

LAMAR COUNTY, TEXAS

*ANNUAL FINANCIAL REPORT*

*FOR THE YEAR ENDED SEPTEMBER 30, 2016*

*Introductory Section*

Lamar County, Texas  
Annual Financial Report  
For The Year Ended September 30, 2016

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*Financial Section*

# Malnory, McNeal & Company, PC

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## **Independent Auditor's Report**

To the Commissioners  
Lamar County, Texas  
119 North Main  
Paris, Texas 75460

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 County'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 County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

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

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of changes in the County's net pension liability and related ratios and schedule of County pension contributions identified as Required Supplementary Information in the table of contents 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2017 on our consideration of Lamar County, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lamar County, Texas's internal control over financial reporting and compliance.

*Malnory, McNeal & Company PC*

Certified Public Accountants

April 6, 2017  
Paris, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Lamar County's annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year ended September 30, 2016. Please read it in conjunction with the County's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

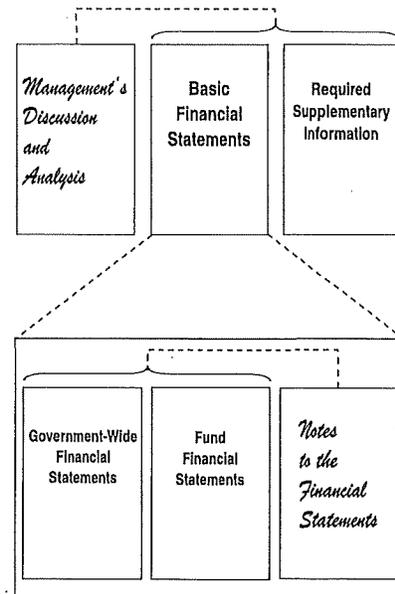
- The County's total combined Net Position was \$32,165,518 at September 30, 2016.
- During the year, the County's expenses were \$840,169 more than the \$21,222,906 generated in taxes and other revenues for governmental activities.
- The total cost of the County's programs was 8.9% higher than last year.
- The unassigned fund balance of the general fund was \$6,202,271, or 46% of total general fund expenditures, which is about the same as last year.

### 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 both *long-term* and *short-term* information about the County's overall financial status.
- 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*.
- *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.

**Figure A-1F, Required Components of the County's Annual Financial Report**



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.

### 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.

Figure A-2. Major Features of the County's Government-wide and Fund Financial Statements

Type of Statements	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency'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
Required financial statements	* Statement of net assets	* Balance sheet	* Statement of net assets	* Statement of fiduciary net assets
	* Statement of activities	* Statement of revenues, expenditures & changes in fund balances	* Statement of revenues, expenses and changes in fund net assets * Statement of cash flows	* Statement of changes in fiduciary net assets
Accounting basis and measurement focus	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
Type of asset/liability information	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
Type of inflow/outflow information	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 thereafter	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

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, one needs to consider 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 general government, public safety, legal, public transportation, culture and recreation, and interest on long-term debt. Property taxes and grants 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 Commissioners 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 the following 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 you 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, we provide additional

information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

- *Proprietary funds*—Services for which the County charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.
- We use *internal service funds* to report activities that provide supplies and services for the County's other programs and activities.
- *Fiduciary funds*—The County is the trustee, or *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. All of the County's fiduciary activities are reported in a separate statement of fiduciary Net Position and a statement of changes in fiduciary Net Position. We exclude these activities 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 \$32,165,518 at September 30, 2016. (See Table A-1).

Table A-1  
County's Net Position

	Governmental Activities	
	2016	2015
<b>Assets:</b>		
Cash and cash equivalents	\$14,747,103	\$14,157,780
Investments	36,686	36,581
Receivables (net of allowances for uncollectibles):		
Interest	9,509	10,018
Taxes	1,329,851	1,305,672
Accounts	1,771,846	1,854,330
Due from other governments	541,897	569,794
Inventories	126,730	180,631
Prepaid Insurance	48,051	32,551
Capital assets (net, where applicable, of accumulated depreciation)	23,291,276	24,168,091
<b>Total Assets and Other Debits</b>	<b>41,902,949</b>	<b>42,315,448</b>
Deferred Outflows of Resources	3,601,727	1,264,508
<b>Liabilities:</b>		
Accounts payable and Accrued expenditures	1,065,538	896,214
Due to Other Funds	31,602	7,672
Due to Beneficiaries	37,690	37,690
Noncurrent Liabilities:		
Due Within One Year	525,000	767,228
Due in More than One Year	5,980,003	5,845,069
Compensated Absences Payable	275,848	204,154
Unamortized Premium on Bonds	122,740	140,634
Net Pension Liability	4,880,024	2,465,402
<b>Total Liabilities</b>	<b>12,918,445</b>	<b>10,364,063</b>
Deferred Inflows of Resources	420,713	--
<b>Net Position:</b>		
Invested in Capital Assets, Net of Related Debt	20,829,091	21,147,913
Restricted For:		
Federal and State Programs	68,972	68,179
Debt Service	32,495	149,464
Capital Projects	704,601	676,433
Indigent Care	--	28,827
Records Management	716,244	864,162
Judicial	211,828	203,408
Other Purposes	1,839,619	1,815,350
Unrestricted	7,762,668	8,262,163
<b>Total Net Position</b>	<b>\$32,165,518</b>	<b>\$33,215,899</b>

Approximately 1% of the County's restricted Net Position represents debt service funds. These funds, when spent, are restricted for the payment of Certificate of Obligation, Series 2011 & 2012 debt. The \$7,762,668 of unrestricted net asset represents resources available to fund the programs of the County next year.

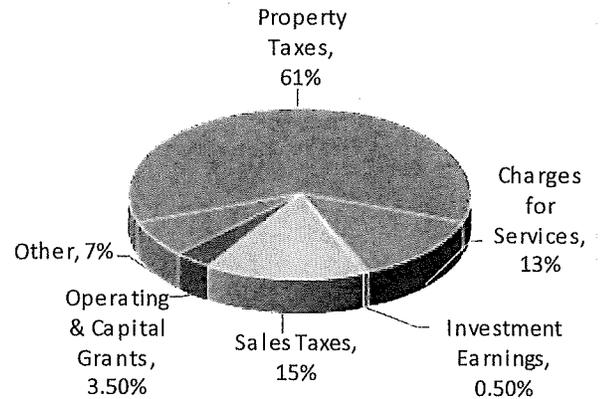
**Changes in Net Position.** The County's total revenues were \$21,222,906. A significant portion, 61%, of the County's revenue comes from property taxes. (See Figure A-3) 13% came from charges for services, 15% came from sales tax and 3.5% from operating grants.

The total cost of all programs and services was \$22,063,075; 28% of these costs are for law enforcement services.

**Governmental Activities**

- Property tax rates increased by 0.3% and valuations increased 3.6 percent. The increase in values and tax rate created an increase of tax revenues to \$13,003,097.
- The County sold capital bonds of \$2,500,000 in 2003. These bonds were authorized for use to the courthouse restoration project. They were refunded in 2012 and gave the county a total interest savings of \$174,302. This project was completed during the fiscal year 2006. Bonds were also issued in 2011 for \$2,000,000 towards capital projects performed on several county buildings.

Figure A-3 County Sources of Revenue for Fiscal Year 2015-2016



**Table A-2**  
Changes in County's Net Position

	Governmental Activities	
	2016	2015
Revenues :		
Program Revenues :		
Charges for Services	\$2,734,662	\$2,729,618
Operating Grants and Contributions	750,017	941,662
General Revenues:		
Taxes	16,240,174	15,832,104
Grants and Contributions Not Restricted to Specific Program	1,324,691	1,069,953
Unrestricted Investment Earnings	89,760	102,650
Gain on Sale of Capitalized Assets	31,794	69,732
Miscellaneous	51,808	67,663
Total Revenues	<u>21,222,906</u>	<u>20,813,382</u>
Program Expenses:		
General Administration	3,030,994	2,600,036
Financial Administration	1,218,885	1,134,257
Judicial	1,760,545	1,667,014
Legal	804,017	933,721*
Election	241,200	
Public Safety	6,238,099	5,741,029
Emergency Mat.	59,910	43,776
Public Welfare	2,702,997	2,630,047
Public Transportation	4,890,101	4,439,075
Conservation and Agriculture	106,007	101,439
Public Facilities	928,830	883,314
Interest on Long-Term Debt	81,490	94,407
Total Expenses	<u>22,063,075</u>	<u>20,268,115</u>
Special and Extraordinary Items:		
Special Item Outflow	--	--
Change in Net Position	(840,169)	545,267
Net Position, October 1	33,215,899	34,005,526
Prior Period Adjustment	(210,212)	(1,334,894)
Adjusted Net Position, October 1	<u>33,005,687</u>	<u>32,670,632</u>
Net Position, September 30	<u>\$32,165,518</u>	<u>\$33,215,899</u>

\*This total represents the total of both Legal and Elections program expenses for the year 2015. Elections will be split from Legal from 2016 forward.

The 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 \$22,063,075.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$13,003,097.
- Some of the cost was paid by those who directly benefited from the programs \$2,734,662, or
- By grants and contributions \$750,017.

**Table A-3**  
Net Cost of Selected County Functions

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
General administration	3,030,994	2,600,036	(2,519,900)	(2,094,865)
Public safety	6,238,099	5,741,029	(5,872,737)	(5,289,897)
Public welfare	2,702,997	2,630,047	(2,564,106)	(2,539,835)
Public transportation	4,890,101	4,439,075	(3,730,189)	(3,135,744)
Total of Selected Functions	16,862,191	15,410,187	(14,686,932)	(13,060,341)

#### FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

Lamar County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The general governmental funds are reported in the General, Special Revenue, Debt Service, and Capital Project funds. The focus of Lamar County's governmental funds is to provide information on a near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Lamar County's annual financing and budgeting requirements. In particular, unassigned fund balances may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

Key factors that enable the County to maintain a stable level of fund balance are as follows:

- Total revenues from property taxes, increased over prior year amounts by \$615,103. The increase was due to an increase in the tax rate and property valuations. Sales tax revenues decreased slightly, while fees, fines, and intergovernmental revenue remained mostly unchanged. Miscellaneous revenue increased. Overall, these changes lead total revenues this year to be slightly higher than that of the prior year.
- Expenditures in governmental funds increased \$986,532 (5%) from prior year totals. The primary area of increased expenditures was in general administration and public safety.

**General Fund.** The general fund is the chief operating fund of Lamar County. At the end of the current fiscal year, unassigned fund balance of the general fund was \$6,202,271, while total fund balance reached \$11,096,510. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 46% of total general fund expenditures and total fund balance represents 82% of the same amount. The County has adopted a policy of maintaining a minimum fund balance to be used for unanticipated needs. A Fund Balance Policy adopted by the Commissioner's Court in 2011 states that the minimum level shall be approximately 25% of budgeted expenditures. The County considers a balance of less than 20% as a cause of concern and an unassigned fund balance of more than 35% as surplus for one-time expenditures that are nonrecurring in nature, capital projects, and/or to reduce the tax levy requirements.

The fund balance of Lamar County's general fund has increased by \$605,899 during the current fiscal year. The County's property tax growth was one of the main factors behind the net increased revenues compared to the prior year. In addition, expenditures were significantly less than budgeted amounts. Conservative spending across many departments, including public safety, resulted in lower than budgeted operational costs.

**Road and Bridge Fund.** The Road and Bridge fund balance totaled \$1,393,264, a decrease of \$104,022. The main factor is the decrease in proceeds from sales of capital assets.

**Debt Service Fund.** The debt service fund has a total fund balance of \$32,495, a decrease of \$5,201 from the prior year. Lamar County elected not to use the restricted fund balance toward the debt payment for the current year.

**General Fund Budgetary Highlights**

Over the course of the year, the County revised its budget eight times, due to the receipt of unexpected revenues. Differences between original budget and the final amended budget in the general fund were minimal (a \$25,087 increase in appropriations), and were primarily the following:

- Appropriations for public safety
- Appropriations for general administration

Even with these adjustments, actual expenditures were \$1,047,243 below final budget amounts. The most significant positive variance resulted from operating costs in public safety. Personnel cost remained down in criminal detention due to high turnover rate, along with a lower gas prices and newer vehicles resulting in less cost to operate and maintain public safety related vehicles.

On the other hand, resources available were \$686,939 above the final budgeted amount. As noted earlier:

- Property tax revenues increased above budgeted amounts due to collecting more than the 97% the County budgets to collect.
- Sales tax revenues increased above budgeted amounts due to collections remaining stable and the conservative approach the County uses to estimate revenue.
- Fees of office, intergovernmental receipts, interest, and miscellaneous revenues also contributed to this increase over the budgeted revenue amount.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2016, the County had invested \$52,177,423 in a broad range of capital assets, including land, equipment, buildings, vehicles, and infrastructure (See Table A-4). This amount represents a net increase (including additions and deductions) of \$365,667 or 0.7 percent from last year. This was mainly due to new equipment and infrastructure.

**Table A-4**  
County's Capital Assets

	Governmental Activities	
	<u>2016</u>	<u>2015</u>
Land	\$ 732,602	\$ 732,602
Construction in Progress	58,692	35,720
Buildings and improvements	21,030,616	20,945,665
Vehicles and equipment	9,414,770	9,171,526
Infrastructure	<u>20,940,743</u>	<u>20,926,243</u>
Totals at historical cost	52,177,423	51,811,756
Total accumulated depreciation	<u>(28,886,149)</u>	<u>(27,643,665)</u>
Net capital assets	<u>\$ 23,291,274</u>	<u>\$ 24,168,091</u>

The County's fiscal year 2016-17 capital budget projects spending \$3,249,596 for capital projects, principally to do HVAC and electrical upgrades and restoration work in county buildings, along with the purchase of additional equipment. More detailed information about the County's capital assets is presented in Note D of the notes to the financial statements.

**Long Term Debt**

At year-end the County had \$3,180,112 in bonds and notes outstanding as shown in Table A-5. More detailed information about the County's debt is presented in Note F in the notes to the financial statements.

**Table A-5**  
County's Long Term Debt

	Governmental Activities	
	<u>2016</u>	<u>2015</u>
Bonds payable	\$ 2,904,264	\$ 3,414,264
Capital lease payable	--	53,074
Compensated absences	<u>275,848</u>	<u>204,154</u>
Total long-term debt	<u>\$ 3,180,112</u>	<u>\$ 3,671,492</u>

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

- Appraised value used for the 2016-17 budget preparation is up \$374,735,365, or 8%.
- General operating fund spending increases in the 2016-17 budget from \$14,437,394 to \$14,763,244. This is a 2% increase.

These indicators were taken into account when adopting the general fund budget for 2016-17. During the current fiscal year, unassigned fund balance in the general fund increased to \$6,202,271. Lamar County appropriated \$687,365 of this amount for spending in the 2016-17 fiscal year budget. The County will use this balance to fund the rising costs in the general fund.

In the general fund, expenditures are budgeted to rise 2% to \$14,763,244. The increase is primarily due to increased operating costs and equipment. Employees received a \$1,071 pay raise for the 2016-17 fiscal year.

If these estimates are realized, the County's budgetary general fund balance is expected to see a decrease by the close of 2017.

**CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Lamar County Auditor's Office.

*Basic Financial Statements*

**LAMAR COUNTY, TEXAS**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2016**

	Governmental Activities
<b>Assets:</b>	
<i>Cash and cash equivalents</i>	\$ 14,747,103
<i>Investments</i>	36,686
Receivables ( net of allowances for uncollectibles):	
<i>Interest</i>	9,509
<i>Taxes</i>	1,329,851
<i>Accounts</i>	1,771,846
<i>Due from other governments</i>	541,897
<i>Inventories</i>	126,730
<i>Prepaid Insurance</i>	48,051
<i>Capital assets ( net, where applicable, of accumulated depreciation)</i>	
<i>Land</i>	732,602
<i>Construction in progress</i>	58,692
<i>Buildings</i>	10,466,158
<i>Equipment</i>	2,948,777
<i>Infrastructure - Roads and Bridges</i>	9,085,047
Total Assets	<u>41,902,949</u>
Deferred Outflows of Resources:	
Deferred Outflows of Resources - Pension	3,601,727
Total Deferred Outflows of Resources	<u>3,601,727</u>
<b>Liabilities:</b>	
<i>Accounts payable &amp; Accrued expenditures</i>	1,065,538
<i>Unearned Revenue</i>	31,602
<i>Due to Beneficiaries</i>	37,690
<b>Noncurrent Liabilities:</b>	
<i>Due Within One Year</i>	525,000
<i>Due in More than One Year</i>	5,980,003
<i>Compensated Absences Payable</i>	275,848
<i>Unamortized Premium on Bonds</i>	122,740
<i>Net Pension Liability</i>	4,880,024
Total Liabilities	<u>12,918,445</u>
Deferred Inflows of Resources:	
Deferred Inflows of Resources - Pension	420,713
Total Deferred Inflows of Resources	<u>420,713</u>
<b>NET POSITION:</b>	
Net Investment in Capital Assets	20,829,091
Restricted For:	
State and Federal Programs	68,972
Debt Service	32,495
Capital Projects	704,601
Records Management	716,244
Judicial	211,828
Other Purposes	1,839,619
Unrestricted	7,762,668
Total Net Position	<u>\$ 32,165,518</u>

The accompanying notes are an integral part of this statement.

**LAMAR COUNTY, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
<b>Governmental Activities:</b>				
<i>General Administration</i>	\$ 3,030,994	\$ 484,670	\$ 26,424	\$ (2,519,900)
<i>Financial Administration</i>	1,218,885	722,977	--	(495,908)
<i>Judicial</i>	1,760,545	370,606	97,702	(1,292,237)
<i>Legal</i>	804,017	37,046	81,089	(685,882)
<i>Elections</i>	241,200	--	--	(241,200)
<i>Public Safety</i>	6,238,099	84,299	281,063	(5,872,737)
<i>Emergency Management</i>	59,910	--	--	(59,910)
<i>Public Welfare</i>	2,702,997	--	138,891	(2,564,106)
<i>Public Transportation</i>	4,890,101	1,035,064	124,848	(3,730,189)
<i>Conservation and Agriculture</i>	106,007	--	--	(106,007)
<i>Public Facilities</i>	928,830	--	--	(928,830)
<i>Interest on Long-Term Debt</i>	81,490	--	--	(81,490)
<b>Total Primary Government</b>	<b>\$ 22,063,075</b>	<b>\$ 2,734,662</b>	<b>\$ 750,017</b>	<b>(18,578,396)</b>
<b>General Revenues:</b>				
<b>Taxes</b>				
<i>Property Taxes</i>				13,003,097
<i>Sales Taxes</i>				3,237,077
<i>Grants and Contributions Not Restricted to Specific Programs</i>				1,324,691
<i>Unrestricted Investment Earnings</i>				89,760
<i>Gain on Sale of Non-Capitalized Equipment</i>				31,794
<i>Miscellaneous</i>				51,808
<b>Total General Revenues</b>				<b>17,738,227</b>
<b>Change in Net Assets</b>				<b>(840,169)</b>
<b>Net Position - Beginning</b>				<b>33,215,899</b>
<b>Prior Period Adjustment</b>				<b>(210,212)</b>
<b>Net Position - Beginning, as Restated</b>				<b>33,005,687</b>
<b>Net Position - Ending</b>				<b>\$ 32,165,518</b>

The accompanying notes are an integral part of this statement.

**LAMAR COUNTY, TEXAS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2016**

	General Fund	Road & Bridge Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>Assets:</b>				
<i>Cash and cash equivalents</i>	\$ 10,739,234	\$ 1,690,091	\$ 2,317,777	\$ 14,747,102
<i>Investments</i>	32,757	871	3,058	36,686
Receivables ( net of allowances for uncollectibles):				
<i>Interest</i>	8,757	752	--	9,509
<i>Taxes</i>	921,681	226,618	181,552	1,329,851
<i>Accounts</i>	1,051,042	720,804	--	1,771,846
<i>Due from other funds</i>	94,423	--	18,125	112,548
<i>Due from other governments</i>	530,623	--	11,274	541,897
<i>Inventories</i>	--	119,423	7,307	126,730
<i>Prepaid Insurance</i>	48,051	--	--	48,051
<b>Total Assets</b>	<u>13,426,568</u>	<u>2,758,559</u>	<u>2,539,093</u>	<u>18,724,220</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
<i>Accounts Payable &amp; Accrued Expenditures</i>	\$ 298,339	\$ 431,563	\$ 333,381	\$ 1,063,283
<i>Deferred Revenue</i>	--	--	31,602	31,602
<i>Due to Other Funds</i>	99,974	12,575	--	112,549
<i>Due to Beneficiaries</i>	--	--	37,690	37,690
<b>Total Liabilities</b>	<u>398,313</u>	<u>444,138</u>	<u>402,673</u>	<u>1,245,124</u>
Deferred Inflows of Resources:				
<i>Deferred Inflows of Resources - Property Taxes</i>	921,682	226,618	181,550	1,329,850
<i>Deferred Inflows of Resources - Fines</i>	1,010,063	694,539	--	1,704,602
<b>Total Deferred Inflows of Resources</b>	<u>1,931,745</u>	<u>921,157</u>	<u>181,550</u>	<u>3,034,452</u>
<b>Fund Balances:</b>				
<b>Nonspendable Fund Balances:</b>				
<i>Inventories</i>	--	119,423	7,307	126,730
<i>Prepaid Expenses</i>	48,051	--	--	48,051
<b>Restricted Fund Balances:</b>				
<i>Federal/State Funds Grant Restrictions</i>	--	--	78,385	78,385
<i>Other Restrictions of Fund Balance</i>	--	1,273,841	1,869,178	3,143,019
<b>Committed Fund Balances:</b>				
<i>OPEB Obligations</i>	3,334,784	--	--	3,334,784
<i>SURRMA Interlocal Coop Agreement</i>	1,511,404	--	--	1,511,404
Assigned	910,607	--	--	910,607
Unassigned	5,291,664	--	--	5,291,664
<b>Total Fund Balances</b>	<u>11,096,510</u>	<u>1,393,264</u>	<u>1,954,870</u>	<u>14,444,644</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 13,426,568</u>	<u>\$ 2,758,559</u>	<u>\$ 2,539,093</u>	<u>\$ 18,724,220</u>

**LAMAR COUNTY, TEXAS**

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2016

Total fund balances - governmental funds balance sheet	\$ 14,444,644
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	23,291,276
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,329,850
Payables for bond principal which are not due in the current period are not reported in the funds.	(2,904,264)
Payables for bond interest which are not due in the current period are not reported in the funds.	(2,254)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(398,588)
Payables for contracts which are not due in the current period are not reported in the funds.	(265,955)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.	(3,334,784)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	1,704,602
Recognition of the County's proportionate share of the net pension liability is not reported in the funds.	(4,880,024)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(420,713)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	<u>3,601,728</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 32,165,518</u>

The accompanying notes are an integral part of this statement.

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

	General Fund	Road & Bridge Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenue:</b>				
<i>Property Taxes</i>	\$ 9,012,840	\$ 2,216,018	\$ 1,750,060	\$ 12,978,918
<i>Other Taxes</i>	3,237,077	--	--	3,237,077
<i>Intergovernmental Receipts</i>	410,203	520,696	644,780	1,575,679
<i>Fees of Office</i>	1,290,884	881,787	346,393	2,519,064
<i>Fines</i>	202,128	153,277	--	355,405
<i>Interest</i>	80,234	6,642	2,884	89,760
<i>Miscellaneous</i>	263,980	30,494	208,325	502,799
<b>Total revenues</b>	<u>14,497,346</u>	<u>3,808,914</u>	<u>2,952,442</u>	<u>21,258,702</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<i>General Administration</i>	2,177,671	--	706,478	2,884,149
<i>Financial Administration</i>	1,100,216	--	--	1,100,216
<i>Judicial</i>	1,587,904	--	54,286	1,642,190
<i>Legal</i>	662,915	--	112,657	775,572
<i>Elections</i>	209,806	--	7,406	217,212
<i>Public Safety</i>	5,317,376	--	420,022	5,737,398
<i>Public Welfare</i>	1,404,717	--	1,291,426	2,696,143
<i>Public Transportation</i>	--	3,936,256	39,924	3,976,180
<i>Conservation and Agriculture</i>	104,651	--	--	104,651
<i>Public Facilities</i>	705,897	--	--	705,897
<i>Emergency Management</i>	59,061	--	--	59,061
<i>Capital outlay</i>	261,412	148,182	137,197	546,791
<i>Principal</i>	--	--	510,000	510,000
<i>Interest and fees</i>	--	--	42,200	42,200
<b>Total expenditures</b>	<u>13,591,626</u>	<u>4,084,438</u>	<u>3,321,596</u>	<u>20,997,660</u>
<b>Excess (deficiency) of revenues (under) expenditures</b>	<b>905,720</b>	<b>(275,524)</b>	<b>(369,154)</b>	<b>261,042</b>
<b>Other financing sources (uses):</b>				
<i>Transfers in</i>	--	100,000	199,820	299,820
<i>Transfers out</i>	(299,821)	--	--	(299,821)
<i>Proceeds from Sales of Capital Assets</i>	--	71,502	--	71,502
<b>Total other financing sources (uses)</b>	<u>(299,821)</u>	<u>171,502</u>	<u>199,820</u>	<u>71,501</u>
<b>Net change in fund balances</b>	<b>605,899</b>	<b>(104,022)</b>	<b>(169,334)</b>	<b>332,543</b>
<b>Fund balances/equity, October 1</b>	<b>10,490,611</b>	<b>1,497,286</b>	<b>2,124,204</b>	<b>14,112,101</b>
<b>Fund balances/equity, September 30</b>	<u><u>\$ 11,096,510</u></u>	<u><u>\$ 1,393,264</u></u>	<u><u>\$ 1,954,870</u></u>	<u><u>\$ 14,444,644</u></u>

The accompanying notes are an integral part of this statement.

**LAMAR COUNTY, TEXAS**

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

Net change in fund balances - total governmental funds	\$ 332,543
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	516,521
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,349,858)
The gain or loss on the sale of capital assets is not reported in the funds.	27,839
All proceeds from the sale of capital assets are reported in the funds but not in the SOA.	(71,317)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	24,179
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	(87,999)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	510,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	53,074
The accretion of interest on capital appreciation bonds is not reported in the funds.	(39,290)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(71,694)
Special termination benefits are reported as the amount earned in the SOA but as the amount paid in the funds.	(396,268)
Pension contributions made after the measurement date but in current FY were de-expended and reduced NP	14,765
The County's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	2,111,954
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	<u>(2,414,618)</u>
Change in net position of governmental activities - Statement of Activities	\$ <u>(840,169)</u>

The accompanying notes are an integral part of this statement.

**LAMAR COUNTY, TEXAS**  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
SEPTEMBER 30, 2016

	<u>Agency Funds</u>
ASSETS	
Assets:	
<i>Cash and cash equivalents</i>	\$ 1,719,338
Total Assets	<u>\$ 1,719,338</u>
LIABILITIES	
Liabilities:	
<i>Due to Other Agencies</i>	\$ 872,233
<i>Due to Beneficiaries</i>	847,105
Total Liabilities	<u>\$ 1,719,338</u>

The accompanying notes are an integral part of this statement.

**LAMAR COUNTY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**A. Summary of Significant Accounting Policies**

The combined financial statements of Lamar County, Texas (the "County") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**1. Reporting Entity**

The County's basic financial statements include the accounts of all its operations. The County evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the County's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the County holds the corporate powers of the organization
- the County appoints a voting majority of the organization's board
- the County is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the County
- there is fiscal dependency by the organization on the County
- the exclusion of the organization would result in misleading or incomplete financial statements
- the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the County
- the County or the component unit, is entitled to, or has ability to otherwise access, a majority of the economic resources received or held by the component unit.
- the economic resources received or held by component unit are significant to the County

The County also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the County to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the County, its component units or its constituents; and 2) The County or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the County.

Based on these criteria, the County has one component unit, Lamar County Child Welfare Board (LCCWB). The LCCWB is reported in the operations and activities of the County as a blended component unit. Additionally, the County is not a component unit of any other reporting entity as defined by the GASB Statement.

Certain significant governmental and other entities providing services within the County are administered by separate boards or commissioners, are not financially accountable to the Commissioners' Court, and are responsible for their own fiscal matters. Consequently, financial information for the following entities is not included within the scope of these financial statements:

Paris Junior College	City of Paris, Texas
Paris Independent School District	City of Deport, Texas
Prairiland Independent School District	City of Reno, Texas
Roxton Independent School District	City of Blossom, Texas
North Lamar Independent School District	Lamar County Appraisal District
Chisum Independent School District	City of Roxton, Texas

**2. Basis of Presentation, Basis of Accounting**

**a. Basis of Presentation**

Government-wide Statements: The statement of net position and the statement of activities include the

**LAMAR COUNTY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

financial activities of the overall government, except for fiduciary activities. Eliminations been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The County does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the County's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following governmental funds:

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

Special Revenue Funds- to account for the proceeds of specific revenue sources (other than trusts for individual, private organizations, or other governments or for major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Funds- to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals other than governments).

Debt Service Funds- to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

The County reports the following major governmental funds:

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

Road and Bridge Fund- This fund is used to account for monies designated for use in road and bridge work of the County. Primary sources of revenues for these special revenue funds included ad valorem taxes, automobile registration fees, County and District court fines, and state allotments of road funds. Revenues are used for public transportation maintenance and construction purposes.

In addition, the County reports the following fund types:

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support County programs, these funds are not included in the government-wide statements.

**LAMAR COUNTY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County does not consider revenues collected after its year-end to be available in the current period. 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. 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. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the County incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the County's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. 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 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 1 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 when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon 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.

b. Inventories and Prepaid Items

The County records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs

**LAMAR COUNTY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

d. Receivable and Payable Balances

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Other Governmental</u>	<u>Total</u>
Interest	\$ 8,757	\$ 752	\$ --	\$ 9,508
Delinquent Taxes Receivable	970,191	238,544	191,104	1,399,839
Less: Allowance for Uncollectibles	(48,509)	(11,927)	(9,554)	(69,990)
Net Delinquent Taxes Receivable	921,682	226,617	181,550	1,329,849
Accounts Receivable	2,588,527	1,419,123	--	4,007,650
Less: Allowance for Uncollectibles	(1,537,486)	(698,320)	--	(2,235,806)
Net Fines Receivable	1,051,041	720,803	--	1,771,844
Total Net Receivables	\$ 1,981,480	\$ 948,172	\$ 181,550	\$ 3,111,201

There are no significant receivables which are not scheduled for collection within one year of year end.

e. Pensions

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

At September 30, 2016, the County reported the following:

Net Pension Asset	\$ --
Net Pension Liability	\$ 4,880,023

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of

**LAMAR COUNTY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

g. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Restricted for Federal and State Programs	\$	68,972
Restricted for Debt Service		32,495
Restricted for Capital Projects		704,601
Restricted for Records Management		716,244
Restricted for Judicial		211,828
Restricted for Other Purposes		1,839,619
Total	\$	<u>3,573,759</u>

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the County's Commissioners. Committed amounts cannot be used for any other purpose unless the Commissioners removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Commissioners. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the County intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Commissioners or by an official or body to which the Commissioners delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the County itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the County considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Minimum Fund Balance: Lamar County generally aims to maintain the following minimum fund balances:

General fund's unassigned fund balance of approximately twenty-five percent (25%) of budgeted expenditures for the fiscal year, to be used for unanticipated needs. The county considers a balance of less than twenty percent (20%) to be a cause of concern, barring unusual or deliberated circumstances. An unassigned fund balance of more than thirty-five percent (35%) will be considered as surplus for one-time expenditures that are nonrecurring in nature, capital projects, and /or to reduce the tax levy requirements.

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Road and Bridge Fund: A fund balance between five (5%) to ten percent (10%) of budgeted expenditures to meet sufficient cash flow needs.

Debt Service Fund: A fund balance of no more than ten percent (10%) of the current period payments.

Replenishment of Minimum Fund Balance: At the completion of any fiscal year in which the fund balance is less than the minimum established by fund balance policy, the Commissioners' Court will establish a plan to restore this balance to the target level within a specified period of time. When developing this plan, the following items should be considered in establishing the appropriate time horizon:

- \* The budgetary reasons behind the fund balance targets
- \* Recovery from an extreme event
- \* Financial planning time horizon
- \* Long-term forecasts and economic conditions
- \* Milestones for gradual replacement
- \* External financing options

Implementation and Review: Upon adoption of this policy the Commissioner Court authorizes the County Auditor to establish standards and procedures which may be necessary for its implementation. The County Auditor shall review this policy at least annually and make any recommendations for change to the Commissioners Court.

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

h. Compensated Absences

General leave for the County includes both vacation and sick pay. General leave is based on an employee's length of employment and is earned ratably during the span of employment. Upon termination, employees are paid full value for any accrued general leave earned not to exceed forty hours of vacation or forty hours of sick leave converted as set forth by personnel policy.

i. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

j. Debt Related Intangibles

Premiums and discounts are amortized over the life of the related bond using the interest method or the straight line method if the straight line method does not materially differ from the interest method.

k. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) 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 and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

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4. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at September 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

The County had no outstanding end-of-year encumbrances.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Deposits and Investments

The County's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the County's agent bank approved pledged securities in an amount sufficient to protect County 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.

Cash Deposits:

At September 30, 2016, the carrying amount of the County's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,619,374 and the bank balance was \$5,955,679. The County's cash deposits at September 30, 2016 and during the year ended September 30, 2016, were entirely covered by FDIC insurance or by pledged collateral held by the County's agent bank in the County's name.

Investments:

The County is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of

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investment practices, management reports and establishment of appropriate policies, the County adhered to the requirements of the Act. Additionally, investment practices of the County were in accordance with local policies.

The Act determines the types of investments which are allowable for the County. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The County's investments at September 30, 2016 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Tex Pool	N/A	\$ 36,686
Total Investments		\$ <u>36,686</u>

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the County was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the County was not significantly exposed to credit risk.

At September 30, 2016, the County's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows: AAA-m

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the County's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the County's name.

At year end, the County was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the County was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the County was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the County was not exposed to foreign currency risk.

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Investment Accounting Policy

The County's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

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

The County's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

TexPool

The District invests in the Texas Local Government Investment Pool (TexPool), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAM by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at [www.ttstc.org](http://www.ttstc.org).

**D. Capital Assets**

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

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 732,602	\$ --	\$ --	\$ 732,602
Construction in progress	35,720	22,972	--	58,692
Total capital assets not being depreciated	<u>768,322</u>	<u>22,972</u>	<u>--</u>	<u>791,294</u>

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<i>Capital assets being depreciated:</i>				
Road Network	20,926,243	14,500	--	20,940,743
Buildings and improvements	20,945,665	84,951	--	21,030,616
Equipment	9,171,526	424,368	181,124	9,414,770
Vehicles	--	--	--	--
Total capital assets being depreciated	<u>51,043,434</u>	<u>523,819</u>	<u>181,124</u>	<u>51,386,129</u>
Less accumulated depreciation for:				
Road Network	(11,365,685)	(490,011)	--	(11,855,696)
Buildings and improvements	(10,269,740)	(294,718)	--	(10,564,458)
Equipment	(6,008,240)	(599,171)	(141,416)	(6,465,995)
Vehicles	--	--	--	--
Total accumulated depreciation	<u>(27,643,665)</u>	<u>(1,383,900)</u>	<u>(141,416)</u>	<u>(28,886,149)</u>
Total capital assets being depreciated, net	<u>23,399,769</u>	<u>(860,081)</u>	<u>39,708</u>	<u>22,499,980</u>
Governmental activities capital assets, net	<u>\$ 24,168,091</u>	<u>\$ (837,109)</u>	<u>\$ 39,708</u>	<u>\$ 23,291,274</u>

Depreciation was charged to functions as follows:

General Government	\$ 46,360
Judicial	7,112
Legal	9,025
Election	21,131
Finance	75,589
Facilities	219,965
Safety	202,780
Transportation	801,938
	<u>\$ 1,383,900</u>

**E. Interfund Balances and Activity**

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2016, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
Payroll Clearing Fund	General Fund	\$ 81,848	Health insurance expense
Payroll Clearing Fund	Road & Bridge Fund	\$ 12,575	Health insurance expense
County Attorney Hot Check	General Fund	7,108	Short term loan
Court House Security Fd	General Fund	4,520	Short term loan
TXP & W Trails Grant	General Fund	6,497	Reimbursement expenditures
	Total	<u>\$ 112,548</u>	

All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2016, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Permanent Improvement Fund	139,119	Reimbursement expenditures
General Fund	Victims Coordinator Grant	9,204	Reimbursement expenditures
General Fund	Child Welfare	45,000	Supplement other funds sources
General Fund	Road and Bridge Fund	100,000	Supplement other funds sources
General Fund	TXP & W Trails Grant	6,497	Reimbursement expenditures
	Total	<u>\$ 299,820</u>	

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F. Long-Term Obligations

The County has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the County.

1. Long-term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2016, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>Governmental activities:</b>					
<b>2011 Certificate of Obligation</b>					
Current Interest Bonds	\$ 120,000	\$ --	\$ 40,000	\$ 80,000	\$ 40,000
Capital Apprec Bonds	1,689,248	--	--	1,689,248	--
Premium Capital Apprec bonds	70,016	--	--	70,016	--
2012 Tax Refunding Bonds	1,535,000	--	470,000	1,065,000	485,000
Total	3,414,264	--	510,000	2,904,264	525,000
Accum Accretion CAB '11	187,423	53,968	--	241,391	--
Accum Accretion Prem CAB '11	19,018	5,546	--	24,564	--
Premium CAB Series 2011	47,212	--	5,901	41,311	--
Prem Current Interest Bd '11	1,513	--	504	1,009	--
Premium 2012 Refunding Bds	91,909	--	11,489	80,420	--
	347,075	59,514	17,894	388,695	--
Amount Payable Under Capital Lease	53,074	--	53,074	--	--
Compensated absences *	204,154	300,699	229,005	275,848	--
OPEB Obligations *	2,938,518	641,666	245,400	3,334,784	--
Net Pension Liability	2,465,401	4,669,800	2,255,178	4,880,023	--
Total	5,661,147	5,612,165	2,782,657	8,490,655	--
Total governmental activities	\$ 9,422,486	\$ 5,671,679	\$ 3,310,551	\$ 11,783,614	\$ 525,000

\* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	General
OPEB Obligations	Governmental	General

2. Debt Service Requirements

Year Ending September 30,	Certificate of Obligations 2011		
	Principal	Interest	Total
2017	\$ 40,000	\$ 1,600	\$ 41,600
2018	40,000	800	40,800
2019	457,545	92,455	550,000
2020	431,651	118,349	550,000
2021	410,278	139,722	550,000

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2022	389,774	160,226	550,000
2023	70,016	139,984	210,000
Totals	\$ 1,839,264	\$ 653,136	\$ 2,492,400

On November 15, 2011, the County issued Lamar County, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2011, they were issued in part as Current Interest Certificates of \$240,000 and Capital Appreciation Certificates of \$1,759,264. Interest on the Current Interest Certificates will be payable on March 1 and September 1 of each year. Proceeds from the sale of the certificates will be used for the purpose of paying contractual obligations of the County to be incurred for making permanent public improvements for the County's Criminal Justice System, County roads, equipment for the Sheriff's Department, and improving and equipping the County courthouse and Courthouse Annex facilities. Interest on Series 2011 bonds is paid on current interest bonds at a rate of 2% and the interest on the capital appreciation certificates at a variable rate of 2.4% to 3.44%.

Year Ending September 30,	Tax Refunding Bonds 2012		
	Principal	Interest	Total
2017	\$ 485,000	\$ 27,050	\$ 512,050
2018	495,000	14,925	509,925
2019	--	2,550	2,550
2020	--	2,550	2,550
2021	--	2,550	2,550
2022	--	2,550	2,550
2023	85,000	2,550	87,550
Totals	\$ 1,065,000	\$ 54,725	\$ 1,119,725

Limited Tax Refunding Bonds

GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt", provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of September 30, 2016, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for future debt service payments are as follows:

Year Ending September 30,	Certificates of Obligation, Series 2003		
	Principal	Interest	Total
2017	\$ 515,000	\$ 41,228	\$ 556,228
2018	535,000	21,400	556,400
Totals	\$ 1,050,000	\$ 62,628	\$ 1,112,628

G. Risk Management

The County is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2016, the County obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The County pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The County continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

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H. Pension Plan

Plan Description

The District provides pension, disability, and death benefits for all of its full-time employees through a statewide, multiple- employer, public-employee retirement system through the Texas County District Retirement System (the "TCDRS"). The system serves 701 actively participating counties and districts throughout Texas. Each employer has its own defined benefit plan that functions similarly to a cash balance plan. The assets of the plans are pooled for investment purposes, but each employer's plan assets may be used only for the payment of benefits to the members of that employer's plan. In accordance with Texas law, it is intended that the pension plan be construed and administered in a manner that the retirement system will be considered qualified under Section 401(a) of the Internal Revenue Code. All employees (except temporary staff) of a participating employer must be enrolled in the plan. The TCDRS issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the District, 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 regardless of age, or when the sum of their age and years of service equals 75 or more. A member is vested after 10 years but must leave his accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump-sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the District within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Employees covered by benefit terms:

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

Inactive employees or beneficiaries currently receiving benefits	115
Inactive employees entitled to but not yet receiving benefits	109
Active employees	198
Total covered employees	422

Contributions

A combination of three elements funds each employer's plan: employee deposits, employer contributions and investment income.

- \* The deposit rate for employees is 4%, 5%, 6%, or 7% of compensation as adopted by the employer's governing body.
- \* Participating employers are required, by law, to contribute at actuarially determined rates, which are determined annually.
- \* Investment income funds a large part of the benefits employees earn.

Employers have the option of paying more than the required contribution rate each year. Extra contributions can help employers "prefund" benefit increases, such as a cost-of-living adjustment to retirees, and they can be used to help offset mitigate future increases in the required rate due to negative plan experience. There are two approaches for making extra contributions: (a) paying an elected contribution rate higher than the required rate and (b) making an extra lump-sum contribution to the employer account.

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<u>Contribution Rates</u>	<u>2015</u>	<u>2016</u>
Employee	7%	7%
Employer	12.37%	12.21%
<u>Fiscal year contributions:</u>		
Employer	\$ 511,356	\$ 969,753

The County's contributions to TCDRS for the year ended December 31, 2016, were equal to the required contributions.

**Actuarial Assumptions**

TCDRS is a statewide, agent multiple-employer, public-employee retirement system. The system serves 701 participating counties and districts throughout Texas. Each employer maintains its own customized plan of benefits. Plan provisions are adopted by the governing body of each employer, within the options available in the TCDRS Act. Because of that, employers have the flexibility and local control to select benefits and pay for those benefits based on their needs and budgets.

Each employer has a defined benefit plan that functions similarly to a cash balance plan. The assets of the plans are pooled for investment purposes, but each employer's plan assets may be used only for the payment of benefits to the members of that employer's plan. In accordance with Texas law, it is intended that the pension plan be construed and administered in a manner that the retirement system will be considered qualified under Section 401(a) of the Internal Revenue Code. All employees (except temporary staff) of a participating employer must be enrolled in the plan.

A percentage of each employee's paycheck is deposited into his or her TCDRS account. That percentage (from 4% to 7%) is set by the employer.

The employee's savings grow, by law at a rate of 7% compounded annually. The employer selects a matching rate - at least "dollar for dollar" up to \$2.50 per \$1.00 in the employee's account. At retirement, the employee's account balance is combined with employer matching and converted into a lifetime monthly benefit.

Employees receive a month of service time for each month that they make a deposit into their account. The amount of service an employee needs to earn a future benefit is called the vesting requirement. When an employee is vested, he or she has the right to a monthly benefit, which includes employer matching, at age 60 or older. Employers may choose 5-, 8-, or 10-year vesting. In addition, employees may retire before age 60 if they meet one of the following requirements, set by the employer:

\* "Rule of " eligibility: Under these rules, a vested employee can retire if their age plus years of service time add up to at least 75 or 80.

\* 20 year or 30 year retirement at any age: This lets employees retire when they have at least 20 or 30 years of service time. Retirees elect to receive their lifetime benefit by choosing one of seven actuarially equivalent payment options.

Employers may elect to provide other optional benefits. Prior service gives employees monetary credit for time worked for an organization before it joined the system. Buybacks allow current employees to re-establish a closed TCDRS account from previous service with an employer. Partial lump-sum payments at retirement allow employees to withdraw part of their TCDRS account balance as a lump sum at retirement with a reduced monthly benefit.

In addition, an employer may choose to adopt a cost-of-living adjustment (COLA) for its retirees. This adjusts retiree benefits to restore purchasing power lost due to the effects of inflation.

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

Actuarial Cost Method	Entry age
Amortization Method	Level of percentge of payroll; closed
Remaining Amortization Period	14.6 years
Asset Valuation Method	5 year smoothed market
Inflation	3.0% per year
Overall payroll growth	Varies by age and service
Investment Rate of Return	8.0%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.

Discount Rate: The discount rate used to measure the Total Pension Liability was 8.10%. 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 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.

The long-term rate of return on pension plan investments is 8.10%. The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown below are based on January 2016 information for a 7-10 year time horizon.

Asset Class	Target Allocation	Geometric Real Rate of Return
US Equities	14.50%	5.45%
Private Equity	14.00%	8.45%
Global Equity	1.50%	5.75%
International Equities-Developed	10.00%	5.45%
International Equities-Emerging	8.00%	6.45%
Investment Grade Bond	3.00%	1.00%
High Yield Bonds	3.00%	5.10%
Oportunistic Credit	2.00%	5.09%
Direct Lending	5.00%	6.40%
Distressed Debt	3.00%	8.10%
REIT Equities	3.00%	4.00%
Master Limited Partnerships	3.00%	6.80%
Private Real Estate Partnerships	5.00%	6.90%
Hedge Funds	25.00%	5.25%
Total	100.00%	

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

Changes in the Net Pension Liability

At December 31, 2015, the District reported a net pension liability of \$4,880,023. The changes in net pension liability were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	\$ Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2014	\$ 35,938,279	\$ 33,472,878	\$ 2,465,401
Changes for the year			
Service cost	1,062,160	--	1,062,160
Interest	2,896,381	--	2,896,381
Change of benefit terms	(198,814)	--	(198,814)
Difference between expected and actual experience	(560,951)	--	(560,951)
Changes of assumptions	384,372	--	384,372
Contributions - employer	--	954,993	(954,993)
Contributions - employee	--	540,420	(540,420)
Net investment income	--	(193,371)	193,371
Benefit payments, including refunds of employee contributions	(1,615,856)	(1,615,856)	--
Administrative expense	--	(23,928)	23,928
Other changes	--	(109,588)	109,588
Net changes	\$ 1,967,292	\$ (447,330)	\$ 2,414,622
Balance at 12/31/2015	\$ 37,905,571	\$ 33,025,548	\$ 4,880,023

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

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement date.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
County's net pension liability	\$ 9,739,313	\$ 4,880,023	\$ 818,477

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmrs.com](http://www.tmrs.com).

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

For the year ended September 30, 2016, the County recognized pension expense of \$1,257,662.

**LAMAR COUNTY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 11,498	\$ 420,713
Changes in actuarial assumptions	\$ 288,279	\$ --
Difference between projected and actual investment earnings	\$ 2,594,596	\$ --
Contributions subsequent to the measurement date	\$ 707,354	
Total	<u>\$ 3,601,727</u>	<u>\$ 420,713</u>

\$707,354 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec. 31:	Total	2014	2015
2017	\$ 629,984	90,426	539,558
2018	\$ 629,984	90,426	539,558
2019	\$ 629,987	90,428	539,559
2020	\$ 583,705	--	583,705
Thereafter	\$ --	--	--
	2,473,660	271,280	2,202,380

**I. Health Care Coverage**

Beginning October 1, 2013, the County has health care coverage with Blue Cross Blue Shield of Texas. The Lamar County Employee Health Plan participants are fully insured. The County contributed up to \$726 per month per employee and dependents to the Plan. The County paid up to \$1,252 for retirees and their dependents. A total of \$1,697,676 was the County's portion of cost of the health insurance for the fiscal year September 30, 2016. Employees at their option, authorized payroll withholdings for contributions for dependents. All contributions were paid to the administrator of the Plan. The contract between the County and the Plan is renewable October 1st, of each year, and the annual financial statements have been filed with the Texas State Board of Insurance. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

**J. Commitments and Contingencies**

**1. Contingencies**

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

**2. Litigation**

No reportable litigation was pending against the County at September 30, 2016.

**LAMAR COUNTY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**K. Subsequent Events**

Management has evaluated subsequent events through June 12, 2017, and noted the following events that should be reported:

The county has made several significant capital outlay purchases subsequent to the year end of approximately \$1,448,494 for capital assets with seventy-five percent of the funds from a Texas Department of Public Safety grant and have approved repair and maintenance projects of \$303,842 from prior construction bond proceeds for the building that houses the county service and tax assessor collector, election administration, Vet service office and services.

As of February 2017 the County issued Certificates of Obligations, Series 2017, callable September 1, 2025 with a principal balance of \$2,550,000.

**L. Sulphur River Region Mobility Interlocal**

Lamar County, Texas entered into an Interlocal Cooperative Agreement with the Sulphur River Region Mobility Authority (the "Authority") effective October 10, 2012, and with other governmental entities in the area for upgrading and widening State Highway 24. The Authority has secured a State Infrastructure Bank Loan (SIB) for the project with Lamar County's share of the local participation being \$1,426,813. The County's payment obligations pursuant to the SIB Loans shall become due and payable not later than March 29 each year in accordance with the schedule below at a rate of 3.68% per annum. Agreement such as this are not reported as debt in the financials, but appropriately disclosed in the notes to the financial statements in accordance with Governmental Accounting Standards.

Years of Stated Maturity	Principal Amounts (\$)	Interest Amounts (\$)	Interest Rates (%)
2017	\$ 56,553	\$ 44,274	3.68%
2018	58,634	42,193	3.68%
2019	60,792	40,035	3.68%
2020	62,029	37,798	3.68%
2021	65,349	35,478	3.68%
2022	67,754	33,073	3.68%
2023	70,247	30,580	3.68%
2024	72,832	27,995	3.68%
2025	75,512	25,315	3.68%
2026	78,291	22,536	3.68%
2027	81,172	19,655	3.68%
2028	84,159	16,668	3.68%
2029	87,256	13,571	3.68%
2030	90,467	10,360	3.68%
2031	93,797	7,030	3.68%
2032	97,248	3,579	3.68%
	<u>\$ 1,202,092</u>	<u>\$ 410,139</u>	

**M. OPEB (Other Post Employment Benefits)**

The County sponsors and administers a single-employer defined benefit health care plan. The Plan pays a portion of health care insurance premiums for eligible retired employees. Retirement eligibility is determined based on the Texas County and District Retirement System (TCDRS) definition. Employees are eligible to retire at age 60 and above with 8 years of service in TCDRS, with 30 years service in TCDRS at any age, or when the sum of his or her age and years of service in TCDRS equals 75. Spouses and dependents are eligible for coverage. Coverage ceases upon reaching Medicare eligibility. The County Commissioners have the authority to establish and amend benefit provisions of the Plan. The Plan does not issue a separate, publicly available report.

**LAMAR COUNTY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

The County elected to prospectively implement GASB Statement No. 45, Accounting and Financial Reporting Employers for Post employment Benefits Other than Pensions, beginning in fiscal year ending September 30, 2009.

**Funding Policy**

The County has adopted the pay-as-you-go, PAYGO, funding policy. The annual employer contributions in addition to the member contributions are equal to the benefits paid on behalf of the retirees. Retirees and dependents continue to pay the employee or dependent's share of the premium charged to members.

**Annual OPEB Cost and Net OPEB Obligation**

The County's annual other post employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The annual OPEB cost for the fiscal year ending September 30, 2016, is as follows:

	09/30/2014	09/30/2015	09/30/2016
Annual Required Contribution	\$ 704,695	\$ 613,540	\$ 631,946
Interest on Net OPEB Obligation	88,695	113,267	132,233
Adjustment to Annual Required Contribution	(82,372)	(104,941)	(122,513)
Annual OPEB cost (expense) end of year	711,231	621,866	641,666
Net estimated employer contributions	(169,908)	(200,399)	(245,400)
Increase (decrease) in net OPEB Obligation (asset)	541,323	421,467	396,266
Net OPEB Obligation -- as of beginning of the year	\$ 1,975,728	\$ 2,517,051	\$ 2,938,518
Net OPEB Obligation (asset) -- as of end of year	\$ 2,517,051	\$ 2,938,518	\$ 3,334,784

The County's annual OPEB cost, the amount contributed by the employer, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending September 30, 2016, and the preceding two fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Amount Contributed	Percent Contributed	Net OPEB Obligation
September 30, 2013	\$ 689,467	\$ 314,956	45.7%	\$ 1,975,728
September 30, 2014	\$ 711,231	\$ 169,908	23.9%	\$ 2,517,051
September 30, 2015	\$ 621,866	\$ 200,399	32.2%	\$ 2,938,518
September 30, 2016	\$ 641,666	\$ 245,400	38.2%	\$ 3,334,784

**Funding Status and Funding Progress**

The funded status of the County's retiree health care plan, under GASB No. 45 as of September 30, 2016, is as follows:

Actuarial Valuation Date as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
September 30	(a)	(b)	(b-a)	(a/b)	(c)	((b/a)/c)
2012	--	\$5,680,959	\$5,680,959	--	\$5,431,569	104.6%
2013	--					
2014	--	\$4,639,931	\$4,639,931	--	\$6,351,411	73.1%

Under the reporting parameters, the County's retiree health care plan is 0% funded with an estimated actuarial accrued liability exceeding actuarial assets by \$4,639,931 at September 30, 2014. As of the most recent valuation, the ratio of the unfunded actuarial accrued liability to annual covered payroll is 73.1%.

**LAMAR COUNTY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Actuarial Methods and Assumptions

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the County's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the County and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the County and its employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial Methods and Assumptions

Inflation Rate	3.00% per annum
Investment rate of return	4.5% net of expenses
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level as a percentage of employee payroll
Amortization period	Open 30 year period
Salary growth rate and inflation	3.0% per annum
Medical trend	Initial rate of 7.50% declining to an ultimate rate of 5.5% after 9 years

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the County's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

N. Prior Period Adjustment

The implementation of GASB 68 on the County's financial statement resulted in an error in overstating the pension expense in the prior year of \$210,212.

### *Required Supplementary Information*

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

**LAMAR COUNTY, TEXAS**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**EXHIBIT B-1**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Property Taxes	\$ 8,889,307	\$ 8,889,307	\$ 9,012,840	\$ 123,533
Other Taxes	3,000,000	3,000,000	3,237,077	237,077
Intergovernmental Receipts	347,500	347,500	410,203	62,703
Fees of Office	1,136,400	1,136,400	1,290,884	154,484
Fines	230,000	230,000	202,128	(27,872)
Interest	56,000	56,000	80,234	24,234
Miscellaneous	151,200	177,087	263,980	86,893
Total revenues	<u>13,810,407</u>	<u>13,836,294</u>	<u>14,497,346</u>	<u>661,052</u>
Expenditures:				
Current:				
General Administration	2,146,007	2,256,345	2,177,672	78,673
Financial Administration	1,218,887	1,218,887	1,100,216	118,671
Judicial	1,645,244	1,645,244	1,587,904	57,340
Legal	719,774	719,774	662,915	56,859
Elections	246,036	246,036	209,806	36,230
Public Safety	5,747,065	5,763,491	5,567,304	196,187
Public Welfare	1,425,147	1,425,147	1,404,717	20,430
Conservation and Agriculture	121,865	121,865	104,651	17,214
Public Facilities	836,937	836,937	705,897	131,040
Emergency Management	69,020	68,940	59,061	9,879
Capital Outlay	261,412	261,412	261,412	--
Total expenditures	<u>14,437,394</u>	<u>14,302,666</u>	<u>13,591,626</u>	<u>722,523</u>
Excess (deficiency) of revenues (under) expenditures	(626,987)	(466,372)	905,720	1,383,575
Other financing sources (uses):				
Transfers out	(1,121,081)	(1,121,110)	(299,821)	(821,289)
Total other financing sources (uses)	<u>(1,121,081)</u>	<u>(1,121,110)</u>	<u>(299,821)</u>	<u>(821,289)</u>
Net change in fund balances	(1,748,068)	(1,587,482)	605,899	2,204,864
Fund balances/equity, October 1	10,490,611	10,490,611	10,490,611	--
Fund balances/equity, September 30	<u>\$ 8,742,543</u>	<u>\$ 8,903,129</u>	<u>\$ 11,096,510</u>	<u>\$ 2,204,864</u>

**LAMAR COUNTY, TEXAS**  
**ROAD & BRIDGE FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**EXHIBIT B-2**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
<i>Property Taxes</i>	\$ 2,186,319	\$ 2,186,319	\$ 2,216,018	\$ 29,699
<i>Intergovernmental Receipts</i>	208,008	307,763	520,696	212,933
<i>Fees of Office</i>	912,000	912,000	881,787	(30,213)
<i>Fines</i>	136,000	136,000	153,277	17,277
<i>Interest</i>	4,500	4,500	6,642	2,142
<i>Miscellaneous</i>	14,000	35,553	30,494	(5,059)
Total revenues	<u>3,460,827</u>	<u>3,582,135</u>	<u>3,808,914</u>	<u>226,779</u>
Expenditures:				
Current:				
<i>Public Transportation</i>	4,375,650	4,882,548	3,936,256	946,292
<i>Capital outlay</i>	148,182	148,182	148,182	--
Total expenditures	<u>4,523,832</u>	<u>5,030,730</u>	<u>4,084,438</u>	<u>946,292</u>
Excess (deficiency) of revenues (under) expenditures	(1,063,005)	(1,448,595)	(275,524)	1,173,071
Other financing sources (uses):				
<i>Transfers in</i>	100,000	100,000	100,000	--
<i>Proceeds from Sales of Capital Assets</i>	98,000	147,574	71,502	(76,072)
Total other financing sources (uses)	<u>198,000</u>	<u>247,574</u>	<u>171,502</u>	<u>76,072</u>
Net change in fund balances	(865,005)	(1,201,021)	(104,022)	1,096,999
Fund balances/equity, October 1	--	--	1,497,286	1,497,286
Fund balances/equity, September 30	<u>\$ (865,005)</u>	<u>\$ (1,201,021)</u>	<u>\$ 1,393,264</u>	<u>\$ 2,594,285</u>

# LAMAR COUNTY, TEXAS

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2016

### Budgetary Data

The official budget was prepared for adoption for the General Fund and the Road and Bridge Fund, which is included within the Special Revenue Funds. The following procedures are followed in establishing the budgetary data reflected in financial statements.

- a. Prior to beginning of the fiscal year, the County prepares a budget for the next succeeding fiscal year beginning. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Commissioners' Court is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must have been given.
- c. Prior to start of the fiscal year, the budget is legally enacted through passage of a resolution by the Commissioner's Court.

Once a budget is approved, it can be amended only by approval of a majority of the Commissioners' Court. Amendments are presented to the Commissioners' Court at its regular meetings. Each amendment must have the Commissioners' Court approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Commissioners' Court, and are not made after fiscal year end. During the year, the budget was amended as necessary. There were no significant amendments passed during the fiscal year. The budget is prepared on the modified accrual basis.

The legal level of budgetary control (level at which the governing body must approve any over expenditure) is at the category level. Categories are defined as: Personal Services, Supplies & Materials, Other Services & Charges, and Capital Outlay. Budget to actual comparisons are presented in the financial statements at the function level; however, a budget to actual comparison by category is available from the Lamar County Auditor's office at 119 North Main Street, Room 202, Paris, Texas 75462.

Excess of Expenditures Over Appropriations in Major Governmental Funds: The County expenditures did not exceed appropriations in the major governmental funds.

The following funds had legally adopted budgets:

General	Alternative Dispute Resolution
Road and Bridge	District Clerk Records Management
Estray and Jury	Victims Coordinator Grant
State Aid Grant	State Homeland Security Grant
Lateral Road	Juvenile Probation Title IV
Law Library	Justice Court Technology
County Clerks Records Management	Justice Assistance Grant
Indigent Health Care	Juvenile Delinquency Prevention
Court House Security	Permanent Improvement
County Records Management	Commitment Reduction Grant
County Clerk Records Archive	Texas Parks & Wildlife Trails Fund Grant
District Clerk Records Archive	Judicial District Fund
Court Record Preservation	County and District Court Technology
Mental Health Services Grant	Certificates of Obligation 2011
	Certificates of Obligation 2012

Budgets for the funds listed above are adopted on a basis consistent with generally accepted accounting principles (GAAP) on the modified accrual basis of accounting.

Lamar County, Texas  
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	2015	2014
<b>Total Pension Liability</b>		
Service cost	\$ 1,062,160	\$ 1,027,821
Interest (on the total pension liability)	2,896,381	2,706,809
Changes of benefit terms	(198,814)	-
Difference between expected and actual experience	(560,951)	19,162
Change of assumptions	384,372	-
Benefit payments, including refunds of employee contributions	(1,615,856)	(1,430,157)
<b>Net Change in Total Pension Liability</b>	1,967,292	2,323,635
<b>Total Pension Liability - Beginning</b>	35,938,279	33,614,644
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 37,905,571</u>	<u>\$ 35,938,279</u>
 <b>Plan Fiduciary Net Position</b>		
Contributions - employer	\$ 954,993	\$ 902,168
Contributions - employee	540,420	511,356
Net investment income	(193,371)	2,132,136
Benefit payments, including refunds of employee contributions	(1,615,856)	(1,430,157)
Administrative expense	(23,928)	(24,985)
Other	(109,588)	4,777
<b>Net Change in Plan Fiduciary Net Position</b>	(447,330)	2,095,295
<b>Plan Fiduciary Net Position - Beginning</b>	33,472,878	31,377,582
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 33,025,548</u>	<u>\$ 33,472,877</u>
 <b>Net Pension Liability - Ending (a) - (b)</b>	<u>\$ 4,880,023</u>	<u>\$ 2,465,402</u>
 <b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	87.13%	93.14%
 <b>Covered Employee Payroll</b>	\$ 7,720,291	\$ 7,305,090
 <b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	63.21%	33.75%

Lamar County, Texas  
 SCHEDULE OF CONTRIBUTIONS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 969,753	\$ 905,629
Contributions in relation to actuarially determined contribution	<u>(969,753)</u>	<u>(905,629)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 7,914,579	\$ 7,323,963
Contributions as a percentage of covered employee payroll	12.25%	12.37%

Lamar County, Texas  
NOTES TO SCHEDULE OF CONTRIBUTIONS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

**Valuation Date:** Actuarially determined contribution rates are calculated as of December

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	14.6 years
Asset Valuation Method	5-yr smoothed msrket
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.0%, net of investment expenses, including inflation.
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.

**Other Information:** There were no benefit changes during the year.

### *Other Supplementary Information*

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

# Malnory, McNeal & Company, PC

## Certified Public Accountants

Mark W. Malnory, CPA  
Johnna W. McNeal, CPA  
Beverly Smith, CPA

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Members of  
American Institute of Certified Public Accountants  
Texas Society of Certified Public Accountants  
AICPA Governmental Audit Quality Center

Elizabeth Hamm, CPA  
E. J. Musharbash, CPA  
Les S. Malnory, CPA

### **Independent Auditor's Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With Government Auditing Standards**

Commissioners  
Lamar County, Texas  
119 North Main  
Paris, Texas 75460

#### Members of the Commissioners:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lamar County, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Lamar County, Texas's basic financial statements, and have issued our report thereon dated April 6, 2017.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Lamar County, Texas'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 Lamar County, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lamar County, Texas'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. An immaterial weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

**Finding: 2016-1****Criteria:**

Ongoing monitoring of the general ledger, its adjustments, balances, and the relationships between the many funds of the County are crucial to proper financial reporting as well as the effort to prevent detect deter and correct errors in the financial reporting.

**Condition:**

We noted a deficiency in internal control procedures related financial processes as well as to the month end and year end financial statement close. Significant adjusting entries were needed at year end to properly report the fiscal years activity and balances at September 30, 2016.

**Cause:**

The cause of the deficiency appears to be a lack of overall internal control procedures and a delay in new County Auditor staff developing month and year end procedures appropriate for the recent software changes.

**Effect:**

Significant adjustments were identified by the independent auditor as being necessary to report the financials in accordance with governmental accounting standards. Errors in the financial reporting were not identified timely in the normal course of County staff performing their assigned duties. Internal controls over certain areas were not effectively designed or implemented.

**Recommendation:**

We recommend the following:

1. Controls be established on the posting and verification of monthly journal entries both recurring and non-recurring entries.
2. Bank reconciliations should be performed monthly on each account for which the County is responsible and all activity should be posted monthly to the general ledger.
3. Monthly procedures should include verification processes to determine the propriety of each funds financial reporting and that balances are appropriate.
4. Internal control procedures should be developed and implemented with regard to payroll reporting to assure the proper amount is paid to the proper person from the correct funds in a timely manner and that all related payroll expenses are reported across funds.
5. Adjustment entries should be numbered and should have enough detail attached to allow an accountant to understand the reason for the entry and to verify the appropriateness of the amount. We further suggest all entries be kept in numerical order in hard copy. Once an entry has been approved and posted to the general ledger, the ledger should be viewed to assure the resulting balances are the desired balances.
6. Invoice, delivery dates and receiving reports for expenditures should be monitored closely to assure reporting in the proper fiscal period.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Lamar County, Texas'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.

*Malnory, McNeal & Company PC*

Certified Public Accountants

Paris, Texas  
April 6, 2017



COUNTY AUDITOR  
OF  
LAMAR COUNTY

Lamar County, Texas  
Corrective Action Plan  
For the Year End September 30, 2016

**Finding 2016-1**

We are in agreement with the findings related to our September 30, 2016 annual financial statement audit performed by Malnory, McNeal & Company PC. Material weaknesses in internal control were identified during the audit. We plan the following corrective actions:

**1. Journal entries**

**Recommendation:** to establish controls for posting and verification of monthly journal entries

**Action taken:** Once journal entries have been prepared and entered into the system, the county auditor 1) reviews that they have been correctly entered, 2) verifies that the entry did what it was intended to do, 3) ensures that proper backup is attached, and 4) initials the "reviewed by" line on the journal entry sheet.

**2. Bank reconciliations**

**Recommendation:** bank reconciliations be performed monthly on each account for which the County is responsible

**Action taken:** The County Treasurer will prepare the bank reconciliations for the jail commissary account henceforth beginning with the bank reconciliation for October 2016. The auditor's office will also review the reconciliation as is currently done with all other bank reconciliations prepared by the treasurer.

**3. Monthly reporting verification**

**Recommendation:** monthly procedures to verify financial reporting balances

**Action taken:** Trial balances and budget comparison reports will be run at the end of each month and will be reviewed by the county auditor to verify balances are appropriate. Any necessary corrections will be made at that time.

**4. Payroll**

**Recommendation:** develop and implement internal control procedures to ensure correct amounts are being paid each pay period and expenses are being coded to the proper accounts

**Action taken:** After each payroll, a report will be generated which will compare the amount paid to what should have been paid per the adopted budget. Account codes will also be verified by someone other than the payroll clerk to assure they have been coded to the correct expense account. A report will also be generated monthly by the auditor which reports all personnel changes in the system so as to verify no salaries have been changed in error.

**5. Journal entries**

**Recommendations:** sequential numbering and filing of journal entries along with support

**Action taken:** as stated previously, once journal entries have been prepared and entered into the system, the county auditor 1) reviews that they have been correctly entered, 2) verifies that the entry did what it was intended to do, 3) ensures that proper backup is attached, and 4) initials the "reviewed by" line on the journal entry sheet. Journal entries will also be reviewed monthly to ensure that all journal entries entered into the financial system are supported by adequate back-up in the journal entry book and all entries are in sequential order.

**6. Invoices for expenditures**

**Recommendations:** review invoices and receiving reports to ensure reporting in the proper period

**Action taken:** A memo will be circulated to all department heads each year within 3 months of fiscal year end to ensure they understand that all purchases from the current budget must be made and received by September 30.

**Responsible Official:** Kayla Hall, County Auditor

**Anticipated Completion Date:** September 30, 2017



COUNTY AUDITOR  
OF  
LAMAR COUNTY

Lamar County, Texas  
Summary Schedule of Prior Audit Findings  
For the Year Ended September 30, 2016

**Finding/Recommendation:**

**2015-1**

The County changed software providers and County Auditor during 2013 fiscal year. There were multiple problems with the software conversion and the County Auditor's office was not able to stay up to date with financial reporting under the new system. Bank reconciliations were no completed timely, monthly adjusting entries were delayed, and financial statement review and close was no possible on a timely basis. This combination of new software, new staff and lack of control procedures created more than a reasonable possibility that a material misstatement of the financial statements would not be prevented or detected and correct on a timely basis.

This finding is a repeat finding from the 2014 fiscal year end.

**Current Status:** In Progress

**Management's Explanation:**

The finding is repeated for the fiscal year ended September 30, 2016 audit. The current County Auditor has been employed since May 12, 2015. Improvements have been made in understanding of the software, timeliness of monthly and annual financial statement close procedure as well as bank reconciliation procedures. Audit timeliness has improved. However, segregation of duties and internal control procedures continue to need improvement in order to prevent or detect and correct errors or irregularities in the financial statements. Please see the corrective action plan for the year ended September 30, 2016.