

Red River County, Texas

**Financial Statements
And Independent Auditor's Report**

For the year ended September 30, 2016

Red River County, Texas
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 Year ended September 30, 2016

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INDEPENDENT AUDITOR'S REPORT

The Honorable Judge and
County Commissioners
Red River County, Texas
Clarksville, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Red River County, Texas as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District'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, the business-type 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 and the respective budgetary comparison for the general fund 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 required supplemental information on pages 3 through 11 and pages 40 through 41 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 and individual non-major fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards 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 and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 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.

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.

January 19, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the County of Red River County, Texas, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities and performance for the year ended September 30, 2016. The information presented here should be read in conjunction with the independent auditor's report and the County's financial statements.

FINANCIAL HIGHLIGHTS

The County's total combined net position was \$15.17 million at September 30, 2016. \$9.35 million of the net position is invested in capital assets, net of related debt. During the year, the County's expenses were \$347 thousand less than the \$6.7 million generated in taxes, charges for services, insurance recoveries, and other revenues from activities. This includes depreciation expense of \$660 thousand.

The total cost of all the County's activities was about \$6.38 million, an increase of \$1.17 million. This was mainly because of significant damages to the county jail and roads caused by storm damages. Insurance recoveries for losses as well as FEMA grant amounts covered these additional costs.

The general fund balance is \$2.13 million at September 30, 2016, which is an increase of \$302 thousand. General fund revenue increased compared to the prior year with an increase of \$63 thousand in tax revenue and a total increase of \$114 thousand in revenue. Expenditures increased 12% or \$379 thousand. The public facilities expenses increased approximately \$500 thousand due to repair work having to be done on the county jail due to massive storm damage. The main road and bridge fund balance increased by \$400 thousand to a balance of \$1.58 million. There were major road damages caused by storms. FEMA has paid for \$587 thousand of these damages this fiscal year.

During the year, \$273 thousand of fixed assets were added. \$45 thousand of principal was paid on debt. New debt of \$117 thousand was obtained to purchase a new Mack Truck for Precinct 4.

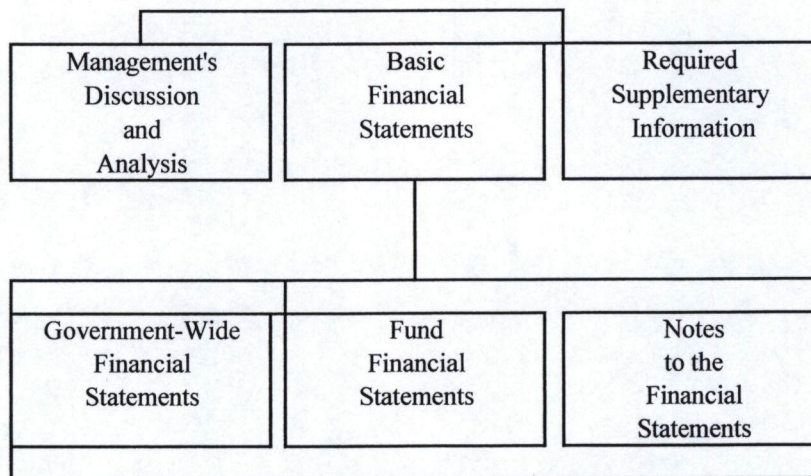
Approximately 94% of the taxes levied for 2015-16 were collected by September 30, 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts--*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the County:

- The first two statements are *government-wide financial statements* that provide information about the County's activities as a whole and present a longer-term view of the County's property and debt obligations. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the County's operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses*, such as a commissary operation.
 - *Fiduciary fund* statements provide information about the financial relationships in which the County acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong. This fund contains trust funds.

Figure A-1. Required Components of the County's Annual Financial Report



Summary ↔ Detail

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the County's Government-wide Fund Financial Statements				
<i>Type of Statements</i>	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire County's government (except fiduciary funds) and the County's component units	The activities of the County that are not proprietary or fiduciary	Activities the County operates similar to private businesses: self insurance	Instances in which the County is the trustee or agent for someone else's resources
<i>Required financial statements</i>	Statement of net position	Balance sheet	Statement of net position	Statement of fiduciary net position
	Statement of activities	Statement of revenues, Expenditures & changes in fund balances	Statement of revenues, expenses and changes in fund net position Statement of cash flows	Statement of changes in fiduciary net position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon after	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the County's *net position* and how they have changed. Net position-the difference between the County's assets and liabilities-is one way to measure the County's financial health or *position*.

- Over time, increases or decreases in the County's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the County, consideration should be given to additional nonfinancial factors such as changes in the County's tax base.

The government-wide financial statements of the County include the *Governmental activities*. Most of the County's basic services are included here, such as public safety, highways, streets and bridges, judicial and general administration. Property taxes and charges for services finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the County's most significant *funds*-not the County as a whole. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Commissioner's Court establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The County has three kinds of funds:

- *Governmental funds*-Most of the County's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship (or differences) between them.
- *Proprietary funds*-Services for which the County charges customers a fee are generally reported in enterprise funds. Enterprise funds, like the government-wide statements, provide both long-term and short-term financial information. *Internal service funds* are used to report activities that provide supplies and services for the County's other programs and activities. The County has no internal service funds.
- *Fiduciary funds*-The County is the trustee, of *fiduciary*, for certain funds. It is also responsible for other assets that-because of a trust arrangement-can be used only for the trust beneficiaries. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The County's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These activities are excluded from the County's government-wide financial statements because the County cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net position. The County's combined net position was approximately \$15.17 million at September 30, 2016.

Table A-1
The County's Net Position
(in thousands of dollars)

	Activities		Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	7,106	6,170	115	130	7,221	6,300
Capital and non-current assets	9,655	10,008	910	944	10,565	10,952
TOTAL ASSETS	16,761	16,178	1,025	1,074	17,786	17,252
Deferred outflow-pension plan	834	210	-	-	834	210
TOTAL DEFERRED OUTFLOWS OF RESOURCES	834	210	-	-	834	210
Long-term liabilities	755	446	-	-	755	446
Other liabilities	202	164	-	-	202	164
TOTAL LIABILITIES	957	610	-	-	957	610
Unavailable revenue-taxes, fines, & fees	2,363	2,263	-	-	2,363	2,263
Deferred inflow-pension plan	134	29	-	-	134	29
TOTAL DEFERRED INFLOWS OF RESOURCES	2,497	2,292	-	-	2,497	2,292
Net position						
Invested in capital assets						
net of related debt	9,354	9,779	-	-	9,354	9,779
Restricted	2,186	1,710	-	-	2,186	1,710
Unrestricted	2,601	1,997	1,025	1,074	3,626	3,071
TOTAL NET POSITION	14,141	13,486	1,025	1,074	15,166	14,560

Net position invested in capital assets net of related debt reflects the book value of the County's capital assets in excess of the debt which financed those assets. The \$3.6 million of unrestricted net position represents resources available to fund the programs of the County for the next fiscal year.

The \$2.19 million is restricted as follows:

Restricted for debt service	-
Restricted for special revenue funds	<u>2,186</u>
	<u>2,186</u>

Net position of the County increased \$606 thousand. The County recorded depreciation of \$660 thousand. \$274 thousand of fixed assets were added. \$45 thousand was paid on principal on debt, \$117 thousand of new debt was obtained. The County's revenues exceeded expenditures by \$779 thousand in the governmental funds. Expenses exceeded revenues by \$49 thousand in the proprietary fund. A prior period adjustment of \$259 thousand was made to the beginning net position to correct the beginning net pension liability.

Changes in net position.

The County's total revenues were \$6.08 million. 55% of this came from property taxes, 12% came from sales taxes and other taxes, 8% came from charges for services, and 19% came from operating grants and contributions.

The total cost of all programs was \$6.38 million. Approximately 26% of this was for public safety and 28% was for highways, streets and bridges.

Net position increased by \$347 thousand because of the excess of revenues and insurance recovery over expenses. Depreciation expense was \$660 thousand for the year.

Table A-2
The County's Changes in Net Position
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2015	2015
Revenues						
<u>Program Revenues</u>						
Charges for Services	489	469	-	4	489	473
Operating Grants and Contributions	1,160	530	-	-	1,160	530
<u>General Revenues</u>						
Property Taxes	3,338	3,258	-	-	3,338	3,258
Other taxes	750	741	-	-	750	741
Investment earnings	20	15	-	-	20	15
Other	327	309	-	-	327	309
Total Revenues	6,084	5,322	-	4	6,084	5,326
Expenses						
General Government	333	344	-	-	333	344
Judicial	456	488	-	-	456	488
Legal	108	113	-	-	108	113
Financial	408	403	-	-	408	403
Public Facility	647	140	-	-	647	140
Public Safety	1,349	1,439	330	33	1,679	1,472
Health and Welfare	266	219	-	-	266	219
Roads & Streets	1,807	1,550	-	-	1,807	1,550
Cultural and Recreational	97	93	-	-	97	93
Conservation	125	115	-	-	125	115
Intergovernmental	200	63	-	-	200	63
General-miscellaneous	249	203	-	-	249	203
Debt service	8	5	-	-	8	5
Total Expenses	6,053	5,175	330	33	6,383	5,208
Other Sources (Uses)						
Transfers in (out)	-	-	-	-	-	-
Insurance Recovery	365	-	281	-	646	-
Increase (Decrease) in Net Position	396	147	(49)	(29)	347	118
Beginning Net Position	13,486	13,280	1,074	1,103	14,560	14,383
Prior Period Adjustment	259	59	-	-	259	59
Ending Net Position	14,141	13,486	1,025	1,074	15,166	14,560

The prior period adjustments are related to recording the net pension liability related to prior years and also recording some fixed assets under construction from the prior year.

Table A-3 presents the cost of each of the County's largest functions as well as each function's *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$6.05 million.
- However, the amount that taxpayers paid for these activities through property taxes was only \$3.34 million.
- Some of the cost was paid by those who directly benefited from the programs (\$489 thousand), or by grants and contributions (\$1.16 million).

Table A-3
Net Cost of Selected County Functions
(in thousands of dollars)

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
General Government	333	344	185	252
Public Safety	1,349	1,439	1,146	1,225
Highways, Streets and Bridges	1,806	1,550	1,131	1,316

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The County reported fund balance in its governmental funds of approximately \$4.31 million at September 30, 2016. This balance is composed of the following in thousands

General	2,128
Special Revenue	<u>2,186</u>
	<u><u>4,314</u></u>

Fund balance in the governmental funds increased \$778 thousand. The general fund balance increased \$302 thousand as compared to \$514 thousand the prior year. This is due mainly to there not being a transfer from the indigent health care fund. There was a \$200 thousand transfer the prior year. The Main Road & Bridge fund balance increased \$399 thousand as compared to \$188 thousand the prior year. This was due to less road repair costs that weren't covered by FEMA because of the severe storm damage. Other special revenue funds increased about \$77 thousand.

General Fund Budgetary Highlights

Several budget amendments were made during the year. Even with these amendments, actual expenditures were less than budgeted by \$621 thousand. Actual revenues were \$116 thousand more than budgeted. \$599 thousand was budgeted as a decrease to fund balance. Actually, the fund balance increased \$302 thousand.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table A-4
County's Capital Assets
(in thousands of dollars)

	Governmental Activities		Business-Type Activities	
	2016	2015	2016	2015
Land	131	131	22	22
Roads	16,967	16,967	-	-
Buildings and improvements	5,578	5,578	1,642	1,642
Machinery and equipment	3,102	3,277	-	-
Totals at historical cost	<u>25,778</u>	<u>25,953</u>	<u>1,664</u>	<u>1,664</u>
Total accumulated depreciation	<u>(16,123)</u>	<u>(15,945)</u>	<u>(754)</u>	<u>(720)</u>
Net capital assets	<u>9,655</u>	<u>10,008</u>	<u>910</u>	<u>944</u>

\$274 thousand of new equipment was added in the current year.

Long-Term Debt

Table A-5
County's Long-Term Debt
(in thousands of dollars)

	Governmental Activities		Business-Type Activities	
	2016	2015	2016	2015
Leases payable	117	-	-	-
Notes payable	184	229	-	-
Vacation & comp. time payable	77	84	-	-
	<u>378</u>	<u>313</u>	<u>-</u>	<u>-</u>

\$45 thousand was paid on principal this year. \$117 thousand of debt proceeds were received in the current year to purchase equipment.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In setting the Fiscal Year 2017 budget, the governing body of Red River County, after careful deliberation, approved raising the tax rate to \$.8015 per \$100. The governing body of Red River County also increased clerical personnel by two full time (33.5 hours) positions and one part time position, maintaining at sixteen full-time employees (40 hours) with the Court's understanding that if the inmate count rose to forty-eight or above, a budget amendment would be necessary to hire jailers to fill three positions. We continue to observe a four-day, 33.5-hour work week, allowing County offices to close on Fridays, thus saving on utility costs and employee salaries.

The only significant increases in expenditures budgeted by FY 2017 was for employee health insurance and a repair for the County Jail. No new programs or initiatives were added for FY 2017.

We believe that the budget is reasonable, attainable, fiscally sound, and allows for services to be provided to the citizens of the County in a sound matter.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of Red River 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 financial information should be directed to the County's Auditor's Office.

BASIC FINANCIAL STATEMENTS

GOVERNMENT WIDE STATEMENTS

RED RIVER COUNTY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 4,448,698	\$ 114,821	\$ 4,563,519
Receivables (net of allowance for uncollectibles)	2,656,994	-	2,656,994
Capital Assets:			
Land	131,074	22,431	153,505
Infrastructure, net	5,255,250	-	5,255,250
Buildings, net	3,763,424	888,245	4,651,669
Machinery and Equipment, net	505,138	-	505,138
Total Assets	<u>16,760,578</u>	<u>1,025,497</u>	<u>17,786,075</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred Outflow Related to Pension Plan	833,935	-	833,935
Total Deferred Outflows of Resources	<u>833,935</u>	<u>-</u>	<u>833,935</u>
LIABILITIES			
Accounts Payable	37,480	-	37,480
Compensated Absences Payable	76,546	-	76,546
Unearned Revenues	87,173	-	87,173
Noncurrent Liabilities			
Due Within One Year	109,751	-	109,751
Due in More Than One Year	191,141	-	191,141
Net Pension Liability	454,119	-	454,119
Total Liabilities	<u>956,210</u>	<u>-</u>	<u>956,210</u>
DEFERRED INFLOW OF RESOURCES			
Unavailable Revenue - Property Taxes	2,363,651	-	2,363,651
Deferred Inflow Related to Pension Plan	133,663	-	133,663
Total Deferred Inflows of Resources	<u>2,497,314</u>	<u>-</u>	<u>2,497,314</u>
NET POSITION			
Net Investment in Capital Assets	9,353,994	-	9,353,994
Restricted for Special Revenue Funds	2,186,456	-	2,186,456
Unrestricted Net Position	2,600,539	1,025,497	3,626,036
Total Net Position	<u>\$ 14,140,989</u>	<u>\$ 1,025,497</u>	<u>\$ 15,166,486</u>

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

RED RIVER COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 333,156	\$ 92,845	\$ 55,607
Judicial	456,528	156,805	622
Legal	107,597	1,412	40,253
Financial	407,555	166,624	-
Public Facilities	647,397	-	-
Public Safety	1,349,318	43,182	160,298
Cultural & Recreational	96,769	-	-
Conservation	124,852	24,619	-
Intergovernmental	200,126	-	192,022
Miscellaneous	248,584	-	-
Health & Welfare	266,077	3,300	35,140
Roads & Streets	1,806,736	-	675,657
Other Debt Interest	7,571	-	-
Total Governmental Activities:	6,052,266	488,787	1,159,599
BUSINESS-TYPE ACTIVITIES:			
Total Business-Type Activities:	330,443	-	-
Total Business-Type Activities:	330,443	-	-
TOTAL PRIMARY GOVERNMENT:	\$ 6,382,709	\$ 488,787	\$ 1,159,599

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Other Taxes

Miscellaneous Revenue

Investment Earnings

Insurance Recovery

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Prior Period Adjustment

Net Position--Ending

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

Net (Expense) Revenue and
Changes in Net Position

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (184,704)	\$ -	\$ (184,704)
(299,101)	-	(299,101)
(65,932)	-	(65,932)
(240,931)	-	(240,931)
(647,397)	-	(647,397)
(1,145,838)	-	(1,145,838)
(96,769)	-	(96,769)
(100,233)	-	(100,233)
(8,104)	-	(8,104)
(248,584)	-	(248,584)
(227,637)	-	(227,637)
(1,131,079)	-	(1,131,079)
(7,571)	-	(7,571)
<u>(4,403,880)</u>	<u>-</u>	<u>(4,403,880)</u>
-	(330,443)	(330,443)
-	(330,443)	(330,443)
<u>(4,403,880)</u>	<u>(330,443)</u>	<u>(4,734,323)</u>
3,338,151	-	3,338,151
749,870	-	749,870
326,343	760	327,103
19,993	-	19,993
365,112	280,849	645,961
<u>4,799,469</u>	<u>281,609</u>	<u>5,081,078</u>
395,589	(48,834)	346,755
13,486,402	1,074,331	14,560,733
258,998	-	258,998
<u>\$ 14,140,989</u>	<u>\$ 1,025,497</u>	<u>\$ 15,166,486</u>

GOVERNMENTAL FUND FINANCIAL STATEMENTS

RED RIVER COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

EXHIBIT C-1

	General Fund	Major Special Revenue Fund	Other Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 2,176,921	\$ 1,580,615	\$ 691,162	\$ 4,448,698
Taxes Receivable	2,507,320	149,674	-	2,656,994
Total Assets	<u>\$ 4,684,241</u>	<u>\$ 1,730,289</u>	<u>\$ 691,162</u>	<u>\$ 7,105,692</u>
LIABILITIES				
Accounts Payable	\$ 39,332	\$ (3,344)	\$ 1,492	\$ 37,480
Unearned Revenues	-	-	87,173	87,173
Total Liabilities	<u>39,332</u>	<u>(3,344)</u>	<u>88,665</u>	<u>124,653</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Taxes and Fees	2,517,409	149,674	-	2,667,083
Total Deferred Inflows of Resources	<u>2,517,409</u>	<u>149,674</u>	<u>-</u>	<u>2,667,083</u>
FUND BALANCES				
Reported in Special Revenue Funds	-	1,583,959	602,497	2,186,456
Unassigned Fund Balance	2,127,500	-	-	2,127,500
Total Fund Balances	<u>2,127,500</u>	<u>1,583,959</u>	<u>602,497</u>	<u>4,313,956</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 4,684,241</u>	<u>\$ 1,730,289</u>	<u>\$ 691,162</u>	<u>\$ 7,105,692</u>

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

RED RIVER COUNTY, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2016

Total Fund Balances - Governmental Funds	\$	4,313,956
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$25,953,545 and the accumulated depreciation was (\$15,945,064). In addition, long-term liabilities, including notes payable, and the pension payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt and the net pension payable, in the governmental activities is to increase net position.		10,003,121
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2016 capital outlays and debt principal payments is to increase (decrease) net position.		319,187
Included in the items related to debt is the recognition of the County's proportionate share of the net pension liability required by GASB 68 as amended by GASB 71 in the amount of \$454,119, a Deferred Resource Inflow related to TCDRS in the amount of \$133,663 and a Deferred Resource Outflow related to TRS in the amount of \$833,935. This amounted to an increase in Net Position in the amount of \$22,079.		22,079
The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(627,343)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of capital leases as an increase in leases payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		109,989
Net Position of Governmental Activities	\$	14,140,989

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

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

	General Fund	Major Special Revenue Fund	Other Funds	Total Governmental Funds
REVENUES:				
Taxes	\$ 2,736,394	\$ 689,126	\$ 265,855	\$ 3,691,375
Licenses and Permits	-	489,455	-	489,455
Intergovernmental Revenue and Grants	147,758	668,986	381,886	1,198,630
Charges for Services	291,366	-	32,508	323,874
Fines	102,791	-	48,791	151,582
Other Revenue	138,855	58,860	18,236	215,951
Total Revenues	3,417,164	1,906,427	747,276	6,070,867
EXPENDITURES:				
Current:				
General Government	260,583	-	20,309	280,892
Judicial	379,207	-	-	379,207
Legal	92,701	-	14,896	107,597
Financial	387,677	-	-	387,677
Public Facilities	647,210	-	187	647,397
Public Safety	1,156,451	-	184,834	1,341,285
Cultural & Recreational	96,769	-	-	96,769
Conservation	124,852	-	-	124,852
Intergovernmental	8,104	-	192,022	200,126
Miscellaneous	248,584	-	-	248,584
Health & Welfare	-	-	266,077	266,077
Roads & Streets	-	1,364,491	2,250	1,366,741
Debt Service:				
Principal	4,735	40,704	-	45,439
Interest	4,000	3,571	-	7,571
Capital Outlay:				
Capital Outlay	52,451	215,397	5,900	273,748
Total Expenditures	3,463,324	1,624,163	686,475	5,773,962
Excess (Deficiency) of Revenues Over (Under) Expenditures	(46,160)	282,264	60,801	296,905
OTHER FINANCING SOURCES (USES):				
Proceeds from Capital Leases	-	116,897	-	116,897
Insurance Recovery	365,112	-	-	365,112
Transfers In	-	-	16,596	16,596
Transfers Out (Use)	(16,596)	-	-	(16,596)
Total Other Financing Sources (Uses)	348,516	116,897	16,596	482,009
Net Change in Fund Balances	302,356	399,161	77,397	778,914
Fund Balance - October 1 (Beginning)	1,825,144	1,184,798	525,100	3,535,042
Fund Balance - September 30 (Ending)	\$ 2,127,500	\$ 1,583,959	\$ 602,497	\$ 4,313,956

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

RED RIVER COUNTY, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

Total Net Change in Fund Balances - Governmental Funds	\$	778,914
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2016 capital outlays and debt principal payments is to increase (decrease) the change in net position.		319,187
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		(97,248)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(627,343)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date from the prior year of 12/31/2014 caused the change in the ending net position to decrease. Contributions made after the measurement date of 12/31/15 but during the 2016 FY were dexpended and recorded as a reduction in the net pension liability for the district. This also caused a increase in the change in net position. The County recorded their proportionate share of the pension expense during the measurement period as part of the net pension liability. The County also recorded the amortization of the deferred inflow and outflow that were recorded in the previous year. The impact of all of these is to increase the change in net position by \$22,079.		22,079
Change in Net Position of Governmental Activities	<u>\$</u>	<u>395,589</u>

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

RED RIVER COUNTY, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Taxes	\$ 2,690,356	\$ 2,690,356	\$ 2,736,394	\$ 46,038
Intergovernmental Revenue and Grants	245,111	113,511	147,758	34,247
Charges for Services	284,525	274,775	291,366	16,591
Fines	84,300	84,300	102,791	18,491
Other Revenue	76,700	138,200	138,855	655
Total Revenues	<u>3,380,992</u>	<u>3,301,142</u>	<u>3,417,164</u>	<u>116,022</u>
EXPENDITURES:				
Current:				
General Government	240,350	272,057	260,583	11,474
Judicial	417,637	435,899	379,207	56,692
Legal	95,779	98,264	92,701	5,563
Financial	398,190	415,585	387,677	27,908
Public Facilities	163,944	647,210	647,210	-
Public Safety	1,420,461	1,513,013	1,156,451	356,562
Cultural & Recreational	101,309	103,794	96,769	7,025
Conservation	232,270	150,800	124,852	25,948
Intergovernmental	13,600	13,600	8,104	5,496
Miscellaneous	616,947	367,557	248,584	118,973
Debt Service:				
Principal	-	4,735	4,735	-
Interest	-	9,000	4,000	5,000
Capital Outlay:				
Capital Outlay	16,000	52,453	52,451	2
Total Expenditures	<u>3,716,487</u>	<u>4,083,967</u>	<u>3,463,324</u>	<u>620,643</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(335,495)</u>	<u>(782,825)</u>	<u>(46,160)</u>	<u>736,665</u>
OTHER FINANCING SOURCES (USES):				
Insurance Recovery	-	-	365,112	365,112
Transfers In	120,000	200,000	-	(200,000)
Transfers Out (Use)	-	(16,596)	(16,596)	-
Total Other Financing Sources (Uses)	<u>120,000</u>	<u>183,404</u>	<u>348,516</u>	<u>165,112</u>
Net Change	(215,495)	(599,421)	302,356	901,777
Fund Balance - October 1 (Beginning)	<u>1,825,144</u>	<u>1,825,144</u>	<u>1,825,144</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 1,609,649</u>	<u>\$ 1,225,723</u>	<u>\$ 2,127,500</u>	<u>\$ 901,777</u>

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

PROPRIETARY FUND FINANCIAL STATEMENTS

RED RIVER COUNTY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2016

Business Type
Activities

<hr/>	
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 114,821
Total Current Assets	<u>114,821</u>
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	22,431
Buildings	1,641,823
Accumulated Depreciation - Buildings	<u>(753,578)</u>
Total Noncurrent Assets	<u>910,676</u>
Total Assets	<u>1,025,497</u>
NET POSITION	
Unrestricted Net Position	<u>1,025,497</u>
Total Net Position	<u>\$ 1,025,497</u>

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

RED RIVER COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

EXHIBIT D-2

	Business Type Activities
<hr/>	
OPERATING REVENUES:	
Other Revenue	\$ 760
Total Operating Revenues	760
OPERATING EXPENSES:	
Depreciation	32,904
Prisoner Housing Expense	297,539
Total Operating Expenses	330,443
Operating Income (Loss)	(329,683)
NON-OPERATING REVENUES (EXPENSES):	
Insurance Recovery	280,849
Total Non-operating Revenue (Expenses)	280,849
Change in Net Position	(48,834)
Total Net Position -October 1 (Beginning)	1,074,331
 Total Net Position September 30 (Ending)	 \$ 1,025,497

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

RED RIVER COUNTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Business Type Activities
<hr/>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$ 760
Prisoner Housing Expense	(297,539)
Net Cash Provided by (Used for) Operating Activities	(296,779)
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Increase(decrease) in Short-term Loans	-
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Insurance Recovery	280,850
<u>Cash Flows from Investing Activities:</u>	
Purchase of Investment Securities	-
Net Increase(Decrease) in Cash and Cash Equivalents	(15,929)
Cash and Cash Equivalents at Beginning of the Year:	130,750
Cash and Cash Equivalents at the End of the Year:	\$ 114,821
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>	
Operating Income (Loss):	\$ (329,683)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:	
Depreciation	32,904
Net Cash Provided by (Used for) Operating Activities	\$ (296,779)

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

FIDUCIARY FUND FINANCIAL STATEMENTS

Red River County, Texas
STATEMENT OF NET POSITION--FIDUCIARY FUND
as of September 30, 2016

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	440,630
Accounts receivable	-
Total Assets	<u>440,630</u>
LIABILITIES	
Due to other governments	<u>440,630</u>

The accompanying notes are an integral part of this statement.

Red River County, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Red River County, Texas is a county government operating under the applicable laws and regulations of the State of Texas. It is governed by a five member Commissioner's Court elected by registered voters of the County. The County prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants.

Pensions. The fiduciary net position of the Texas County & District Retirement System (TCDRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TCERS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

A. REPORTING ENTITY

The Commissioner's Court is elected by the public and it has the authority to make decisions and significantly influence operations. It has the primary accountability for fiscal matters. Therefore, the County is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of Red River County with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, charges for services, grants and other intergovernmental revenues. Business type activities include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the County operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the County. Examples include fees of offices. The "grants and contributions" column includes amounts paid by organizations outside the County to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the County's functions. Taxes are always general revenues.

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

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for County operations, they are not included in the government-wide statements. The County considers some governmental funds major and reports their financial condition and results of operations in a separate column.

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

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

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

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The County considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The County considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The County applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

D. FUND ACCOUNTING

The County reports the following major governmental funds:

1. **The General Fund** -- The general fund is the County's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Special Revenue Funds** -- One special revenue fund is considered a major fund. This fund is the main road and bridge. See the definition of these funds below.

Additionally, the County reports the following fund type(s):

Governmental Funds:

1. **Special Revenue Funds** -- The County accounts for resources restricted to, or designated for, specific purposes by the County or a grantor in a special revenue fund.

Proprietary Funds:

1. **Enterprise Funds** -- The County's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The County's non-major Enterprise Fund is the jail housing fund.

Fiduciary Funds:

1. **Agency Funds** --The County accounts for resources held for others in a custodial capacity in agency funds. The County's Agency Funds contains trust funds.

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the County considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. In the governmental-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.
3. Capital assets, which include land, buildings, machinery and equipment and roads and bridges are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, machinery and equipment of the County and the component units are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	50
Vehicles	5
Office Equipment	5-7
Machinery	7-10
Roads	50

4. Some cash and investments are restricted for future debt payments.
5. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
6. When the County incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
7. Investments are recorded at fair market value.
8. Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. 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 District has elected not to follow subsequent private-sector guidance.
9. Deferred Outflows/Inflows of Resources—The County implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities for the year ended September 30, 2013. The County implemented GASB Statement No. 68 Accounting and Financial Reporting for Pensions as amended for GASB 71 for the year ended September 30, 2015. In addition to assets, the statement of net 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 one type of item that qualifies for reporting in this category, deferred outflows related to TCDRS as per GASB 68 related to pension accounting. This will be recognized as an outflow of resources in the subsequent years as it is amortized.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The County has two types of items that qualify for reporting in this category, property taxes, fines, and fees, and a deferred inflow related to pension accounting under GASB Statement No.68. These amounts will be recognized as an inflow of resources in the subsequent years as collected.

10. Fund balance measures the net financial resources available to finance expenditures of future periods. The County's Unassigned General Fund Balance will be maintained to provide the County with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund balance may only be appropriated by resolution of the County Commissioner's Court.

Fund balance of the County may be committed for a specific source by formal action of the County Commissioner's Court. Amendments or modifications of the committed fund balance must also be approved by formal action of the Commissioner's Court.

When it is appropriate for fund balance to be assigned, the Commissioner's Court delegates authority to the County Judge and Auditor. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Position</u>
Land	131,074	-	131,074	
Construction in Progress	-	-	-	
Buildings and Improvements	5,577,813	(1,710,277)	3,867,536	
Machinery and Equipment	3,277,158	(2,870,137)	407,021	
County Roads & Bridges	<u>16,967,500</u>	<u>(11,364,650)</u>	<u>5,602,850</u>	
Change in Net Position	<u>25,953,545</u>	<u>(15,945,064)</u>	<u>10,008,481</u>	<u>10,008,481</u>
This does not include fixed assets of the internal service funds.				
<u>Long-term liabilities at the Beginning of the year</u>			<u>Payable at the Beginning of the Year</u>	
Notes Payable			<u>(229,434)</u>	
Change in Net Position				<u>(229,434)</u>
<u>Net Pension Asset/Liability</u>				
Net Pension Asset/Liability			42,311	
Deferred Outflow related to TCDRS			210,282	
Deferred Inflow related to TCDRS			<u>(28,519)</u>	
Change in Net Position				<u>224,074</u>
Net Adjustment to Net Position				<u>10,003,121</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net position balance and the change in net position. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Current year Capital Outlay</u>			
Buildings & improvements	-	-	-
Roads	-	-	-
Machinery & equipment	273,748	273,748	273,748
Total Capital Outlay	<u>273,748</u>	<u>273,748</u>	<u>273,748</u>
Book value of assets disposed of	-	-	-
 <u>Debt Principal Payments</u>			
Note principal	45,439	45,439	45,439
Total Principal Payments	<u>45,439</u>	<u>45,439</u>	<u>45,439</u>
Total Adjustment to Net Position		<u><u>319,187</u></u>	<u><u>319,187</u></u>

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	134,999	(134,999)	-
Uncollected taxes (assumed collectible) from Current Year Levy	124,403	124,403	124,403
Uncollected Taxes (assumed collectible) from Prior Year Levy	179,029	-	179,029
Effect of prior year tax entry	22,472	22,472	-
<u>Valuation and comp. Time payable</u>			
End of year liability	76,546	-	(76,546)
Change in liability from prior year	7,773	7,773	-
<u>Debt proceeds</u>	<u>116,897</u>	<u>(116,897)</u>	<u>(116,897)</u>
Total		<u><u>(97,248)</u></u>	<u><u>109,989</u></u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The County prepares its appropriated budget on a basis consistent with generally accepted accounting principles using the organization perspective, that is, the budget follows the formal, usually statutory, patterns of authority and responsibility granted to actually carry out the functions of the government. For example, the county judge's office has a separate budget from the county sheriff's office; although, various offices may be subsidized from revenues generated by maintenance and operation ad valorem taxes.

The county auditor and the county judge prepare an estimated budget based on recommendations and requests submitted by each department head. This estimated budget is presented to the commissioners, who then begin the process of reallocating specific items that, in their opinion, need to be modified. The final budget, when approved by the commissioners court, is filed for public inspection with the county clerk. Public hearings are then held, if required, and the budget is adjusted, if necessary, and approved in its final form by commissioners court. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Revisions to the budget were made throughout the year.

The County does not record encumbrances as part of its accounting records.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. CASH, CASH EQUIVALENTS, AND INVESTMENTS

County Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the County complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk The County limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not investing in foreign currencies.

As of September 30, 2016, the following are the County's cash and cash equivalents with respective maturities and credit rating:

<u>Type of Deposit</u>	<u>Fair Value</u>	<u>Percent</u>	<u>Maturity in Less than 1 year</u>	<u>Maturity in 1-10 Years</u>	<u>Maturity in Over 10 Years</u>	<u>Credit Rating</u>
Cash, Money Markets and FDIC Insured Accounts	<u>5,009,149</u>	100.0%	<u>5,009,149</u>	<u>-</u>	<u>-</u>	N/A
Total Cash and Cash Equivalents	<u>\$ 5,009,149</u>	100.0%	<u>\$ 5,009,149</u>	<u>-</u>	<u>-</u>	

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- Depository: State Bank of DeKalb
- The market value of securities pledged as of September 30, 2016 was \$5,600,000.
- The combined balances of cash, savings, and time deposit accounts amounted to \$5,632,502 as of September 30, 2016.
- Total amount of FDIC coverage at September 30, 2016 was \$500,000.

Investments

County Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. RED RIVER COUNTY, TEXAS is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for RED RIVER COUNTY, TEXAS are specified below:

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the County limits investments in commercial paper, corporate bonds, mutual bond funds to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of September 30, 2016, the County did not invest in commercial paper.

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

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

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

Foreign Currency Risk for Investments The County limits the risk that changes in exchange rates will adversely affect the fair value of an investment by not allowing foreign investments.

The County categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The County's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

In this discussion and in the table below, investments are defined according to GASB 72 as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. An asset initially reported as a capital asset and later held for sale would not subsequently be reclassified as an investment.

As of September 30, 2016, RED RIVER COUNTY, TEXAS had no investments subject to the fair value measurement. RED RIVER COUNTY, TEXAS has no investments other than at the depository bank.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the County in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

The County levied property taxes for the 2015 tax roll totaling approximately \$3.5 million. Such tax is based on an assessed valuation of approximately \$455 million with an applicable tax rate of \$0.77191 per \$100 valuation.

C. DELINQUENT TAXES RECEIVABLE

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

D. INTERFUND TRANSFERS

Transfers between funds were as follows:

Transfers to General Fund from:	
Non-major Governmental Fund	<u>16,596</u>
Total Transferred to General Fund	<u><u>16,596</u></u>

A transfer is made from the general fund to the juvenile probation fund for the local match.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2016, were as follows:

	<u>Property Taxes</u>	<u>Fees of Office</u>	<u>Due from Other Governments</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	736,359	3,458,835	-	-	4,195,194
Major Special Revenue Funds	187,092	-	-	-	187,092
Nonmajor Governmental Funds	-	-	-	-	-
Total - Governmental Activities	<u>923,451</u>	<u>3,458,835</u>	<u>-</u>	<u>-</u>	<u>4,382,286</u>
Amounts not scheduled for collection during the subsequent year	<u>184,690</u>	<u>1,540,602</u>	<u>-</u>	<u>-</u>	<u>1,725,292</u>
 Business Type Activities:					
Major Enterprise Fund	-	-	-	-	-
Total - Business Type Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amounts not scheduled for collection during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Payables at September 30, 2016, were as follows:

	<u>Accounts</u>	<u>Salaries and Benefits</u>	<u>Due to Other Governments</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:					
General Fund	39,284	48	-	-	39,332
Major Special Revenue Funds	(3,356)	12	-	-	(3,344)
Nonmajor Gov. Funds	1,492	-	-	-	1,492
Total - Gov. Activities	<u>37,420</u>	<u>60</u>	<u>-</u>	<u>-</u>	<u>37,480</u>
Amounts not scheduled for payment during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Business Type Activities:					
Major Enterprise Fund	-	-	-	-	-
Total - Business Type Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amounts not scheduled for payment during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

F. CAPITAL ASSET ACTIVITY

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

	Primary Government				
	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Ending</u> <u>Balance</u>
Governmental Activities:					
County:					
Land	131,074	-	-	-	131,074
Buildings and Improvements	5,577,813	-	-	-	5,577,813
Machinery and Equipment	3,277,158	273,748	(449,377)	-	3,101,529
Roads	16,967,500	-	-	-	16,967,500
Totals at Historic Cost	<u>25,953,545</u>	<u>273,748</u>	<u>(449,377)</u>	<u>-</u>	<u>25,777,916</u>
Less Accumulated Depreciation for:					
Buildings and Improvements	(1,710,277)	(104,112)	-	-	(1,814,389)
Machinery and Equipment	(2,870,137)	(175,631)	449,377	-	(2,596,391)
Roads	(11,364,650)	(347,600)	-	-	(11,712,250)
Total Accumulated Depreciation	<u>(15,945,064)</u>	<u>(627,343)</u>	<u>449,377</u>	<u>-</u>	<u>(16,123,030)</u>
Governmental Activities Capital Assets, Net	<u>10,008,481</u>	<u>(353,595)</u>	<u>-</u>	<u>-</u>	<u>9,654,886</u>
	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Ending</u> <u>Balance</u>
Business-Type Activities:					
Land	22,431	-	-	-	22,431
Buildings and Improvements	1,641,823	-	-	-	1,641,823
Totals at Historic Cost	<u>1,664,254</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,664,254</u>
Less Accumulated Depreciation for:					
Buildings and Improvements	(720,673)	(32,904)	-	-	(753,577)
Total Accumulated Depreciation	<u>(720,673)</u>	<u>(32,904)</u>	<u>-</u>	<u>-</u>	<u>(753,577)</u>
Business-Type Activities Capital Assets, Net	<u>943,581</u>	<u>(32,904)</u>	<u>-</u>	<u>-</u>	<u>910,677</u>
Primary Government Capital Assets, net	<u>10,952,062</u>	<u>(386,499)</u>	<u>-</u>	<u>-</u>	<u>10,565,563</u>

Depreciation expense was charged as follows:

Governmental Activities:		Business-Type Activities:	
General Government	60,037	Public Safety	6,367
Public Safety	30,112	Judicial	26,537
Highways, Streets and Bridges	439,995		
Financial	19,878		
Judicial	77,321		
	<u>627,343</u>		<u>32,904</u>

G. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the County for the year ended September 30, 2016:

	Original Amount	Interest Rate	Payable at 10/1/15	Additions (Reductions)	Payable at 9/30/2016	Due within One Year
Note Payable--caterpillar motorgrader R&B #2	200,025	3.00%	125,970	(32,104)	93,866	93,866
Note Payable--2010 Mack truck R&B #4	95,000	3.00%	8,600	(8,600)	-	-
Note Payable--metal roof and related equipmen	94,864	4.35%	94,864	(4,735)	90,129	4,814
			<u>229,434</u>	<u>(45,439)</u>	<u>183,995</u>	<u>98,680</u>

The Counties long-term debt as of September 30, 2016, follows:

(A) Note payable, State Bank of DeKalb, due in monthly principal payments of \$1,300 including interest at 3.00% and one payment for the remaining balance on July 19, 2017	93,866
(B) Note payable, Government Capital Corporation, due in annual principal payments of \$8,735 including interest at 4.348%. Annual payments began in December 2015 and continue through December 2029.	90,129
	<u>183,995</u>

The annual requirements to amortize notes payable as of September 30, 2016, follows:

Years Ending 9/30	Principal	Interest	Total
2017	98,680	7,421	106,101
2018	5,023	3,712	8,735
2019	5,241	3,494	8,735
2020	5,469	3,266	8,735
2021	5,707	3,028	8,735
2022-2026	32,480	11,195	43,675
2027-2031	31,395	3,491	34,886
	<u>183,995</u>	<u>35,607</u>	<u>219,602</u>

H. COMMITMENTS UNDER LEASES

The County entered into a capital lease purchase agreement September 12, 2016 with Bancorp South Finance for the purpose of purchasing a Precinct 4 2017 Mack Truck. The amount capitalized was \$116,897, monthly payments, \$1,211, begin November, 2016 including principal and interest. The interest rate is 2.19%. In November, 2017 a payment of \$105,000 principal and interest is due to pay off the remaining balance of the lease.

Years Ending 9/30	Principal	Interest	Total
2017	11,071	2,246	13,317
2018	105,826	384	106,210
2019	-	-	-
2020	-	-	-
2021	-	-	-
	<u>116,897</u>	<u>2,630</u>	<u>119,527</u>

I. DEFINED BENEFIT PENSION PLANS

Plan Description

The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit plan in the state-wide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the state-wide agent multiple-employer public employee retirement system consisting of over 600 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the County, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 or more years of service or with 30 years of service regardless of age or when the sum of their age and years of service equals 80 or more. A member is vested after 10 years of service but must leave his accumulated contributions in the plan to receive any employer-financed benefit. If a member withdraws his personal contributions in a lump-sum, he is not entitled to any amounts contributed by the employer.

All eligible employees of the County are required to participate in the TCDRS.

Benefits Provided

TCDRS provides retirement, disability and death benefits. Benefit provisions are adopted by the governing body of the County, within the options available in the state statutes governing TCDRS.

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 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 as if 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.

Employees covered by benefit terms.

At December 31, 2014 and 2015 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>2014</u>	<u>2015</u>
Inactive employees or beneficiaries currently receiving benefits	59	60
Inactive employees entitled to but not yet receiving benefits	93	99
Active employees	<u>78</u>	<u>89</u>
	<u>230</u>	<u>248</u>

Contributions

The employer has elected the annually determined contribution rate (Variable-Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually.

Employees for the County were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the County were 8.97% and 9.34% in calendar years 2015 and 2016. The County's contributions to TCDRS for the year ended September 30, 2016 was \$175,381 and was 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 valuations were determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	4.9% per year
Investment Rate of Return	8.1% per year

Demographic and economic assumptions are used to estimate employer liabilities and to determine the amount of funding required from employer contributions as opposed to investment earnings. These assumptions reflect a long-term perspective of 30 years or more. Examples of key economic assumptions include long-term investment return, long-term inflation and annual payroll increase.

Demographic assumptions are the actuary's best estimate of what will happen to TCDRS members and retirees. Examples of demographic assumptions are employment termination rates, retirement rates and retiree mortality rates. A complete listing of all actuarial assumptions can be found in the annual system-wide valuation report.

I. DEFINED BENEFIT PENSION PLANS (continued)

The long-term expected rate of return on pension plan investments is 8.1% for 2014 and 2015 measurement dates. 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. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TCDRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Geometric Real Rate of Return
US Equity	14.5%	5.45%
International Equity	18.0%	5.45-6.45%
Various	28.5%	1.0-8.1%
Hedge Funds	25.0%	5.25%
Private Equity	14.0%	8.45%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.1% for 2014 and 2015. 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 periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a) - (b)
Balance at December 31, 2014	\$ 8,491,374	\$ 8,533,685	\$ (42,311)
Changes for the year:			
Service cost	277,381	-	277,381
Interest	679,496	-	679,496
Effects of plan changes	-	-	-
Effects of economic/demographic gains/losses	(189,287)	-	(189,287)
Changes of assumptions	48,021	-	48,021
Contributions - employer	-	179,972	(179,972)
Contributions - employee	-	141,395	(141,395)
Net investment income	-	(8,336)	8,336
Benefit payments, including refund of contributions	(534,542)	(534,542)	-
Administrative expense	-	(6,057)	6,057
Other changes	-	12,207	(12,207)
Net changes	\$ 281,069	\$ (215,361)	\$ 496,430
Balance at December 31, 2015	\$ 8,772,443	\$ 8,318,324	\$ 454,119

I. DEFINED BENEFIT PENSION PLANS (continued)

The following presents the net pension liability of the County, calculated using the discount rate of 8.1%, as well as what the District'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-point higher (9.1%) than the current rate:

Measurement Date	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
	7.1%	8.1%	9.1%
12/31/2014 County's net pension liability/(Asset)	\$ 1,023,185	\$ (42,311)	\$ (919,888)
12/31/2015 County's net pension liability/(Asset)	\$ 1,562,449	\$ 454,119	\$ (458,788)

Pension Plan Fiduciary Net Position

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

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 \$188,676.

At September 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016	
	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual economic experience	133,663	-
Changed is actuarial assumptions	-	63,044
Difference between projected and actual investment earnings	-	623,043
Contributions subsequent to the measurement date	-	147,848
Total	<u>133,663</u>	<u>833,935</u>

Amounts reported as deferred outflows and inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year ended September 30:	
2017	129,614
2018	161,188
2019	139,480
2020	122,142
2021	-
Thereafter	-

J. FEDERAL GRANTS

In the normal course of operations, the County receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

K. 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; injuries to employees; and natural disasters. During fiscal 2016, the County purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

L. VACATION AND COMP. TIME PAYABLE

Changes in vacation and comp. time payable is as follows:

<u>9/30/16</u>	<u>9/30/15</u>
76,546	84,319

M. DEFERRED INFLOWS OF RESOURCES

In the government wide statements and the governmental fund financial statements the amount of property taxes receivable and fines expected to be collected in the future is reflected as a deferred inflow of resources and will be recognized as such each year as it is collected.

N. COMMITMENTS AND CONTINGENCIES

The County has no significant commitments or contingencies at September 30, 2016.

O. LITIGATION

The County has no pending litigation at September 30, 2016.

P. PRIOR PERIOD ADJUSTMENT

An adjustment has been made to restate the beginning net pension liability as determined by TCDRS. This resulted in a decrease of \$258,998 to the beginning net pension liability and an increase to the beginning net position.

Q. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 19, 2017, the financial statement issuance date.

REQUIRED SUPPLEMENTAL INFORMATION

RED RIVER COUNTY, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
SEPTEMBER 30, 2016

EXHIBIT F-1

	<u>2016</u>	<u>2015</u>
A. Total Pension Liability		
Service Cost	\$ 277,381	\$ 295,844
Interest (on the Total Pension Liability)	679,496	666,444
Changes of Benefit Terms	-0-	-0-
Difference between Expected and Actual Experience	-0-	(42,778)
Changes of Assumptions	(141,266)	-0-
Benefit Payments, including refunds of employee contributions	(534,542)	(493,989)
Net change in Total Pension Liability	<u>\$ 281,069</u>	<u>\$ 425,521</u>
Total Pension Liability - Beginning	8,491,374	8,065,853
Total Pension Liability - Ending	<u><u>\$ 8,772,443</u></u>	<u><u>\$ 8,491,374</u></u>
B. Total Fiduciary Net Position		
Contributions - Employer	\$ 179,972	\$ 189,655
Contributions - Employee	141,395	144,617
Net Investment Income	(8,366)	550,859
Benefit Payments, including refunds of employee contributions	(534,542)	(493,989)
Administrative Expense	(6,057)	(6,419)
Other	12,207	11,902
Net Change in Plan Fiduciary Net Position	<u>\$ (215,361)</u>	<u>\$ 396,625</u>
Plan Fiduciary Net Position - Beginning	8,533,685	8,137,060
Plan Fiduciary Net Position - Ending	<u><u>\$ 8,318,324</u></u>	<u><u>\$ 8,533,685</u></u>
C. Net Pension Liability	<u><u>\$ 454,119</u></u>	<u><u>\$ (42,311)</u></u>
D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.82%	100.49%
E. Covered Employee Payroll	\$ 2,019,929	\$ 2,030,546
F. Net Pension Liability as a Percentage of Covered Employee Payroll	22.48%	(2.08%)

Note: GASB 68, Paragraph 46, a and b requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

Note: Only two years of data are presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

RED RIVER COUNTY, TEXAS
 SCHEDULE OF CONTRIBUTIONS
 TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
 SEPTEMBER 30, 2016

	2016	2015
Actuarially Determined Contribution	\$ 175,831	\$ 171,185
Contributions in Relation to the Actuarially Determined Contributions	175,831	171,185
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
Covered Employee Payroll	\$ 1,952,108	\$ 1,896,659
Contributions as a Percentage of Covered Employee Payroll	8.98%	9.03%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31, 2014 for Fiscal Year 2015 and August 31, 2015 for Fiscal Year 2016.

Note: In accordance with GASB 68, Paragraph 138, only two years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

COMBINING SCHEDULES

NON-MAJOR GOVERNMENTAL FUNDS

RED RIVER COUNTY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2016

	Law Library	Drug Fund	Courthouse Security	Indigent Health Care
ASSETS				
Cash and Cash Equivalents	\$ 22,447	\$ 56,612	\$ 37,682	\$ 68,246
Total Assets	<u>\$ 22,447</u>	<u>\$ 56,612</u>	<u>\$ 37,682</u>	<u>\$ 68,246</u>
LIABILITIES				
Accounts Payable	\$ -	\$ (7)	\$ -	\$ -
Unearned Revenues	-	-	-	-
Total Liabilities	<u>-</u>	<u>(7)</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Reported in Special Revenue Funds	22,447	56,619	37,682	68,246
Total Fund Balances	<u>22,447</u>	<u>56,619</u>	<u>37,682</u>	<u>68,246</u>
Total Liabilities and Fund Balances	<u>\$ 22,447</u>	<u>\$ 56,612</u>	<u>\$ 37,682</u>	<u>\$ 68,246</u>

Book Preservation	Record Management Fund	Right of Way	Juvenile Probation	Juv. Prob. Community Correction	Diversionary Placement	Title IV-E	Bail Bond Board
\$ 79,215	\$ 10,279	\$ 54,910	\$ 18,521	\$ 14,109	\$ 10,366	\$ 71,142	\$ 11,231
<u>\$ 79,215</u>	<u>\$ 10,279</u>	<u>\$ 54,910</u>	<u>\$ 18,521</u>	<u>\$ 14,109</u>	<u>\$ 10,366</u>	<u>\$ 71,142</u>	<u>\$ 11,231</u>
\$ (1)	\$ -	\$ -	\$ 1,502	\$ -	\$ -	\$ -	\$ -
-	-	-	-	14,109	10,366	62,698	-
<u>(1)</u>	<u>-</u>	<u>-</u>	<u>1,502</u>	<u>14,109</u>	<u>10,366</u>	<u>62,698</u>	<u>-</u>
79,216	10,279	54,910	17,019	-	-	8,444	11,231
<u>79,216</u>	<u>10,279</u>	<u>54,910</u>	<u>17,019</u>	<u>-</u>	<u>-</u>	<u>8,444</u>	<u>11,231</u>
<u>\$ 79,215</u>	<u>\$ 10,279</u>	<u>\$ 54,910</u>	<u>\$ 18,521</u>	<u>\$ 14,109</u>	<u>\$ 10,366</u>	<u>\$ 71,142</u>	<u>\$ 11,231</u>

RED RIVER COUNTY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2016

	Hot Check Fee	County Attny Drug Forfeiture	Co. Attny Welfare Fraud	S/O Community Svc. Prog.
ASSETS				
Cash and Cash Equivalents	\$ 19,317	\$ 16,432	\$ 1,149	\$ 455
Total Assets	<u>\$ 19,317</u>	<u>\$ 16,432</u>	<u>\$ 1,149</u>	<u>\$ 455</u>
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Unearned Revenues	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Reported in Special Revenue Funds	19,317	16,432	1,149	455
Total Fund Balances	<u>19,317</u>	<u>16,432</u>	<u>1,149</u>	<u>455</u>
Total Liabilities and Fund Balances	<u>\$ 19,317</u>	<u>\$ 16,432</u>	<u>\$ 1,149</u>	<u>\$ 455</u>

Economic Development	Revolving Loan	Road Improvement Grant#713399	Home Grant #1002149	Co. Clerk Vital Stats. Record	Co. Clerk Archive Fee	Total Nonmajor Governmental Funds
\$ 1,978	\$ 99,308	\$ -	\$ -	\$ 2,362	\$ 95,401	\$ 691,162
<u>\$ 1,978</u>	<u>\$ 99,308</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,362</u>	<u>\$ 95,401</u>	<u>\$ 691,162</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2)	\$ 1,492
-	-	-	-	-	-	87,173
-	-	-	-	-	(2)	88,665
<u>1,978</u>	<u>99,308</u>	<u>-</u>	<u>-</u>	<u>2,362</u>	<u>95,403</u>	<u>602,497</u>
<u>1,978</u>	<u>99,308</u>	<u>-</u>	<u>-</u>	<u>2,362</u>	<u>95,403</u>	<u>602,497</u>
<u>\$ 1,978</u>	<u>\$ 99,308</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,362</u>	<u>\$ 95,401</u>	<u>\$ 691,162</u>

RED RIVER COUNTY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Law Library	Drug Fund	Courthouse Security	Indigent Health Care
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ 265,855
Intergovernmental Revenue and Grants	-	-	-	27,315
Charges for Services	6,335	-	-	-
Fines	-	3,962	7,887	-
Other Revenue	36	14,172	52	111
Total Revenues	<u>6,371</u>	<u>18,134</u>	<u>7,939</u>	<u>293,281</u>
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Legal	6,986	-	-	-
Public Facilities	-	-	187	-
Public Safety	-	7,518	-	-
Intergovernmental	-	-	-	-
Health & Welfare	-	-	-	266,077
Roads & Streets	-	-	-	-
Capital Outlay:				
Capital Outlay	-	5,900	-	-
Total Expenditures	<u>6,986</u>	<u>13,418</u>	<u>187</u>	<u>266,077</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(615)</u>	<u>4,716</u>	<u>7,752</u>	<u>27,204</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(615)	4,716	7,752	27,204
Fund Balance - October 1 (Beginning)	<u>23,062</u>	<u>51,903</u>	<u>29,930</u>	<u>41,042</u>
Fund Balance - September 30 (Ending)	<u>\$ 22,447</u>	<u>\$ 56,619</u>	<u>\$ 37,682</u>	<u>\$ 68,246</u>

Book Preservation	Record Management Fund	Right of Way	Juvenile Probation	Juv. Prob. Community Correction	Diversionsary Placement	Title IV-E	Bail Bond Board
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	5,462	134,799	12,779	7,259	-
21,940	2,679	-	-	-	-	-	-
-	-	-	-	-	-	-	-
106	50	334	170	-	-	-	1,020
<u>22,046</u>	<u>2,729</u>	<u>334</u>	<u>5,632</u>	<u>134,799</u>	<u>12,779</u>	<u>7,259</u>	<u>1,020</u>
1,781	4,876	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	17,479	134,799	12,779	7,259	5,000
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>1,781</u>	<u>4,876</u>	<u>-</u>	<u>17,479</u>	<u>134,799</u>	<u>12,779</u>	<u>7,259</u>	<u>5,000</u>
<u>20,265</u>	<u>(2,147)</u>	<u>334</u>	<u>(11,847)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,980)</u>
-	-	-	16,596	-	-	-	-
-	-	-	16,596	-	-	-	-
20,265	(2,147)	334	4,749	-	-	-	(3,980)
<u>58,951</u>	<u>12,426</u>	<u>54,576</u>	<u>12,270</u>	<u>-</u>	<u>-</u>	<u>8,444</u>	<u>15,211</u>
<u>\$ 79,216</u>	<u>\$ 10,279</u>	<u>\$ 54,910</u>	<u>\$ 17,019</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,444</u>	<u>\$ 11,231</u>

RED RIVER COUNTY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Hot Check Fee	County Attny Drug Forfeiture	Co. Attny Welfare Fraud	S/O Community Svc. Prog.
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental Revenue and Grants	-	-	-	-
Charges for Services	1,554	-	-	-
Fines	-	14,503	-	-
Other Revenue	32	1,805	2	1
Total Revenues	<u>1,586</u>	<u>16,308</u>	<u>2</u>	<u>1</u>
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Legal	2,883	5,027	-	-
Public Facilities	-	-	-	-
Public Safety	-	-	-	-
Intergovernmental	-	-	-	-
Health & Welfare	-	-	-	-
Roads & Streets	-	-	-	-
Capital Outlay:				
Capital Outlay	-	-	-	-
Total Expenditures	<u>2,883</u>	<u>5,027</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,297)</u>	<u>11,281</u>	<u>2</u>	<u>1</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(1,297)	11,281	2	1
Fund Balance - October 1 (Beginning)	<u>20,614</u>	<u>5,151</u>	<u>1,147</u>	<u>454</u>
Fund Balance - September 30 (Ending)	<u>\$ 19,317</u>	<u>\$ 16,432</u>	<u>\$ 1,149</u>	<u>\$ 455</u>

Economic Development	Revolving Loan	Road Improvement Grant#713399	Home Grant #1002149	Co. Clerk Vital Stats. Record	Co. Clerk Archive Fee	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 265,855
-	-	2,250	192,022	-	-	381,886
-	-	-	-	-	-	32,508
-	-	-	-	679	21,760	48,791
-	199	-	-	4	142	18,236
-	199	2,250	192,022	683	21,902	747,276
-	-	-	-	876	12,776	20,309
-	-	-	-	-	-	14,896
-	-	-	-	-	-	187
-	-	-	-	-	-	184,834
-	-	-	192,022	-	-	192,022
-	-	-	-	-	-	266,077
-	-	2,250	-	-	-	2,250
-	-	-	-	-	-	5,900
-	-	2,250	192,022	876	12,776	686,475
-	199	-	-	(193)	9,126	60,801
-	-	-	-	-	-	16,596
-	-	-	-	-	-	16,596
-	199	-	-	(193)	9,126	77,397
1,978	99,109	-	-	2,555	86,277	525,100
<u>\$ 1,978</u>	<u>\$ 99,308</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,362</u>	<u>\$ 95,403</u>	<u>\$ 602,497</u>

FIDUCIARY FUNDS

Red River County, Texas
 COMBINING STATEMENT OF NET POSITION
 FIDUCIARY FUND
 As of September 30, 2016

	State Trust	Arrest Fees	Law Enforcement	Total
ASSETS				
Cash and cash equivalents	325,133	99,232	16,265	440,630
Total Assets	<u>325,133</u>	<u>99,232</u>	<u>16,265</u>	<u>440,630</u>
LIABILITIES				
Due to other governments	<u>325,133</u>	<u>99,232</u>	<u>16,265</u>	<u>440,630</u>

FEDERAL AWARDS SECTION



ARNOLD, WALKER, ARNOLD, & Co., P.C.
Certified Public Accountants and Consultants

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

The Honorable Judge and
County Commissioners
Red River County, Texas
Clarksville, 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, the business-type activities, each major fund, and the aggregate remaining fund information of Red River County, Texas, 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 January 19, 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.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.

January 19, 2017



ARNOLD, WALKER, ARNOLD, & Co., P.C.
Certified Public Accountants and Consultants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Honorable Judge and
County Commissioners
Red River County, Texas
Clarksville, Texas

Report on Compliance for Each Major Federal Program

We have audited Red River County's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended September 30, 2016. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.

January 19, 2017

Red River County, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED September 30, 2016

I. Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of Red River County was unmodified.
- b. Where applicable, a statement that control deficiencies in internal control were disclosed by the audit of the financial statements and whether they were material weaknesses. None
- c. A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee. NONE
- d. Where applicable, a statement that control deficiencies in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses. N/A
- e. The type of report the auditor issued on compliance for major programs. N/A
- f. A statement as to whether the audit disclosed any audit findings which the auditor is required to report under Section 510(a). N/A
- g. An identification of major programs: FEMA; CFDA# 97.036
- h. The dollar threshold used to distinguish between Type A and Type B programs. \$750,000.
- i. A statement as to whether the auditee qualified as a low-risk auditee. Yes

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with Generally Accepted Government Auditing Standards.

NONE

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.f Above

NONE

Red River County, Texas
SCHEDULE OF STATUS OF PRIOR FINDINGS
For the year ended September 30, 2016

N/A

Red River County, Texas
CORRECTIVE ACTION PLAN
For the year ended September 30, 2016

N/A

The contact at the County is Camille Hines at 903-427-2131.

Red River County, Texas
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended September 30, 2016

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<u>Passed Through Texas Department of Housing and Community Affairs</u>			
Home Program	14.239	1002149	<u>192,022</u>
Total Passed Through TDHCA			<u>192,022</u>
<u>Passed Through Texas Department of Agriculture</u>			
Street Improvements	14.228	713399	<u>2,250</u>
Total Passed Through Texas Department of Agriculture			<u>2,250</u>
TOTAL DEPARTMENT OF HUD			<u>194,272</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through Texas Department of State Health Services (DSHS)</u>			
PHIC	93.507	3784	<u>74,073</u>
Total Passed Through DSHS			<u>74,073</u>
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>74,073</u>
DEPARTMENT OF HOMELAND SECURITY			
<u>Passed Through Texas Department of Public Safety (DPS)</u>			
FEMA-DR4223	97.036	TX4223	382,669
FEMA-DR4255	97.036	TX4255	<u>204,659</u>
Total Passed Through DSHS			<u>587,328</u>
TOTAL DEPARTMENT OF HOMELAND SECURITY			<u>587,328</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>855,673</u></u>

Red River County, Texas
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2016

1. Special revenue funds are normally used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. The sewer grant was accounted for in the proprietary fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. Some federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on Long-Term Debt, which is recognized when due.

The Proprietary Fund Type is accounted for on a flow of economic resources measurement focus and utilizes the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned.

3. The period of performance for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days after the end date of the period of performance as specified in the terms and conditions of the federal award under 2 CFR Section 200.343b (Uniform Guidance).
4. The County has not elected to use the 10% de minimis indirect cost rate.

Red River County, Texas
 FEDERAL PROGRAM PROJECT SCHEDULE
 PROJECTS THAT ENDED OR WERE IN OPERATION DURING
 the year ended September 30, 2016

Federal Grantor: U.S. Department of HUD
 Pass through Grantor: TDA
 CFDA# 14.228, Project #713399, Contract Period 11/12/13-11/11/15

	<u>Budget</u>	<u>Federal</u>		<u>Total</u>
		<u>Prior Year</u>	<u>Current Year</u>	
REVENUE				
Federal	<u>275,000</u>	<u>272,750</u>	<u>2,250</u>	<u>275,000</u>
EXPENSES				
Street improvements	202,200	202,200	-	202,200
Engineering	50,300	50,300	-	50,300
Administration	<u>22,500</u>	<u>20,250</u>	<u>2,250</u>	<u>22,500</u>
TOTAL EXPENSES	<u>275,000</u>	<u>272,750</u>	<u>2,250</u>	<u>275,000</u>
EXCESS REVENUE OVER EXPENSES	<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>

Red River County, Texas
 FEDERAL PROGRAM PROJECT SCHEDULE
 PROJECTS THAT ENDED OR WERE IN OPERATION DURING
 the year ended September 30, 2015

Federal Grantor: U.S. Department of HUD
 Pass through Grantor: TDHCA
 CFDA# 14.239, Project #1002149

	<u>Budget</u>	<u>Federal</u>		<u>Total</u>
		<u>Prior Year</u>	<u>Current Year</u>	
REVENUE				
Federal	<u>198,898</u>	<u>-</u>	<u>192,022</u>	<u>192,022</u>
EXPENSES				
Community Development	<u>192,106</u>	<u>-</u>	<u>185,380</u>	<u>185,380</u>
Administration	<u>6,792</u>	<u>-</u>	<u>6,642</u>	<u>6,642</u>
TOTAL EXPENSES	<u>198,898</u>	<u>-</u>	<u>192,022</u>	<u>192,022</u>
EXCESS REVENUE OVER EXPENSES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>