</u> |
| \$ <u>228,916</u> | \$ <u>24,695</u> | \$ <u>323,539</u> | \$ <u>64,885</u> | \$ <u>214,401</u> | \$ <u>7,891</u> | \$ <u>28,389</u> |

UPSHUR COUNTY, TEXAS

COMBINING BALANCE SHEET

ALL AGENCY FUNDS

AS OF SEPTEMBER 30, 2016

| | <u>Tax Assessor/ Collector Special Inventory</u> | <u>Tax Assessor/ Collector Credit Card Merchant</u> | <u>Sheriff Cash Bond</u> | <u>Jail Inmate Welfare</u> |
|----------------------|--|---|------------------------------|------------------------------------|
| ASSETS | | | | |
| Cash and investments | \$ <u>52,506</u> | \$ <u>745</u> | \$ <u>44,474</u> | \$ <u>125,890</u> |
| Total assets | \$ <u><u>52,506</u></u> | \$ <u><u>745</u></u> | \$ <u><u>44,474</u></u> | \$ <u><u>125,890</u></u> |
| LIABILITIES | | | | |
| Due to others | \$ <u>52,506</u> | \$ <u>745</u> | \$ <u>44,474</u> | \$ <u>125,890</u> |
| Total liabilities | \$ <u><u>52,506</u></u> | \$ <u><u>745</u></u> | \$ <u><u>44,474</u></u> | \$ <u><u>125,890</u></u> |

| <u>Jail Inmate Trust</u> | <u>Probation Office Juvenile</u> | <u>Probation Office Adult</u> | <u>District Attorney Operating</u> | <u>District Attorney Trust</u> | <u>Totals</u> |
|----------------------------------|--|---------------------------------------|--|--|---------------------|
| \$ <u>2,749</u> | \$ <u>518,808</u> | \$ <u>460,421</u> | \$ <u>659</u> | \$ <u>438</u> | \$ <u>2,495,735</u> |
| \$ <u>2,749</u> | \$ <u>518,808</u> | \$ <u>460,421</u> | \$ <u>659</u> | \$ <u>438</u> | \$ <u>2,495,735</u> |
| \$ <u>2,749</u> | \$ <u>518,808</u> | \$ <u>460,421</u> | \$ <u>659</u> | \$ <u>438</u> | \$ <u>2,495,735</u> |
| \$ <u>2,749</u> | \$ <u>518,808</u> | \$ <u>460,421</u> | \$ <u>659</u> | \$ <u>438</u> | \$ <u>2,495,735</u> |

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COMPLIANCE SECTION

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PATTILLO, BROWN & HILL, 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 Judge and
County Commissioners
Upshur County, Texas
Gilmer, 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 Upshur County, Texas (the "County"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated June 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's 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 the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's 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 responses, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (Items 2015-001, 2015-002, 2015-003, 2015-004, 2015-005, 2015-006, and 2015-007).

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

Compliance and Other Matters

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

Upshur County's Response to Findings

Upshur County's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Upshur County's 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 of the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Waco, Texas
June 27, 2017

UPSHUR COUNTY, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Item 2015-001

Condition: The District Clerk's office only has one cash drawer per office. This allows all of the clerks in the office to share the same cash drawer.

Effect: Revenues may be misappropriated and the financial statements understated if all clerks have access to the same cash drawer.

Cause: Only one cash drawer is located in the District Clerk's office and all clerks must use the same cash drawer to complete transactions.

Recommendation: Each Clerk performing financial transactions should have his or her individual cash bag that he or she is responsible so if an error or misappropriation of funds occurs, the incident may be isolated to one Clerk. Management should issue each Clerk his or her own cash bag.

Management's Response: The County Auditor has discussed with the District Clerk that the District Clerk's office will be issued additional change funds so each cashier will maintain a separate cash drawer.

Contact Person Responsible
for Corrective Action: Brandy Lee, County Auditor

Anticipated Completion
Date: Immediately

UPSHUR COUNTY, TEXAS

**SCHEDULE OF FINDINGS AND RESPONSES
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Item 2015-002

Condition: Justice of the Peace clerks have the ability to dismiss cases without obtaining authorization or validity prior to execution of the dismissal.

Effect: Revenues may be understated in the financial statements if cases are inappropriately dismissed.

Cause: The user rights on County software permit Clerks to inappropriately dismiss non-adjudicated cases.

Recommendation: Only Justices of the Peace should have the ability to dismiss non-adjudicated cases. User rights should be redefined to ensure clerks do not have the capability to dismiss cases that may otherwise be adjudicated.

Management's Response: A memo from the County Auditor's office was sent out to the Justice of the Peace offices that the Auditor's office will require a monthly report of dismissed cases signed by the Judge. In addition, the County Auditor will require a monthly report of all fees assessed.

Contact Person Responsible
for Corrective Action: Brandy Lee, County Auditor

Anticipated Completion
Date: Immediately

UPSHUR COUNTY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Item 2015-003

Condition: Change made for Library customers is made from another entity's cash bag.

Effect: Cash is intermingled and could become appropriated to the incorrect entity.

Cause: As the installation of fines and fees is a new procedure for the library, a change bag is not assigned to the Library.

Recommendation: The Library needs an assigned change bag to make change for Library customers.

Management's Response: The Library will be issued a change fund to be used for issuing change for all Upshur County Library transactions.

Contact Person Responsible for Corrective Action: Brandy Lee, County Auditor

Anticipated Completion Date: Immediately

UPSHUR COUNTY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Item 2015-004

| | |
|--|---|
| <u>Condition:</u> | Revenues received from the Library are not appropriately safeguarded and secured overnight in a locked area. |
| <u>Effect:</u> | The potential for theft is higher if the cash is not secured properly overnight. |
| <u>Cause:</u> | The Library staff was unaware of the need to secure funds kept at the Library overnight. |
| <u>Recommendation:</u> | All funds should be secured each night in a desk, safe, or other locked vessel. |
| <u>Management's Response:</u> | The County Auditor will draft a policy regarding the collection and reporting of Library fees and fines, which will include the requirement for maintaining cash overnight in a secured location. |
| <u>Contact Person Responsible for Corrective Action:</u> | Brandy Lee, County Auditor |
| <u>Anticipated Completion Date:</u> | Immediately |

UPSHUR COUNTY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Item 2015-005

| | |
|--|--|
| <u>Condition:</u> | Library cash is not balanced on a daily basis to the daily reports. |
| <u>Effect:</u> | If an error is made or if theft occurs, it will be difficult to determine when the issue occurs and who caused such issue. |
| <u>Cause:</u> | Due to the small amounts of revenue received on a daily basis, the Library has not been balancing cash on a daily basis. |
| <u>Recommendation:</u> | The Library should balance cash receipts to cash reports on a daily basis. |
| <u>Management's Response:</u> | The County Auditor will draft a policy regarding the collection and reporting of Library fees and fines, which will include the requirement for daily balancing. |
| <u>Contact Person Responsible for Corrective Action:</u> | Brandy Lee, County Auditor |
| <u>Anticipated Completion Date:</u> | Immediately |

UPSHUR COUNTY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Item 2015-006

| | |
|--|---|
| <u>Condition:</u> | The Librarian has the sole power to allow forgiveness of fines without County approved guidelines. |
| <u>Effect:</u> | Abuse of forgiveness may occur to the detriment of the Library. |
| <u>Cause:</u> | The County has not established an official Commissioner approved policy for forgiveness of fines. |
| <u>Recommendation:</u> | The County should establish a policy for fine forgiveness and those forgiven fines should be indicated as such on daily reports and are subject to review by the County Auditor and other County officials. |
| <u>Management's Response:</u> | The County Auditor will recommend to the Upshur County Commissioner's Court that the Court adopt a policy addressing the forgiveness of fines. |
| <u>Contact Person Responsible for Corrective Action:</u> | Brandy Lee, County Auditor |
| <u>Anticipated Completion Date:</u> | Immediately |

UPSHUR COUNTY, TEXAS

**SCHEDULE OF FINDINGS AND RESPONSES
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Item 2015-007

Condition: Forgiven fines appear as paid fines on the daily/weekly/monthly reports.

Effect: Receipts do not match revenues reported.

Cause: The Library staff is unaware how to or if the software can be formatted to correctly reflect a forgiven fine as forgiven rather than paid.

Recommendation: The software should be modified to correctly identify forgiven fines versus paid fines.

Management's Response: The County Auditor's office will look into the capabilities of the Library's Biblionix system to ascertain whether additional customized parameters can be added to differentiate between fines paid and fines forgiven. Until that procedure is implemented, the County Librarian will be instructed to maintain a list of all fines forgiven.

Contact Person Responsible
for Corrective Action: Brandy Lee, County Auditor

Anticipated Completion
Date: Immediately

UPSHUR COUNTY, TEXAS

**SCHEDULE OF FINDINGS AND RESPONSES
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Item 2014-002

Condition: Justice of the Peace clerks have the ability to dismiss cases without obtaining authorization or validity prior to execution of the dismissal.

Effect: Revenues may be understated in the financial statements if cases are inappropriately dismissed.

Cause: The user rights on County software permit Clerks to inappropriately dismiss non-adjudicated cases.

Recommendation: Only Justices of the Peace should have the ability to dismiss non-adjudicated cases. User rights should be redefined to ensure clerks do not have the capability to dismiss cases that may otherwise be adjudicated.

Management's Response: The County's current judicial software does not feature a security designation that would allow us to limit a user's choice of disposition codes. Additionally, while this recommendation sounds feasible in the private sector, the County most likely does not have the authority to enforce a policy that would dictate which employees can or cannot perform data input duties within an elected official's office. However, we can begin gathering statistics on dismissals, and incorporating them into routine Justice Court audits.

Contact Person Responsible
for Corrective Action: Brandy Lee, County Auditor

Anticipated Completion
Date: September 30, 2015

Current Status: This matter is in progress.



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

To the Honorable County Judge and
 Commissioners' Court
 Upshur County, Texas
 Gilmer, Texas

We have audited the financial statements of Upshur County, Texas as of and for the year ended September 30, 2015, and have issued our report thereon dated September 8, 2016. 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 September 14, 2015, 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 Upshur 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.

FILED
 TERRI ROSS
 COUNTY CLERK
 2016 SEP 15 PM 12:37
 UPSHUR COUNTY, TX.
 BY [Signature]
 DEPUTY

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 401 West Highway 6
 Waco, Texas 76710
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RIO GRANDE VALLEY, TX
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TEMPLE, TX
 254.791.3460

ALBUQUERQUE, NM
 505.266.5904



Governmental Audit
 Quality Center

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

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

We will assist in preparing the financial statements and related notes to the financial statements of Upshur County, Texas in conformity with U.S. generally accepted accounting principles based on information provided by you. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Services*.

You agree to assume all management responsibilities relating to the financial statements, related notes, and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and related notes and that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further, you agree to oversee the nonaudit services by designating an individual, preferable from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept 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 Upshur County, Texas is included in Note 1 to the financial statements. As described in the notes to the financial statements, during the year, Upshur County, Texas changed its method of accounting for pension liabilities by adopting Governmental Accounting Standards (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and Governmental Accounting Standards (GASB) Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Accordingly, the cumulative effect of the accounting change as of the beginning of the year has been reported in the Statement of Activities. 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 were:

- Uncollectible accounts receivable
- Accumulated depreciation on capital assets and useful lives of capital assets
- Health claims payable
- Net pension liability

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 Upshur 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 Upshur 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 September 8, 2016.

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 Upshur 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 Upshur County, Texas' auditors.

This report is intended solely for the information and use of the Commissioners Court, and management of Upshur 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
September 8, 2016

FILED
TERRI ROSS
COUNTY CLERK
2016 SEP 15 PM 12:37
UPSHUR COUNTY, TX.
BY 
DEPUTY