



# ARNOLD, WALKER, ARNOLD, & CO., P.C.

*Certified Public Accountants and Consultants*

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MEMBER

American Institute Of  
Certified Public Accountants

Texas State Society Of  
Certified Public Accountants

January 21, 2016

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

We have audited 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 for the year ended September 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 21, 2016. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the County's financial statements were the allowance for uncollectible taxes and the depreciable lives of fixed assets.

Management's estimate of the allowance for uncollectible taxes is based on historical collection rates. Management's estimates of the depreciable lives of assets is based upon a range of lives generally used by governmental entities. We evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 21, 2016.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Commissioner's Court of Red River County and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

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

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

**Red River County, Texas**

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

**For the year ended September 30, 2015**

Red River County, Texas  
 TABLE OF CONTENTS  
 Year ended September 30, 2015

<u>Exhibit</u>		<u>Page</u>
	Independent Auditor's Report	1-2
	Management's Discussion and Analysis	3-11
	 <b><u>BASIC FINANCIAL STATEMENTS</u></b>	
	Government Wide Statements:	
A-1	Statement of Net Position	12
B-1	Statement of Activities	13-14
	Governmental Fund Financial Statements:	
C-1	Balance Sheet	15
C-2	Reconciliation for C-1	16
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balance	17
C-4	Reconciliation for C-3	18
C-5	Budgetary Comparison Schedule - General Fund	19
	Proprietary Fund Financial Statements:	
D-1	Statement of Net Position	20
D-2	Statement of Revenues, Expenses, and Changes in Fund Net Position	21
D-3	Statement of Cash Flows	22
	Fiduciary Fund Financial Statement:	
E-1	Statement of Net Position	23
	Notes to the Financial Statements	24-38
	 <b><u>REQUIRED SUPPLEMENTAL INFORMATION</u></b>	
F-1	Schedule of Changes in Net Pension Liability and Related Ratios (TCDRS)	39
F-2	Schedule of Contributions (TCDRS)	40
	 <b><u>COMBING SCHEDULES</u></b>	
	Nonmajor Governmental Funds	
G-1	Combining Balance Sheet	41-44
G-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	45-48
	Fiduciary Funds	
H-1	Combining Statement of Net Position	49
	 <b><u>INTERNAL CONTROL SECTION</u></b>	
	Report on Compliance and on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an audit Of Financial Statements Performed in Accordance with Government Auditing Standards	
	Schedule of Findings and Questioned Costs	50
	Schedule of Status of Prior Findings	51
	Corrective Action Plan	52
		53
I-1	Federal Program Project Schedule	54-55



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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, 2015, 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, 2015, 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.

### ***Emphasis of Matter***

As discussed in Note I to the financial statements, in 2015, the County adopted new accounting guidance prescribed by GASB #68 for its pension plan a multiple-employer, cost-sharing, defined contribution plan that has a special funding situation. Because GASB #68 implements new measurement criteria and reporting provisions, significant information has been added to the financial statements. The statement of net position discloses the County's Net Pension Asset and some deferred resource outflows related to the County's pension plan. The statements of revenues, expenses, and changes in net position discloses the adjustment to the County's Beginning Net Position. Our opinion is not modified with respect to the matter.

### ***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 39 through 40 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 District'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 combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2016, 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 21, 2016

## 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, 2015. 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 \$14.56 million at September 30, 2015. \$9.78 million of the net position is invested in capital assets, net of related debt. During the year, the County's expenses were \$118 thousand less than the \$5.3 million generated in taxes, charges for services and other revenues from activities. This includes depreciation expense of \$719 thousand.

The total cost of all the County's activities was about \$5.2 million, a decrease of \$618 thousand. This was mainly because of decreased expenses funded by grants. Intergovernmental revenue decreased \$585 thousand.

The general fund balance is \$1.825 million at September 30, 2015, which is an increase of \$514 thousand. General fund revenue increased compared to the prior year with an increase of \$99 thousand in tax revenue and a total increase of \$160 thousand in revenue. Expenditures remained similar to the prior year in most departments. Expenditures increased 1.9% or \$58 thousand. Court appointed attorney fees increased. Approximately \$109 thousand more was spent on capital outlay with most of this being the courthouse annex roof renovation. The increase to Main Road & Bridge was \$188 thousand which is \$175 thousand less than the prior year. This was mainly due to more road repairs and renovations.

During the year, \$233 thousand of fixed assets were added. \$70 thousand of principal was paid on debt. New debt of \$95 thousand was obtained to complete the courthouse annex roof.

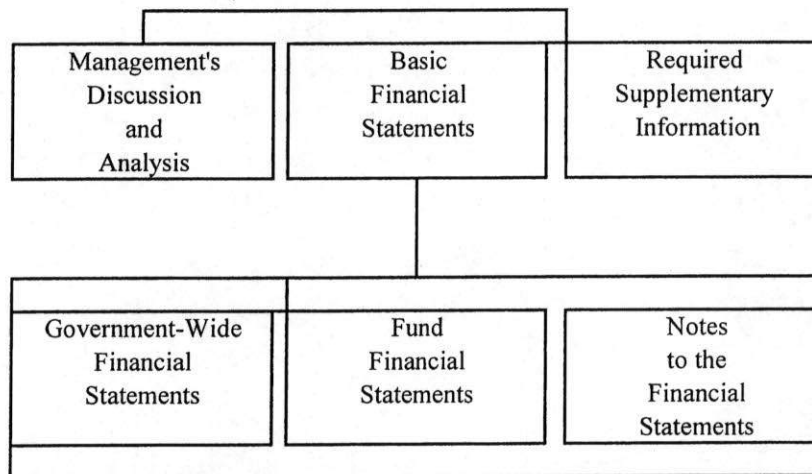
Approximately 94% of the taxes levied for 2014-15 were collected by September 30, 2015.

## 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 \$14.56 million at September 30, 2015.

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

	Activities		Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	6,170	5,656	130	127	6,300	5,783
Capital and non-current assets	10,008	10,261	944	976	10,952	11,237
<b>TOTAL ASSETS</b>	<b>16,178</b>	<b>15,917</b>	<b>1,074</b>	<b>1,103</b>	<b>17,252</b>	<b>17,020</b>
Deferred outflow-pension plan	210	-	-	-	210	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>210</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>210</b>	<b>-</b>
Long-term liabilities	446	204	-	-	446	204
Other liabilities	164	225	-	-	164	225
<b>TOTAL LIABILITIES</b>	<b>610</b>	<b>429</b>	<b>-</b>	<b>-</b>	<b>610</b>	<b>429</b>
Unavailable revenue-taxes, fines, & fees	2,263	2,208	-	-	2,263	2,208
Deferred inflow-pension plan	29	-	-	-	29	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>2,292</b>	<b>2,208</b>	<b>-</b>	<b>-</b>	<b>2,292</b>	<b>2,208</b>
<b>Net position</b>						
Invested in capital assets net of related debt	9,779	10,057	-	-	9,779	10,057
Restricted	1,710	1,716	-	-	1,710	1,716
Unrestricted	1,997	1,507	1,074	1,103	3,071	2,610
<b>TOTAL NET POSITION</b>	<b>13,486</b>	<b>13,280</b>	<b>1,074</b>	<b>1,103</b>	<b>14,560</b>	<b>14,383</b>

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 \$3.07 million of unrestricted net position represents resources available to fund the programs of the County for the next fiscal year.

The \$1.7 million is restricted as follows:

Restricted for debt service	-
Restricted for special revenue funds	<u>1,710</u>
	<u>1,710</u>

Net position of the County increased \$118 thousand. The County recorded depreciation of \$719 thousand. \$233 thousand of fixed assets were added. \$70 thousand was paid on principal on debt, \$95 thousand of new debt was obtained. The County's revenues exceeded expenditures by \$508 thousand in the governmental funds. Revenues exceeded expenses by \$29 thousand in the proprietary fund.

Changes in net position.

The County's total revenues were \$5.33 million. 61% of this came from property taxes, 14% came from sales taxes and other taxes, 9% came from charges for services, and 10% came from operating grants and contributions.

The total cost of all programs was \$5.2 million. Approximately 28% of this was for public safety and 30% was for highways, streets and bridges.

Net position increased by \$118 thousand because of the excess of revenues over expenses. Depreciation expense was \$719 thousand for the year.

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

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Revenues</b>						
<u>Program Revenues</u>						
Charges for Services	469	485	4	30	473	515
Operating Grants and Contributions	530	1,115	-	-	530	1,115
<u>General Revenues</u>						
Property Taxes	3,258	3,258	-	-	3,258	3,258
Other taxes	741	730	-	-	741	730
Investment earnings	15	12	-	-	15	12
Other	309	144	-	-	309	144
<b>Total Revenues</b>	<u>5,322</u>	<u>5,744</u>	<u>4</u>	<u>30</u>	<u>5,326</u>	<u>5,774</u>
<b>Expenses</b>						
General Government	344	369	-	-	344	369
Judicial	488	418	-	-	488	418
Legal	113	124	-	-	113	124
Financial	403	411	-	-	403	411
Public Facility	140	190	-	-	140	190
Public Safety	1,439	1,591	33	33	1,472	1,624
Health and Welfare	219	260	-	-	219	260
Roads & Streets	1,550	1,637	-	-	1,550	1,637
Cultural and Recreational	93	90	-	-	93	90
Conservation	115	119	-	-	115	119
Intergovernmental	63	395	-	-	63	395
General-miscellaneous	203	182	-	-	203	182
Debt service	5	7	-	-	5	7
<b>Total Expenses</b>	<u>5,175</u>	<u>5,793</u>	<u>33</u>	<u>33</u>	<u>5,208</u>	<u>5,826</u>
<b>Other Sources (Uses)</b>						
Transfers in (out)	-	-	-	-	-	-
<b>Increase (Decrease) in Net Position</b>	147	(49)	(29)	(3)	118	(52)
<b>Beginning Net Position</b>	13,280	13,329	1,103	1,106	14,383	14,435
<b>Prior Period Adjustment</b>	59	-	-	-	59	-
<b>Ending Net Position</b>	<u>13,486</u>	<u>13,280</u>	<u>1,074</u>	<u>1,103</u>	<u>14,560</u>	<u>14,383</u>

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 \$5.2 million.
- However, the amount that taxpayers paid for these activities through property taxes was only \$3.26 million.
- Some of the cost was paid by those who directly benefited from the programs (\$473 thousand), or by grants and contributions (\$530 thousand).

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

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
General Government	344	369	252	272
Public Safety	1,439	1,591	1,225	1,392
Highways, Streets and Bridges	1,550	1,636	1,316	1,183

#### FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The County reported fund balance in its governmental funds of approximately \$3.53 million at September 30, 2015. This balance is composed of the following in thousands

General	1,825
Special Revenue	1,710
	<u>3,535</u>

Fund balance in the governmental funds increased \$508 thousand. The general fund balance increased \$514 thousand as compared to \$100 thousand the prior year. This is due to an increase in tax revenue of \$99 thousand and a \$200 thousand transfer from the indigent health care fund. The Main Road & Bridge fund balance increased \$188 thousand as compared to \$363 thousand the prior year. This was due to more road repair costs. Other special revenue funds decreased about \$194 thousand mainly from a transfer from the indigent health fund to the general fund.

General Fund Budgetary Highlights

Several budget amendments were made during the year. Even with these amendments, actual expenditures were less than budgeted by \$447 thousand. Actual revenues were \$82 thousand more than budgeted. \$273 thousand was budgeted as a decrease to fund balance. Actually, the fund balance increased \$514 thousand.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

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

	Governmental Activities		Business-Type Activities	
	2015	2014	2015	2014
Land	131	131	22	22
Roads	16,967	16,692	-	-
Buildings and improvements	5,578	5,478	1,642	1,642
Machinery and equipment	3,277	3,294	-	-
Totals at historical cost	<u>25,953</u>	<u>25,595</u>	<u>1,664</u>	<u>1,664</u>
Total accumulated depreciation	<u>(15,945)</u>	<u>(15,334)</u>	<u>(720)</u>	<u>(688)</u>
Net capital assets	<u><u>10,008</u></u>	<u><u>10,261</u></u>	<u><u>944</u></u>	<u><u>976</u></u>

\$59 thousand of new equipment was added in the current year. A new roof was completed on the courthouse annex building costing \$100 thousand. Additions to roads was \$275 thousand.

Long-Term Debt

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

	Governmental Activities		Business-Type Activities	
	2015	2014	2015	2014
Notes payable	229	204	-	-
Vacation & comp. time payable	<u>84</u>	<u>89</u>	<u>-</u>	<u>-</u>
	<u><u>313</u></u>	<u><u>293</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

\$70 thousand was paid on principal this year. \$95 thousand of debt proceeds were received in the current year to complete a new roof on the courthouse annex building.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In setting the Fiscal Year 2016 budget, the governing body of Red River County, after careful deliberation, approved raising the tax rate to .77191 per \$100 (see attached resolution). The governing body of Red River County also reduced clerical personnel by two full time (33.5 hours) and one part time position. They also reduced jail employees from eighteen (18) full time (40 hours) to fifteen (15) with the Courts understanding that if the inmate count rose to 48 or above, a budget amendment would be necessary to hire jailers to fill these 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 2016 was for employee health insurance and a roof for the County Jail. No new programs or initiatives were added for FY 2016.

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, 2015

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 3,612,411	\$ 130,750	\$ 3,743,161
Receivables (net of allowance for uncollectibles)	2,557,559	-	2,557,559
Capital Assets:			
Land	131,074	22,432	153,506
Infrastructure, net	5,602,850	-	5,602,850
Buildings, net	3,867,536	921,149	4,788,685
Machinery and Equipment, net	407,021	-	407,021
Total Assets	<u>16,178,451</u>	<u>1,074,331</u>	<u>17,252,782</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
Deferred Outflow Related to Pension Plan	\$ 210,282	\$ -	\$ 210,282
Total Deferred Outflows of Resources	<u>210,282</u>	<u>-</u>	<u>210,282</u>
<b>LIABILITIES</b>			
Accounts Payable	17,847	-	17,847
Compensated Absences Payable	84,319	-	84,319
Unearned Revenues	62,460	-	62,460
Noncurrent Liabilities			
Due Within One Year	139,249	-	139,249
Due in More Than One Year	90,185	-	90,185
Net Pension Liability	216,687	-	216,687
Total Liabilities	<u>610,747</u>	<u>-</u>	<u>610,747</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Unavailable Revenue - Taxes and Fees	2,263,065	-	2,263,065
Deferred Inflow Related to Pension Plan	28,519	-	28,519
Total Deferred Inflows of Resources	<u>2,291,584</u>	<u>-</u>	<u>2,291,584</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	9,779,047	-	9,779,047
Restricted for Special Revenue Funds	1,709,898	-	1,709,898
Unrestricted Net Position	1,997,457	1,074,331	3,071,788
Total Net Position	<u>\$ 13,486,402</u>	<u>\$ 1,074,331</u>	<u>\$ 14,560,733</u>

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
\$ (252,160)	\$ -	\$ (252,160)
(350,779)	-	(350,779)
(48,537)	-	(48,537)
(235,994)	-	(235,994)
(140,159)	-	(140,159)
(1,225,340)	-	(1,225,340)
(92,690)	-	(92,690)
(90,037)	-	(90,037)
(62,576)	-	(62,576)
(200,301)	-	(200,301)
(155,565)	-	(155,565)
(1,316,091)	-	(1,316,091)
(5,156)	-	(5,156)
<u>(4,175,385)</u>	<u>-</u>	<u>(4,175,385)</u>
-	(29,546)	(29,546)
-	(29,546)	(29,546)
<u>(4,175,385)</u>	<u>(29,546)</u>	<u>(4,204,931)</u>
3,258,290	-	3,258,290
740,745	-	740,745
309,250	-	309,250
14,931	440	15,371
<u>4,323,216</u>	<u>440</u>	<u>4,323,656</u>
147,831	(29,106)	118,725
13,279,556	1,103,437	14,382,993
59,015	-	59,015
<u>\$ 13,486,402</u>	<u>\$ 1,074,331</u>	<u>\$ 14,560,733</u>

GOVERNMENTAL FUND FINANCIAL STATEMENTS

RED RIVER COUNTY, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2015

EXHIBIT C-1

	General Fund	Major Special Revenue Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,847,080	\$ 1,184,297	\$ 581,034	\$ 3,612,411
Receivable-net of allowance for uncollectibles	2,405,836	143,697	8,026	2,557,559
Total Assets	<u>\$ 4,252,916</u>	<u>\$ 1,327,994</u>	<u>\$ 589,060</u>	<u>\$ 6,169,970</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 16,848	\$ (501)	\$ 1,500	\$ 17,847
Unearned Revenues	-	-	62,460	62,460
Total Liabilities	<u>16,848</u>	<u>(501)</u>	<u>63,960</u>	<u>80,307</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue - Taxes & Fees	2,410,924	143,697	-	2,554,621
Total Deferred Inflows of Resources	<u>2,410,924</u>	<u>143,697</u>	<u>-</u>	<u>2,554,621</u>
<b>FUND BALANCES</b>				
Restricted Fund Balance:				
Reported in Special Revenue Funds	-	1,184,798	525,100	1,709,898
Unassigned Fund Balance	1,825,144	-	-	1,825,144
Total Fund Balances	<u>1,825,144</u>	<u>1,184,798</u>	<u>525,100</u>	<u>3,535,042</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 4,252,916</u>	<u>\$ 1,327,994</u>	<u>\$ 589,060</u>	<u>\$ 6,169,970</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, 2015

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	\$	3,535,042
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 \$25,595,232 and the accumulated depreciation was \$15,333,843. In addition, long-term liabilities, including bonds 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 in the governmental activities is to increase (decrease) net position.		10,056,975
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 2015 capital outlays and debt principal payments is to increase (decrease) net position.		302,489
The 2015 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(686,604)
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 bond sales as an increase in bonds 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.		112,373
Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$216,687 and a Deferred Resource Outflow related to TCDRS in the amount of \$210,282 and a Deferred Resource Inflow related to TCDRS in the amount of \$28,519. This amounted to a decrease in Net Position in the amount of \$34,924.		(34,924)
Prior period adjustment to record fixed assets under construction in prior fiscal year.		201,051
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>13,486,402</b>

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, 2015

	General Fund	Major Special Revenue Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
Taxes	\$ 2,673,291	\$ 696,074	\$ 257,900	\$ 3,627,265
Licenses and Permits	-	478,955	-	478,955
Intergovernmental Revenue and Grants	77,726	187,259	297,349	562,334
Charges for Services	287,337	-	32,881	320,218
Fines	99,042	-	37,234	136,276
Other Revenue	166,381	4,727	19,524	190,632
<b>Total Revenues</b>	<b>3,303,777</b>	<b>1,367,015</b>	<b>644,888</b>	<b>5,315,680</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
General Government	253,893	-	41,022	294,915
Judicial	417,954	-	-	417,954
Legal	93,144	-	22,608	115,752
Financial	381,789	-	-	381,789
Public Facilities	138,072	-	2,087	140,159
Public Safety	1,260,153	-	186,798	1,446,951
Cultural & Recreational	92,690	-	-	92,690
Conservation	115,125	-	-	115,125
Intergovernmental	8,104	-	54,472	62,576
Miscellaneous	203,601	-	-	203,601
Health & Welfare	-	-	219,363	219,363
Roads & Streets	-	1,103,764	-	1,103,764
<b>Debt Service:</b>				
Debt Principal	-	69,844	-	69,844
Debt Interest	-	5,156	-	5,156
<b>Capital Outlay:</b>				
Capital Outlay	120,114	-	112,531	232,645
<b>Total Expenditures</b>	<b>3,084,639</b>	<b>1,178,764</b>	<b>638,881</b>	<b>4,902,284</b>
<b>Excess of Revenues Over Expenditures</b>	<b>219,138</b>	<b>188,251</b>	<b>6,007</b>	<b>413,396</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Loan Proceeds	94,864	-	-	94,864
Transfers In	200,000	-	-	200,000
Transfers Out (Use)	-	-	(200,000)	(200,000)
<b>Total Other Financing Sources (Uses)</b>	<b>294,864</b>	<b>-</b>	<b>(200,000)</b>	<b>94,864</b>
<b>Net Change in Fund Balances</b>	<b>514,002</b>	<b>188,251</b>	<b>(193,993)</b>	<b>508,260</b>
<b>Fund Balance - October 1 (Beginning)</b>	<b>1,311,142</b>	<b>996,547</b>	<b>719,093</b>	<b>3,026,782</b>
<b>Fund Balance - September 30 (Ending)</b>	<b>\$ 1,825,144</b>	<b>\$ 1,184,798</b>	<b>\$ 525,100</b>	<b>\$ 3,535,042</b>

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, 2015

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	508,260
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 2015 capital outlays and debt principal payments is to increase (decrease) the change in net position.		302,489
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.		(686,604)
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, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.		(83,426)
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 of 12/31/2014 caused the change in the ending net position to increase in the amount of \$123,452. The County recorded their proportionate share of pension expense during the measurement period as part of the net pension liability. The amounts expensed for FY 2015 was \$16,340 for pension expense. This caused a net increase in the change in net position of \$107,112.		107,112
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>147,831</b>

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, 2015

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 2,577,833	\$ 2,577,833	\$ 2,673,291	\$ 95,458
Intergovernmental Revenue and Grants	211,254	211,254	77,726	(133,528)
Charges for Services	254,450	254,450	287,337	32,887
Fines	121,100	121,100	99,042	(22,058)
Other Revenue	57,550	57,550	166,381	108,831
Total Revenues	3,222,187	3,222,187	3,303,777	81,590
<b>EXPENDITURES:</b>				
Current:				
General Government	263,203	263,203	253,893	9,310
Judicial	440,881	440,881	417,954	22,927
Legal	93,442	93,442	93,144	298
Financial	424,706	424,706	381,789	42,917
Public Facilities	179,208	179,208	138,072	41,136
Public Safety	1,473,672	1,473,672	1,260,153	213,519
Cultural & Recreational	102,402	102,402	92,690	9,712
Conservation	225,604	225,604	115,125	110,479
Intergovernmental	13,600	13,600	8,104	5,496
Miscellaneous	272,947	272,947	203,601	69,346
Debt Service:				
Debt Principal	5,000	5,000	-	5,000
Capital Outlay:				
Capital Outlay	36,794	131,658	120,114	11,544
Total Expenditures	3,531,459	3,626,323	3,084,639	541,684
Excess (Deficiency) of Revenues Over (Under) Expenditures	(309,272)	(404,136)	219,138	623,274
<b>OTHER FINANCING SOURCES (USES):</b>				
Loan Proceeds	-	94,864	94,864	-
Transfers In	20,000	20,000	200,000	180,000
Transfers Out (Use)	16,596	16,596	-	(16,596)
Total Other Financing Sources (Uses)	36,596	131,460	294,864	163,404
Net Change	(272,676)	(272,676)	514,002	786,678
Fund Balance - October 1 (Beginning)	1,311,142	1,311,142	1,311,142	-
Fund Balance - September 30 (Ending)	\$ 1,038,466	\$ 1,038,466	\$ 1,825,144	\$ 786,678

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, 2015

Business Type  
Activities

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ASSETS

**Current Assets:**

Cash and Cash Equivalents	\$ 130,750
Total Current Assets	130,750

**Noncurrent Assets:**

Capital Assets:	
Land Purchase and Improvements	22,432
Buildings	1,641,823
Accumulated Depreciation - Buildings	(720,674)
Total Noncurrent Assets	943,581

Total Assets	1,074,331
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NET POSITION

Unrestricted Net Position	1,074,331
Total Net Position	\$ 1,074,331

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, 2015

EXHIBIT D-2

	Business Type Activities
<hr/>	
OPERATING REVENUES:	
Charges for Services	\$ 3,265
Other Revenue	440
Total Operating Revenues	3,705
OPERATING EXPENSES:	
Depreciation	32,811
Total Operating Expenses	32,811
Operating Income (Loss)	(29,106)
Total Net Position October 1 (Beginning)	1,103,437
Total Net Position September 30 (Ending)	\$ 1,074,331

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, 2015

	Business Type Activities
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$ 3,705
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Increase(decrease) in Short-term Loans	-
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>	
Acquisition of Capital Assets	-
<u>Cash Flows from Investing Activities:</u>	
Purchase of Investment Securities	-
Net Increase in Cash and Cash Equivalents	3,705
Cash and Cash Equivalents at Beginning of the Year:	127,045
Cash and Cash Equivalents at the End of the Year:	\$ 130,750
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:</u>	
Operating Income (Loss):	\$ (29,106)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	32,811
Net Cash Provided by Operating Activities	\$ 3,705

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

FIDUCIARY FUND FINANCIAL STATEMENT

RED RIVER COUNTY, TEXAS  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
SEPTEMBER 30, 2015

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	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 418,157
Total Assets	<u>\$ 418,157</u>
LIABILITIES	
Due to Other Governments	\$ 418,157
Total Liabilities	<u>\$ 418,157</u>

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

Red River County, Texas  
NOTES TO THE FINANCIAL STATEMENTS  
At September 30, 2015

**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 TCDRS'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 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</u> <u>at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Value at the</u> <u>Beginning of the</u> <u>Year</u>	<u>Change in Net</u> <u>Position</u>
Land	131,074	-	131,074	
Buildings & improvements	5,477,949	(1,607,574)	3,870,375	
Machinery & equipment	3,293,709	(2,709,219)	584,490	
Roads	16,692,500	(11,017,050)	5,675,450	
Change in Net Position	<u>25,595,232</u>	<u>(15,333,843)</u>	<u>10,261,389</u>	<u>10,261,389</u>
 <u>Long-term Liabilities</u> <u>at the Beginning of the year</u>			 <u>Payable at the</u> <u>Beginning of the</u> <u>Year</u>	
Notes payable			<u>204,414</u>	
Change in Net Position				<u>204,414</u>
Net Adjustment to Net Position				<u><u>10,056,975</u></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	99,864	99,864	99,864
Roads	73,949	73,949	73,949
Machinery & equipment	58,832	58,832	58,832
Total Capital Outlay	<u>232,645</u>	<u>232,645</u>	<u>232,645</u>
Book value of assets disposed of	<u>-</u>	<u>-</u>	<u>-</u>
 <u>Debt Principal Payments</u>			
Note principal	69,844	69,844	69,844
Total Principal Payments	<u>69,844</u>	<u>69,844</u>	<u>69,844</u>
Total Adjustment to Net Position		<u>302,489</u>	<u>302,489</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	147,527	(147,527)	-
Uncollected taxes (assumed collectible) from Current Year Levy	123,309	123,309	123,309
Uncollected Taxes (assumed collectible) from Prior Year Levy	168,247	-	168,247
Effect of prior year tax entry	30,537	30,537	-
<u>Valuation and comp. Time payable</u>			
End of year liability	84,319	-	(84,319)
Change in liability from prior year	5,119	5,119	
<u>Debt proceeds</u>	<u>94,864</u>	<u>(94,864)</u>	<u>(94,864)</u>
Total		<u>(83,426)</u>	<u>112,373</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. DEPOSITS AND INVESTMENTS**

##### **Legal and Contractual Provisions Governing Deposits and Investments**

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the County to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable state 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 District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act. The county is in substantial compliance with the requirements of the Act and with local policies.

Additional contractual provisions governing deposits and investments for the County are as follows:

##### **Policies Governing Deposits and Investments**

In compliance with the Public Funds Investment Act, the County has adopted a deposit and investment policy. That policy does address the following risks:

1. **Custodial Credit Risk--Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The County's policy regarding types of deposits allowed and collateral requirements is that the funds of the County must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping in an amount sufficient to protect the County's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Deposits of the County are insured or collateralized with securities held by the pledging financial institution's trust department or agent in the name of the County.

At September 30, 2015, the carrying amount of the County's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$4,062,208 and the bank balance was \$4,898,446. The county's cash deposits at September 30, 2015 and during the year ended September 30, 2015 were entirely covered by FDIC insurance or by pledged collateral held by the County's agent bank in the County's name.

**A. DEPOSITS AND INVESTMENTS (continued)**

In addition, the following is disclosed regarding coverage of combined balances on the date of September 30, 2015:

- a. Depository: State Bank of Dekalb
- b. The market value of securities pledged as of September 30, 2015 was \$5,257,447.
- c. Total amount of FDIC coverage at September 30, 2015 was \$250,000.
- 2. Custodial Credit Risk--Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments of collateral securities that are in the possession of an outside party. Positions in external investment pools are not subject to custodial credit risk. The County has no investments exposed to custodial credit risk at the end of the period.
- 3. Interest-rate Risk-- Interest-rate risk occurs when potential purchases of debt securities do not agree to pay fair value for these securities if interest rates rise. The County does not purchase investments where the face value is not guaranteed.
- 4. Concentration Risk--Concentration risk is defined as positions of 4 percent or more in the securities of a single issuer. Investments in external investment pools are not subject to concentration risk. The County is not exposed to any amounts of concentration risk.
- 5. Other Credit Risk Exposure--The County has no investments in external investment pools.

**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 2014 tax roll totaling approximately \$3.4 million. Such tax is based on an assessed valuation of approximately \$460 million with an applicable tax rate of \$0.74801 per \$100 valuation.

**C. DELINQUENT TAXES RECEIVABLE**

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service 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>200,000</u>
Total Transferred to General Fund	<u><u>200,000</u></u>

This was transferring funds back to the General Fund from the Indigent Health Care Fund that was not needed. Part of the property taxes collected each year are deposited into the Indigent Health Care Fund.

**E. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at September 30, 2015, 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>
<b>Governmental Activities:</b>					
General Fund	692,521	3,340,284	-	-	4,032,805
Major Special Revenue Funds	179,622	-	-	-	179,622
Nonmajor Governmental Funds	-	-	8,026	-	8,026
Total - Governmental Activities	<u>872,143</u>	<u>3,340,284</u>	<u>8,026</u>	<u>-</u>	<u>4,220,453</u>
Amounts not scheduled for collection during the subsequent year	<u>174,428</u>	<u>1,488,466</u>	<u>-</u>	<u>-</u>	<u>1,662,894</u>
<b>Business Type Activities:</b>					
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, 2015, were as follows:

	<u>Accounts</u>	<u>Salaries and Benefits</u>	<u>Due to Other Governments</u>	<u>Other</u>	<u>Total Payables</u>
<b>Governmental Activities:</b>					
General Fund	16,848	-	-	-	16,848
Major Special Revenue Funds	(501)	-	-	-	(501)
Nonmajor Gov. Funds	1,500	-	-	-	1,500
Total - Gov. Activities	<u>17,847</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,847</u>
Amounts not scheduled for payment during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Business Type Activities:</b>					
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, 2015, was as follows:

	Primary Government				Ending Balance
	Beginning Balance	Additions	Retirements	Adjustments	
Governmental Activities:					
County:					
Land	131,074	-	-	-	131,074
Buildings and Improvements	5,477,949	99,864	-	-	5,577,813
Machinery and Equipment	3,293,709	58,832	(75,383)	-	3,277,158
Roads	16,692,500	73,949	-	201,051	16,967,500
Totals at Historic Cost	<u>25,595,232</u>	<u>232,645</u>	<u>(75,383)</u>	<u>201,051</u>	<u>25,953,545</u>
Less Accumulated Depreciation for:					
Buildings and Improvements	(1,607,574)	(102,703)	-	-	(1,710,277)
Machinery and Equipment	(2,709,219)	(236,301)	75,383	-	(2,870,137)
Roads	(11,017,050)	(347,600)	-	-	(11,364,650)
Total Accumulated Depreciation	<u>(15,333,843)</u>	<u>(686,604)</u>	<u>75,383</u>	<u>-</u>	<u>(15,945,064)</u>
Governmental Activities Capital Assets, Net	<u>10,261,389</u>	<u>(453,959)</u>	<u>-</u>	<u>201,051</u>	<u>10,008,481</u>
	Beginning Balance	Additions	Retirements	Adjustments	Ending Balance
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	<u>(687,862)</u>	<u>(32,811)</u>	<u>-</u>	<u>-</u>	<u>(720,673)</u>
Total Accumulated Depreciation	<u>(687,862)</u>	<u>(32,811)</u>	<u>-</u>	<u>-</u>	<u>(720,673)</u>
Business-Type Activities Capital Assets, Net	<u>976,392</u>	<u>(32,811)</u>	<u>-</u>	<u>-</u>	<u>943,581</u>
Primary Government Capital Assets, net	<u>11,237,781</u>	<u>(486,770)</u>	<u>-</u>	<u>201,051</u>	<u>10,952,062</u>

Depreciation expense was charged as follows:

Governmental Activities:		Business-Type Activities:	
General Government	63,005	Public Safety	6,367
Public Safety	33,122	Judicial	26,444
Highways, Streets and Bridges	488,983		
Financial	21,256		
Judicial	80,238		
	<u>686,604</u>		<u>32,811</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, 2015:

	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Payable at 10/1/14</u>	<u>Additions (Reductions)</u>	<u>Payable at 9/30/2015</u>	<u>Due within One Year</u>
Note Payable--caterpillar motorgrader R&B #2	200,025	3.00%	137,603	(11,633)	125,970	125,970
Note Payable--caterpillar motorgrader R&B #2	160,000	3.00%	10,552	(10,552)	-	-
Note Payable--2010 Mack truck R&B #2	95,000	3.00%	25,800	(25,800)	-	-
Note Payable--2010 Mack truck R&B #4	95,000	3.00%	25,800	(17,200)	8,600	8,600
Note Payable--Boom Axe cutter R&B#2	10,660	3.00%	4,659	(4,659)	-	-
Note Payable--metal roof and related equipmen	94,864	4.35%	-	94,864	94,864	4,679
			<u>204,414</u>	<u>25,020</u>	<u>229,434</u>	<u>139,249</u>

The Counties long-term debt as of September 30, 2015, 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, 2016	125,970
(B) Note payable, State Bank of DeKalb, due in monthly principal payments of \$1,433 plus interest at 3.00% and one payment for the remaining balance on March 19, 2016	8,600
(C) 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.	94,864
	<u>229,434</u>

The annual requirements to amortize notes payable as of September 30, 2015, follows:

<u>Years Ending 9/30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	139,249	8,286	147,535
2017	4,814	3,921	8,735
2018	5,023	3,712	8,735
2019	5,241	3,494	8,735
2020	5,469	3,266	8,735
2021-2025	31,128	12,549	43,677
2026-2029	38,510	5,165	43,675
	<u>229,434</u>	<u>40,393</u>	<u>269,827</u>

## H. 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 contribution 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 District 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 valuation and measurement date, there were 76 active employees covered by the benefit terms.

### 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 9.34% and 8.91% in calendar years 2014 and 2015, respectively. The County's contributions to TCDRS for the year ended September 30, 2015, were \$171,185, and were equal to the required contributions.

### Net Pension Liability

The County's Net Pension Liability (NPL) was measured as of December 31, 2014, 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, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.5% per year
Investment Rate of Return	8.0% net of pension plan investment expenses, including inflation

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.

## H. DEFINED BENEFIT PENSION PLANS continued

The long-term expected rate of return on pension plan investments is 8.1%. 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	16.5%	5.35%
International Equity	21.5%	5.35% - 6.35%
Various	25.0%	.55% - 7.20%
Hedge Funds	25.0%	5.15%
Private Equity	12.0%	8.35%
Total	100.0%	

### Discount Rate

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

### Changes in the Net Pension Liability

	Increase (decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balance at December 31, 2013	\$ 8,324,851	\$ 8,137,060	\$ 187,791
Changes for the year:			
Service cost	295,844	-	295,844
Interest	666,444	-	666,444
Change of benefit terms	-	-	-
Difference between expected and actual experience	(42,778)	-	(42,778)
Changes of assumptions	-	-	-
Contributions - employer	-	189,655	(189,655)
Contributions - employee	-	144,617	(144,617)
Net investment income	-	550,859	(550,859)
Benefit payments, including refund of contributions	(493,989)	(493,989)	-
Administrative expense	-	(6,419)	6,419
Other changes	-	11,902	(11,902)
Net changes	\$ 425,521	\$ 396,625	\$ 28,896
Balance at December 31, 2014	\$ 8,750,372	\$ 8,533,685	\$ 216,687

**H. DEFINED BENEFIT PENSION PLANS continued**

Sensitivity of the net pension liability to changes in the discount rate

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:

	1% Decrease in Discount Rate 7.1%	Discount Rate 8.1%	1% Increase in Discount Rate 9.1%
County's net pension liability/(Asset)	\$ 1,282,183	\$ 216,687	\$ (660,890)

**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](http://www.tcdrs.com).

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

For the year ended September 30, 2015, the County recognized pension expense of \$171,185.

At September 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual economic experience	28,519	-
Changed is actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	86,830
Contributions subsequent to the measurement date	-	-
Total	28,519	86,830

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:	
2016	7,448
2017	7,448
2018	21,707
2019	21,707
2020	-
Thereafter	-

**I. 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.

**J. 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 2015, 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.

**K. VACATION AND COMP. TIME PAYABLE**

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

<u>9/30/14</u>	<u>9/30/15</u>
89,438	84,319

**L. 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.

**M. COMMITMENTS AND CONTINGENCIES**

The County has no significant commitments or contingencies at September 30, 2015.

**N. LITIGATION**

The County has no pending litigation at September 30, 2015.

**O. PRIOR PERIOD ADJUSTMENT**

During fiscal year 2015, the County adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. With GASB 68, the County must assume their proportionate share of the Net Pension Asset/Liability of the TCDRS. Adoption of GASB 68 require a prior period adjustment to report the effect of GASB 68 retroactively. The amount of the prior period adjustment for GASB 68 is \$142,036 which is a net pension liability as the County is underfunded. Also, a prior period adjustment is made to record fixed assets that were in progress the prior year under a road improvement grant of \$201,051. The restated beginning net position as a result of these is \$13,338,571.

**P. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 21, 2016, 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, 2015

EXHIBIT F-1

	2015
<b>A. Total Pension Liability</b>	
Service Cost	\$ 295,844
Interest (on the Total Pension Liability)	666,444
Changes of Benefit Terms	-0-
Difference between Expected and Actual Experience	(42,778)
Changes of Assumptions	-0-
Benefit Payments, including refunds of employee contributions	(493,989)
Net change in Total Pension Liability	\$ 425,521
Total Pension Liability - Beginning	8,324,851
Total Pension Liability - Ending	\$ 8,750,372
<b>B. Total Fiduciary Net Position</b>	
Contributions - Employer	\$ 189,655
Contributions - Employee	144,617
Net Investment Income	550,859
Benefit Payments, including refunds of employee contributions	(493,989)
Administrative Expense	(6,419)
Other	11,902
Net Change in Plan Fiduciary Net Position	\$ 396,625
Plan Fiduciary Net Position - Beginning	8,137,060
Plan Fiduciary Net Position - Ending	\$ 8,533,685
<b>C. Net Pension Liability</b>	\$ 216,687
<b>D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	97.52%
<b>E. Covered Employee Payroll</b>	\$ 1,896,659
<b>F. Net Pension Liability as a Percentage of Covered Employee Payroll</b>	11.42%

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 one year of data is 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, 2015

EXHIBIT F-2

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	<u>2015</u>
Actuarially Determined Contribution	\$ 171,185
Contributions in Relation to the Actuarially Determined Contributions	171,185
Contribution Deficiency (Excess)	<u>\$ -0-</u>
Covered Employee Payroll	\$ 1,896,659
Contributions as a Percentage of Covered Employee Payroll	9.03%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the governmental entity's current fiscal year as opposed to the time period covered by the measurement date.

Note: Only one year of data is presented in accordance with GASB 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."

COMBINING SCHEDULES

NONMAJOR GOVERNMENTAL FUNDS

Book Preservation	Record Management Fund	Right of Way	Juvenile Probation	Juv. Prob. Community Correction	Diversionary Placement	Title IV-E	Bail Bonds Board
\$ 58,951	\$ 12,426	\$ 54,576	\$ 13,770	\$ (8,026)	\$ -	\$ 70,904	\$ 15,211
-	-	-	-	8,026	-	-	-
<u>\$ 58,951</u>	<u>\$ 12,426</u>	<u>\$ 54,576</u>	<u>\$ 13,770</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,904</u>	<u>\$ 15,211</u>
\$ -	\$ -	\$ -	\$ 1,500	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	62,460	-
-	-	-	1,500	-	-	62,460	-
58,951	12,426	54,576	12,270	-	-	8,444	15,211
<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>\$ 58,951</u>	<u>\$ 12,426</u>	<u>\$ 54,576</u>	<u>\$ 13,770</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,904</u>	<u>\$ 15,211</u>

Economic Development	Revolving Loan	PHIC Grant	Streets/Road Improvement Grant	County Clerk Vital Stats. Record	County Clerk Archive Fees	Total Nonmajor Governmental Funds
\$ 1,978	\$ 99,109	\$ -	\$ -	\$ 2,555	\$ 86,277	\$ 581,034
-	-	-	-	-	-	8,026
<u>\$ 1,978</u>	<u>\$ 99,109</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,555</u>	<u>\$ 86,277</u>	<u>\$ 589,060</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,500
-	-	-	-	-	-	62,460
-	-	-	-	-	-	63,960
1,978	99,109	-	-	2,555	86,277	525,100
1,978	99,109	-	-	2,555	86,277	525,100
<u>\$ 1,978</u>	<u>\$ 99,109</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,555</u>	<u>\$ 86,277</u>	<u>\$ 589,060</u>

Book Preservation	Record Management Fund	Right of Way	Juvenile Probation	Juv. Prob. Community Correction	Diversionsary Placement	Title IV-E	Bail Bonds Board
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	2,200	140,751	12,500	15,727	-
22,940	2,148	-	-	-	-	-	-
-	-	-	-	-	-	-	-
75	73	332	174	-	-	-	523
<u>23,015</u>	<u>2,221</u>	<u>332</u>	<u>2,374</u>	<u>140,751</u>	<u>12,500</u>	<u>15,727</u>	<u>523</u>
16,095	4,794	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	16,280	140,751	12,500	1,874	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	15,353	-	-	13,853	-
<u>16,095</u>	<u>4,794</u>	<u>-</u>	<u>31,633</u>	<u>140,751</u>	<u>12,500</u>	<u>15,727</u>	<u>-</u>
<u>6,920</u>	<u>(2,573)</u>	<u>332</u>	<u>(29,259)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>523</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
6,920	(2,573)	332	(29,259)	-	-	-	523
<u>52,031</u>	<u>14,999</u>	<u>54,244</u>	<u>41,529</u>	<u>-</u>	<u>-</u>	<u>8,444</u>	<u>14,688</u>
<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>

Economic Development	Revolving Loan	PHIC Grant	Streets/Road Improvement Grant	County Clerk Vital Stats. Record	County Clerk Archive Fees	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 257,900
-	-	54,472	71,699	-	-	297,349
-	-	-	-	-	-	32,881
-	-	-	-	648	22,780	37,234
-	198	-	-	4	128	19,524
-	198	54,472	71,699	652	22,908	644,888
-	-	-	-	1,938	18,195	41,022
-	-	-	-	-	-	22,608
-	-	-	-	-	-	2,087
-	-	-	-	-	-	186,798
-	-	54,472	-	-	-	54,472
-	-	-	-	-	-	219,363
-	-	-	71,699	-	-	112,531
-	-	54,472	71,699	1,938	18,195	638,881
-	198	-	-	(1,286)	4,713	6,007
-	-	-	-	-	-	(200,000)
-	-	-	-	-	-	(200,000)
-	198	-	-	(1,286)	4,713	(193,993)
1,978	98,911	-	-	3,841	81,564	719,093
<u>\$ 1,978</u>	<u>\$ 99,109</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,555</u>	<u>\$ 86,277</u>	<u>\$ 525,100</u>

FIDUCIARY FUNDS



Red River County, Texas  
 COMBINING STATEMENT OF NET POSITION  
 FIDUCIARY FUND  
 As of September 30, 2015

	State Trust	Arrest Fees	Law Enforcement	Total
<b>ASSETS</b>				
Cash and cash equivalents	307,736	97,303	13,118	418,157
Total Assets	<u>307,736</u>	<u>97,303</u>	<u>13,118</u>	<u>418,157</u>
<b>LIABILITIES</b>				
Due to other governments	<u>307,736</u>	<u>97,303</u>	<u>13,118</u>	<u>418,157</u>

INTERNAL CONTROL SECTION



# ARNOLD, WALKER, ARNOLD, & Co., P.C.

*Certified Public Accountants and Consultants*

Bob J. Arnold, C.P.A., P.F.S.  
Lanny G. Walker, C.P.A., P.F.S.  
Kris Arnold, C.P.A., P.F.S.  
Andrew T. Arnold, C.P.A.  
Melissa J. Godfrey, C.P.A.

MEMBER

American Institute Of  
Certified Public Accountants

Texas State Society Of  
Certified Public Accountants

## 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, 2015, 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 21, 2016.

### **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 21, 2016

Red River County, Texas  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED September 30, 2015

**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: N/A
- h. The dollar threshold used to distinguish between Type A and Type B programs. N/A
- 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, 2015

N/A

Red River County, Texas  
CORRECTIVE ACTION PLAN  
For the year ended September 30, 2015

N/A

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

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: TDA  
 CFDA# 14.228, Project #713027, Contract Period 6/3/13-6/2/15

	<u>Budget</u>	<u>Federal</u>		<u>Total</u>
		<u>Prior Year</u>	<u>Current Year</u>	
REVENUE				
Federal	<u>350,000</u>	<u>241,208</u>	<u>108,792</u>	<u>350,000</u>
EXPENSES				
Street improvements	<u>320,000</u>	<u>226,208</u>	<u>93,792</u>	<u>320,000</u>
Administration	<u>30,000</u>	<u>15,000</u>	<u>15,000</u>	<u>30,000</u>
TOTAL EXPENSES	<u>350,000</u>	<u>241,208</u>	<u>108,792</u>	<u>350,000</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: 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>201,051</u>	<u>71,699</u>	<u>272,750</u>
EXPENSES				
Street improvements	202,200	140,848	61,352	202,200
Engineering	50,300	45,203	5,097	50,300
Administration	<u>22,500</u>	<u>15,000</u>	<u>5,250</u>	<u>20,250</u>
TOTAL EXPENSES	<u>275,000</u>	<u>201,051</u>	<u>71,699</u>	<u>272,750</u>
EXCESS REVENUE OVER EXPENSES	<u>          -</u>	<u>          -</u>	<u>          -</u>	<u>          -</u>