

HARTLEY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

**FOR YEAR ENDED
SEPTEMBER 30, 2016**

HARTLEY COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR YEAR ENDED SEPTEMBER 30, 2016

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PART I

INTRODUCTORY SECTION

HARTLEY COUNTY, TEXAS
PRINCIPAL COUNTY OFFICIALS
SEPTEMBER 30, 2016

Ronnie Gordon	County Judge
David Vincent	Commissioner, Precinct #1
David Ford	Commissioner, Precinct #2
Chad Hicks	Commissioner, Precinct #3
Butch Owens	Commissioner, Precinct #4
Ron Enns	Judge, 69 th Judicial District
David Green	District Attorney
Melissa Mead	District/County Clerk
Robert Elliott	County Attorney
Franky Scott	County Tax Assessor/Collector
Dinkie Parman	County Treasurer
Franky Scott	County Sheriff
Beth Moore	Justice of the Peace

PART II
FINANCIAL SECTION



To The Honorable County Judge and
Commissioners Comprising the
Commissioners' Court of
Hartley County, Texas

INDEPENDENT AUDITORS' REPORT

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 Hartley County, Texas as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that budgetary comparison information, the schedule of changes in net pension liability and related ratios, and the schedule of employer contributions on pages 31 – 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational 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.

The County has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. The MD&A, 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. The independent auditors' opinion is not affected by the omission of the MD&A.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hartley County, Texas' financial statements as a whole. The combining non-major and agency fund financial statements listed under other supplementary information in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The combining non-major and agency fund financial statements listed under other supplementary information in the accompanying table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2016, on our consideration of Hartley County, Texas' 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 Hartley County, Texas' internal control over financial reporting and compliance.

DOSHIER, PICKENS & FRANCIS, L.L.C.

DOSHIER, PICKENS & FRANCIS, LLC
November 9, 2016

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 619,083
Investments	200,000
Accounts receivable, net	192,547
Delinquent taxes receivable, net	10,684
Prepaid expenses	19,513
Capital assets, net of accumulated depreciation	2,188,499
Total assets	3,230,326
DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions	103,932
Pension economic/demographic losses	23,387
Pension deficient earnings	374,475
Pension changes in assumptions	37,105
Total deferred outflows of resources	538,899
LIABILITIES	
Accounts payable	87,071
Due to other governmental entities	118,524
Accrued expenses	33,596
Accrued interest	6,948
Deposits held in trust	42,967
Net pension liability	443,880
Noncurrent liabilities:	
Due within one year	73,289
Due in more than one year	192,049
Total liabilities	998,324
DEFERRED INFLOWS OF RESOURCES	
Pension economic/demographic gains	39,959
Total deferred inflows of resources	39,959
NET POSITION	
Net investment in capital assets	1,938,641
Restricted by enabling legislation for:	
Special projects	81,719
Unrestricted	710,582
Total net position	\$ 2,730,942

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

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
					<u>Primary Governmental Activities</u>
Primary government					
Governmental Activities:					
Administrative	\$ 852,843	\$ 237,314	\$ 25,200	\$ -	\$ (590,329)
Judicial	490,194	260,221	33,743	-	(196,230)
Public facilities	255,510	-	-	-	(255,510)
Public safety	1,098,406	36,561	910	-	(1,060,935)
Road and bridge	708,057	358,836	35,277	-	(313,944)
Public service	154,430	-	-	-	(154,430)
Interest on long-term debt	10,259	-	-	-	(10,259)
Total	\$ 3,569,699	\$ 892,932	\$ 95,130	\$ -	(2,581,637)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					2,548,099
Property taxes, levied for debt service					1,132
Mixed beverage taxes					8,366
Investment earnings					3,627
Miscellaneous					107,918
Gain from disposal of asset					26,689
Total general revenues					2,695,831
Change in net position					114,194
Net position - beginning					2,616,748
Net position - ending					\$ 2,730,942

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

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

	General	Road and Bridge	Total Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 611,246	\$ -	\$ 7,837	\$ 619,083
Investments	200,000	-	-	200,000
Accounts receivable, net	192,547	-	-	192,547
Taxes receivable, net	10,684	-	-	10,684
Due from other funds	52,302	-	80,370	132,672
Prepaid expenses	19,513	-	-	19,513
	<u>1,086,292</u>	<u>-</u>	<u>88,207</u>	<u>1,174,499</u>
Total assets	<u>\$ 1,086,292</u>	<u>\$ -</u>	<u>\$ 88,207</u>	<u>\$ 1,174,499</u>
LIABILITIES				
Accounts payable	\$ 87,071	\$ -	\$ -	\$ 87,071
Due to other funds	80,370	52,302	-	132,672
Due to other governmental entities	118,524	-	-	118,524
Accrued expenses	33,596	-	-	33,596
Deposits held in trust	42,967	-	-	42,967
	<u>362,528</u>	<u>52,302</u>	<u>-</u>	<u>414,830</u>
Total liabilities	<u>362,528</u>	<u>52,302</u>	<u>-</u>	<u>414,830</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	6,000	-	-	6,000
Unavailable revenue - other receivables	151,327	-	-	151,327
	<u>157,327</u>	<u>-</u>	<u>-</u>	<u>157,327</u>
Total deferred inflows of resources	<u>157,327</u>	<u>-</u>	<u>-</u>	<u>157,327</u>
FUND BALANCES				
Unspendable:				
Prepaid expenses	19,513	-	-	19,513
Restricted:				
By enabling legislation for special projects	-	-	81,719	81,719
Committed for:				
Capital projects/debt service	-	-	6,488	6,488
Unassigned (deficit)	546,924	(52,302)	-	494,622
	<u>566,437</u>	<u>(52,302)</u>	<u>88,207</u>	<u>602,342</u>
Total fund balances	<u>566,437</u>	<u>(52,302)</u>	<u>88,207</u>	<u>602,342</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,086,292</u>	<u>\$ -</u>	<u>\$ 88,207</u>	<u>\$ 1,174,499</u>

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

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

Total fund balances - governmental funds	\$	602,342
 Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		2,188,499
Long-term assets are not available to pay for current-period expenditures and, therefore, are shown as unavailable revenue in the fund financial statements.		157,327
Pension losses, deficient earnings, and changes in assumptions are shown as deferred outflows of resources in the government-wide financial statements.		
Pension economic/demographic losses		23,387
Pension deficient earnings		374,475
Pension assumption changes		37,105
Pension contributions paid after the measurement date, December 31, 2015, and before September 30, 2016 are expensed in the governmental funds and shown as deferred outflows of resources in the government-wide financial statements.		
Pension contributions		103,932
Pension gains and excess earnings are shown as deferred inflows of resources in the government-wide financial statements.		
Pension economic/demographic gains		(39,959)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements:		
Accrued interest		(6,948)
Notes payable		(249,857)
Accrued compensated absences		(15,481)
Net pension liability		(443,880)
		(443,880)
Net position - governmental activities	\$	2,730,942

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

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 2,552,721	\$ -	\$ 1,132	\$ 2,553,853
Other taxes	8,366	-	-	8,366
Licenses and fees	216,019	358,836	40,359	615,214
Fines and forfeitures	230,878	-	11,560	242,438
Intergovernmental	59,853	35,277	-	95,130
Investment earnings	1,062	1,598	967	3,627
Miscellaneous	107,636	-	282	107,918
	<u>3,176,535</u>	<u>395,711</u>	<u>54,300</u>	<u>3,626,546</u>
EXPENDITURES				
Current:				
Administrative	796,338	-	38,343	834,681
Judicial	466,230	-	18,743	484,973
Public facilities	237,347	-	-	237,347
Public safety	950,857	-	22,980	973,837
Road and bridge	-	605,328	-	605,328
Public service	154,199	-	-	154,199
Debt service:				
Principal	45,896	78,919	-	124,815
Interest	2,655	9,760	-	12,415
Capital outlay	78,659	-	-	78,659
	<u>2,732,181</u>	<u>694,007</u>	<u>80,066</u>	<u>3,506,254</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>444,354</u>	<u>(298,296)</u>	<u>(25,766)</u>	<u>120,292</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	98,046	-	-	98,046
Proceeds from sale of assets	5,000	130,500	-	135,500
Transfers in	-	322,000	10,000	332,000
Transfers out	(332,000)	-	-	(332,000)
	<u>(228,954)</u>	<u>452,500</u>	<u>10,000</u>	<u>233,546</u>
NET CHANGE IN FUND BALANCES	215,400	154,204	(15,766)	353,838
FUND BALANCES - BEGINNING (DEFICIT)	<u>351,037</u>	<u>(206,506)</u>	<u>103,973</u>	<u>248,504</u>
FUND BALANCES - ENDING (DEFICIT)	<u>\$ 566,437</u>	<u>\$ (52,302)</u>	<u>\$ 88,207</u>	<u>\$ 602,342</u>

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

HARTLEY 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:	\$	353,838
<p>Amounts reported for Governmental Activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.</p>		
This is the amount by which capital outlays, \$78,659, was exceeded by depreciation, \$239,115, in the current period.		(160,456)
<p>In the Statement of Activities, only the gain on the sale of capital assets is reported. However, in the governmental fund, the proceeds from the sale increase financial resources. Thus, the change in net assets differed from the change in fund balance by the net book value of the capital assets sold.</p>		
		(108,811)
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. This amount represents the change in unavailable revenue.</p>		
		30,658
<p>In the Statement of Net Position, incurring debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayments of principal is an expenditures in the governmental funds, but reduces the liability in the Statement of Net Position.</p>		
<p>Debt issued or incurred:</p>		
Notes payable		(98,046)
<p>Principal repayments:</p>		
Notes payable		124,815
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:</p>		
Accrued interest on debt, net change		2,156
Compensated absences, net change		(257)
Pension contributions		4,112
Pension economic/demographic losses		(23,387)
Pension deficient earnings		323,352
Pension assumption changes		37,105
Pension economic/demographic gains		(39,959)
Net pension liability		(330,926)
		(330,926)
Change in net position - governmental activities	\$	114,194

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

HARTLEY COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
SEPTEMBER 30, 2016

ASSETS		
Cash and cash equivalents		<u>\$ 1,891,149</u>
Total assets		<u><u>\$ 1,891,149</u></u>
LIABILITIES		
Deposits		<u>\$ 1,891,149</u>
Total liabilities		<u><u>\$ 1,891,149</u></u>

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

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Hartley County, Texas (County) have been prepared in conformity with accounting principles generally accepted in the United States of America (generally accepted accounting principles)(GAAP) for local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant accounting and reporting policies of the County are described in the following notes to the financial statements.

A. Financial Reporting Entity

The County, incorporated in 1891, is a public corporation and political subdivision of the State of Texas. The County is governed by the Commissioners Court, composed of four County Commissioners and the County Judge, all of whom are elected officials.

The County provides a variety of services to advance the welfare, morale, comfort, safety and convenience of the County and its citizens.

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

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

Government-Wide Statements

Government-wide financial statements consist of the Statement of Net Position and the Statement of Activities. These statements report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-like activities*, which rely to a significant extent on fees and charges for support. The County has no business-like activities.

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

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

Government-Wide Statements – Continuation

The Statement of Activities demonstrates the degree to which the direct expenses of the County’s programs are offset by those programs’ revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Certain indirect costs have been included as part of the program expenses reported for the various functional activities. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the program and 2) grants and contributions that are restricted to meeting the operational and/or capital requirements of a particular program. Taxes and other items not included among program revenue are reported instead as *general revenue*.

Fiduciary funds are excluded in the government-wide presentation of the financial statements.

Fund-Level Statements

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County considers property taxes and other revenues as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on governmental long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Grant and entitlement revenues are also susceptible to accrual. These funds are accounted for on a spending “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Any proprietary funds, including internal service and fiduciary funds, including agency funds, are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses when they are incurred. Claims incurred but not reported are included in payables and expenses. These funds are accounted for using an economic resources measurement focus.

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

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

Fund-Level Statements – Continuation

The County reports the following major governmental funds:

The **General Fund** is the general operating fund of the County. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, charges for services, intergovernmental revenues and investment of idle funds. Primary expenditures are for administrative, judicial, public facilities, public safety, public services, capital acquisition, and debt service.

The **Road and Bridge Fund** is a special revenue fund used to account for the revenues derived from property taxes and license fees levied for purposes of road and bridge expenditures and debt service.

Fiduciary fund level financial statements include fiduciary funds which are classified into private purpose trust and agency funds. The County has only agency funds which are used to account for assets held by the County as an agent for individuals, private organizations, other governments and other funds. Agency funds do not involve a formal trust agreement. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Use of Restricted Assets

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

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

1. Deposits and Investments

The County's cash and cash equivalents are considered to be cash on hand, demand deposits and deposits within public fund investment pools as well as investments in certificates of deposits with an original maturity of 90 days or less. Statutes authorize the County to keep funds in demand deposits, time deposits, or securities of the United States. The County's custodial banks are required to pledge for the purpose of securing County funds, securities of the following kind, in an amount equal to the amount of such County funds: bonds and notes of the United States, securities of indebtedness of the United States, bonds of the State of Texas, or of any county, city, or independent school district, and various other bonds as described in Texas Statutes. TexPool and Texas LOGIC are duly chartered and administered by the Texas Treasury Safekeeping Trust Company and the portfolio normally consists of U.S. T-Bills or T-Notes, collateralized certificates of deposit, and repurchase agreements. The carrying value (cost) and market value are equal for these deposits.

The County is required by Government Code Chapter 2256, the Public Funds Investment Act ("Act"), to adopt, 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.

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

1. Deposits and Investments – Continuation

The Act requires an annual audit of investment policies. Audit procedures in this area, conducted as a part of the audit of the basic financial statements, disclosed that in areas of investment practices, management reports and establish appropriate policies. The County adheres to the requirements of the Act. Additionally, investment practices of the County are in accordance with local policies.

2. Receivables and Payables

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

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

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the County. Program grants are recorded as receivables revenues at the time all eligibility requirements established by the provider have been met.

Charges for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as unavailable revenue in the fund statements. Receivables are shown net of an allowance for uncollectible accounts of \$1,001,364.

Payables consist of vendor obligations for goods and services as well as funds payable to others when the criteria for their release have been met.

3. Property Tax Calendar and Revenues

Property taxes are based on taxable value at January 1 and become due October 1 and past due after January 31 of the following year unless the half payment option is elected in which one-half the tax is due November 30, and the balance the following June 30. Tax collections after February 1 are treated as late payments and are subject to penalty and interest. Uncollected taxes from the current tax roll become delinquent on July 1 and are subject to additional penalties and interest. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior years' levies are shown net of an allowance for uncollectible accounts of \$8,060.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

5. Capital Assets

Capital assets, which include land, buildings and improvements, infrastructure, and equipment, are reported in the government-wide financial statements. The County has opted to not retroactively report infrastructure assets. According to the County's capitalization policy, capital assets, such as equipment, are defined as individual assets (or systems of assets) having a cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

When capital assets are purchased, they are capitalized and depreciated in the government-wide financial statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

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

Buildings and improvements	25-40 years
Infrastructure	40 years
Equipment	3-10 years

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow or resources (expense/expenditure) until then. The government has four items that qualify for reporting in this category. They are the contributions and other items related to the County's pension plan reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category. One item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item, *pension economic/demographic gains*, is related to the changes in the County's net pension liability and is reported in the government-wide statement of net position.

7. Compensated Absences

A liability for unused vacation and comp time for all full-time employees is calculated and reported in the government-wide financial statements. For financial reporting, the following criteria must be met to be considered as compensated absences:

- leave or compensation is attributable to services already rendered
- leave or compensation is not contingent on a specific event (such as illness).

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

7. Compensated Absences – Continued

Per GASB Interpretation No. 6, liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e. are due for payment). Compensated absences are accrued in the government-wide statements.

Regular full-time employees are entitled to vacation of up to twelve days per year as earned. Vacation time earned, but not taken, is paid upon termination, but cannot be accumulated beyond one calendar year. Accrued vacation leave benefits are accrued in the government-wide financial statements.

8. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

In the fund financial statements, the face amount of debt issued is reported as other financing sources.

9. Pensions

For purposes of measuring the net pension asset or liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County's Texas County and District Retirement System Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

10. Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable forms, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted Fund Balance – includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of the resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of the County's highest level of decision-making authority, the Commissioners' Court. Commitments may be changed or lifted only by the County taking the same formal action that imposed the constraint originally (for example: resolution or ordinance).

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

10. Fund Balances – Continuation

Assigned Fund Balance – includes amounts intended to be used by the County for specific purposes that are neither restricted nor committed. Intent is expressed by (a) Commissioners’ Court or (b) a body (budget, finance committee, or County Official) to which the assigned amounts are to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted or committed.

Unassigned Fund Balance – this classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

11. Net Position

In the government-wide financial statements, equity is classified as net position and displayed in three categories.

Net Investment in Capital Assets – This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments, enabling legislation, constitutional provisions.

Unrestricted Net Position – This amount includes all net position that does not meet the definition of “net investment in capital assets” or “restricted net position.”

12. Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

13. Implementation of New Standards

The County implemented Governmental Accounting Standards Board (GASB) No. 77, *Tax Abatement Disclosures*. This standard requires governments that enter into tax abatement agreements to disclose the following information about the agreements: 1) brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients, 2) the gross dollar amount of taxes abated during the period, and 3) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. As of September 30, 2016 the County has no tax abatement agreements to disclose.

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The County follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the proposed budget is submitted to the Commissioners' Court.
2. The Commissioners' Court provides for a public hearing on the County budget subsequent to August 15, and prior to the levy of taxes by the Commissioners' Court.
3. Prior to October 1, the budget is legally adopted by order of the Commissioners' Court for the General Fund and the Road and Bridge Special Revenue Fund.
4. The budget is prepared by fund and department with the legal level of control at the department level. Administrative control is maintained through the establishment of more detailed account or object class budgets within the departments. Emergency expenditures to meet unusual and unforeseen conditions which could not, by reasonable diligent thought and attention, have been included in the original budget, whereby total expenditures of a department have been increased must be authorized by the Court as emergency amendments to the original budget. Management may not amend the budget at any level without approval of the Commissioners' Court. The Court has the authority to make such changes in the budget, in its judgment of facts, the law warrant, and the interest of the taxpayers demand, provided the amounts budgeted for the current expenditures from the various funds for the County do not exceed appropriations, including fund balances from the prior fiscal periods. Amounts shown in the financial statements represent the original budget amounts and all supplemental appropriations. Supplemental appropriations to the original adopted budget are in the Final Budget Amounts column of the Budgetary Comparison Schedule for both the General Fund and the Road and Bridge Special Revenue Fund.
5. Budgets for the General Fund and Road and Bridge Special Revenue Fund are adopted on a basis consistent with GAAP on the modified accrual basis of accounting on an annual basis.
6. Formal budgetary integration on an annual basis is employed as a management control device during the year for the General Fund and the Road and Bridge Special Revenue Fund.
7. All appropriations, except those in grant funds, lapse at the end of the County's fiscal year and may be re-budgeted the next year.

B. Excess of Disbursements Over Appropriations

For the year ended September 30, 2016, disbursements exceeded appropriations in the Public Service department and Debt Service function of the General Fund by \$279 and \$24,051, respectively. Disbursements exceeded appropriations in the Debt Service functions of the Road and Bridge Fund by \$21,333. The excess expenditures in the public service department were funded by lower than expected expenditures in the other departments of the County. The excess expenditures in both Debt Service functions were funded by proceeds from long-term debt in the General Fund and proceeds from the sale of a capital asset in the Road and Bridge Fund. In total the General and Road and Bridge Funds were under budget by \$76,983 and \$71,750, respectively.

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS

Following is a reconciliation of the County’s cash and deposit balances as of September 30, 2016:

Cash and deposit balances consist of:

Petty cash funds	\$	1,200
Bank deposits		261,332
Texas LOGIC		2,042,230
TexPool		205,470
		205,470
Total	\$	2,510,232

Cash and deposit balances are reported in the basic financial statements as follows:

Government-wide Statement of Net Position:

Unrestricted \$ 619,083

Statement of Fiduciary Net Position: Agency Funds 1,891,149

Total \$ 2,510,232

As of September 30, 2016, the County had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Governmental activities		
Certificates of deposit (interest rate - .50%)	\$ 200,000	365
Total fair value	\$ 200,000	
Portfolio weighted average maturity		365

Custodial credit risk – deposits. As of September 30, 2016, the carrying amount of the County's deposits with financial institutions was \$461,332 and the bank's balance was \$485,625. Of the bank balance, \$462,419 was insured through the Federal Depository Insurance Corporation (FDIC) and the remaining \$23,206 was collateralized with securities held by the pledging institution’s agent in the County’s name.

As of September 30, 2016, the County had \$2,042,230 and \$205,470, respectively invested with the Texas LOGIC and Texas Treasury Safekeeping Trust Company (TexPool). Both Texas LOGIC and TexPool are public funds investment pools created pursuant to the Interlocal Cooperation Act of the State of Texas. The State Comptroller of Public Accounts exercises oversight responsibility over both funds. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally the State Comptroller has established an advisory board composed of both participants of the pools and other persons who do not have a business relationship with either pool. The advisory board members review the investment policy and management fee structure.

Both investment pools operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. Both pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in the pools is the same as the value of the shares.

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS – Continuation

Interest rate risk is the risk that adverse changes in interest rates will result in an adverse effect on the fair value of an investment. The County manages its exposure to interest rate risk by maintaining its cash in interest-bearing demand accounts, or in certificates of deposit with weighted average maturities of one year or less.

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. State law and County policy limit investments in local government pools to those rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single insurer. As of September 30, 2016, 90% of the County's carrying value of cash was invested in pooled investment accounts. All other cash was deposited with the County's depository bank and was adequately secured as described above.

NOTE 4 – PROPERTY TAX

The State of Texas Constitutional tax rate limit for both operations and debt service is \$.80 on each \$100 of assessed valuation. The tax rate on the 2015 tax roll was \$.365 per \$100, which means that the County has a tax margin of \$.435 per \$100 and could raise up to \$3,015,950 additional revenue from the 2015 assessed valuation of \$693,321,790 before the limit is reached.

Real and personal property values are assessed for the period January 1 to December 31, as of January 1 at which date property taxes attach as an enforceable lien on property. Taxes are levied by October 1 of the current year and are collected from October 1 to June 30 of the following year. Payments received after February 1 are considered late and are subject to penalty and interest. Taxes become delinquent on July 1 of the following year.

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 5 – CAPITAL ASSETS

Capital assets are recorded at cost or, if donated, at fair market value at the date of receipt. In accordance with GASB Statement No. 34, depreciation policies were adopted to include useful lives and classification by function. As stated earlier, the County has not opted to report its infrastructure retroactively.

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 22,129	\$ -	\$ -	\$ 22,129
Total capital assets, not being depreciated	22,129	-	-	22,129
Capital assets, being depreciated:				
Buildings and improvements	2,070,043	-	-	2,070,043
Infrastructure	363,312	-	-	363,312
Equipment	2,253,298	78,659	(287,841)	2,044,116
Total capital assets, being depreciated	4,686,653	78,659	(287,841)	4,477,471
Less accumulated depreciation for:				
Buildings and improvements	(711,054)	(61,685)	-	(772,739)
Infrastructure	(2,271)	(9,083)	-	(11,354)
Equipment	(1,537,691)	(168,347)	179,030	(1,527,008)
Total accumulated depreciation	(2,251,016)	(239,115)	179,030	(2,311,101)
Total capital assets, being depreciated, net	2,435,637	(160,456)	(108,811)	2,166,370
Governmental activities capital assets, net	\$ 2,457,766	\$ (160,456)	\$ (108,811)	\$ 2,188,499

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 5 – CAPITAL ASSETS – Continuation

Depreciation expense for the year ended September 30, 2016 was charged to the functions/programs of the primary government as follows:

Governmental activities	
Administrative	\$ 8,161
Public facilities	17,945
Public safety	116,964
Road and bridge	96,045
Total Depreciation Expense	\$ 239,115

NOTE 6 – RETIREMENT PLAN

Plan Description: Hartley County provides retirement and death benefits for all of its employees, except temporary employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS).

The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of several nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Benefits Provided: The plan provisions are adopted by the governing body of the County (employer), within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the County.

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 County 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 September 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	26
Inactive employees entitled to but not yet receiving benefits	33
Active employees	33

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

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 6 – RETIREMENT PLAN – Continuation

The County contributed using the actuarially determined rate of 12.51% for the months of the accounting year in 2015 and 12.56% for the months of the accounting year in 2016. The contribution rate payable by the employee members is 7.0% for fiscal year 2016 as adopted by the governing body of the County. The employee contribution rate and the employer contribution rate may be changed by the governing body of the County within the options available in the TCDRS Act.

Net Pension Liability: The County’s net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date.

Actuarial Assumptions: The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	Varies by age and service. 4.9% average over career including inflation
Investment rate of return	8%, net of investment expenses, including inflation
Cost-of-living adjustments	None

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.

The actuarial assumptions that determined the total pension liability as of December 31, 2015 were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information are provided by TCDRS’ investment consultant based on January 2016 information for a 7 – 10 year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013.

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 6 – RETIREMENT PLAN – Continuation

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected Minus Inflation)
US Equities	14.50 %	5.45 %
Private Equity	14.00	8.45
Global Equities	1.50	5.75
International Equities - Developed	10.00	5.45
International Equities - Emerging	8.00	6.45
Investment-Grade Bonds	3.00	1.00
High-Yield Bonds	3.00	5.10
Opportunistic 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

Discount Rate: The discount rate used to measure the total pension liability was 8.10%. The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.
2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years.

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 6 – RETIREMENT PLAN – Continuation

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan's fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternative methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by the employer we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. Our alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

1. TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
2. Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
3. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
4. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used a discount rate of 8.10%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 6 – RETIREMENT PLAN – Continuation

Changes in the Net Pension Liability / (Asset):

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) - (b)
Balances as of December 31, 2014	\$ 5,138,569	\$ 5,025,615	\$ 112,954
Changes for the year:			
Service cost	169,108	-	169,108
Interest on total pension liability (1)	414,343	-	414,343
Effect of plan changes (2)	(11,623)	-	(11,623)
Effect of economic/demographic gains or losses	(59,939)	-	(59,939)
Effect of assumptions changes or inputs	55,658	-	55,658
Benefit payments	(260,504)	(260,504)	-
Administrative expenses	-	(3,607)	3,607
Member contributions	-	76,000	(76,000)
Net investment income	-	(10,034)	10,034
Employer contributions	-	135,823	(135,823)
Other (3)	-	38,439	(38,439)
Balances as of December 31, 2015	<u>\$ 5,445,612</u>	<u>\$ 5,001,732</u>	<u>\$ 443,880</u>

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

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

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

Sensitivity of the net pension liability / (asset) to changes in the discount rate: The following presents the net pension liability of the County, calculated using the discount rate of 8.10%, as well as what the County's net pension liability / (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	\$ 6,033,614	\$ 5,445,612	\$ 4,945,704
Fiduciary net position	<u>5,001,732</u>	<u>5,001,732</u>	<u>5,001,732</u>
Net pension liability / (asset)	<u>\$ 1,031,882</u>	<u>\$ 443,880</u>	<u>\$ (56,028)</u>

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 6 – RETIREMENT PLAN – Continuation

Pension plan fiduciary net position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued TCDRS financial report.

Pension Expense / (Income):

	January 1, 2015 to December 31, 2015
Service cost	\$ 169,108
Interest on total pension liability (1)	414,343
Effect of plan changes	(11,623)
Administrative expenses	3,607
Member contributions	(76,000)
Expected investment return net of investment expenses	(410,131)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	3,406
Recognition of assumption changes or inputs	18,553
Recognition of investment gains or losses	96,814
Other (2)	(38,439)
Pension expense / (income)	\$ 169,638

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

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

Deferred Inflows / Outflows of Resources: As of December 31, 2015, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 39,959	\$ 23,387
Changes of assumptions	-	37,105
Net difference between projected and actual earnings	-	374,475
Contributions made subsequent to measurement date	N/A	103,932

Continued

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 6 – RETIREMENT PLAN – Continuation

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

Year ended December 31:		
2016	\$	118,773
2017		95,387
2018		96,814
2019		84,034
2020		-
Thereafter		-

NOTE 7 – POSTEMPLOYMENT DEFINED BENEFIT GROUP TERM LIFE INSURANCE PLAN

Plan Description

Hartley County, Texas participates in a cost-sharing multiple-employer defined-benefit group-term life insurance plan operated by the Texas County & District Retirement System (TCDRS). This plan is referred to as the Group Term Life Fund (GLTF). This optional plan provides group term life insurance coverage to current eligible employees.

The GTLF is a separate trust administered by the TCERS board of trustees. TCERS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the GTLF. This report is available at www.tcds.org. TCERS' CAFR may also be obtained by writing to the Texas County & District System, P.O. Box 2034, Austin, TX 78768-2034, or by calling 800-823-7782.

Funding Policy

Each participating employer contributes to the GTLF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is determined using the unit credit method for providing one-year term life insurance. Hartley County, Texas contributions to the GTLF for the year ended September 30, 2016, 2015 and 2014, were \$3,400, \$3,139, and \$3,099, respectively, which equaled the contractually required contributions each year.

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Individual Fund Interfund Receivables and Payables

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 52,302	\$ 80,370
Special Revenue Funds:		
Road and Bridge	-	52,302
Records Management	1,671	-
Records Preservation	4,272	-
Records Archive	38,283	-
Seized Property	9,482	-
Courthouse Security	6,725	-
Justice Court Technology	7,896	-
Justice Building Security	5,937	-
District Clerk Technology	5,419	-
Capital Project Fund	685	-
	<u>\$ 132,672</u>	<u>\$ 132,672</u>

The primary purpose of interfund receivables and payables is the reimbursement of the Special Revenue funds for day to day operations as all County funds are pooled in the General Fund.

Individual Interfund Transfers

Fund	Interfund Transfers In	Interfund Transfers Out
General Fund	\$ -	\$ 332,000
Special Revenue Funds:		
Road and Bridge	322,000	-
Courthouse Security	10,000	-
	<u>\$ 332,000</u>	<u>\$ 332,000</u>

The primary purpose for interfund transfers was for the General Fund to supplement the Road and Bridge and Capital Projects Funds revenue in the current year.

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 9 – LONG-TERM LIABILITIES

In 2016 the County financed the acquisition of specialized computer software and hardware for use in the Sheriff’s office. Principal payments are due annually on June 1, with a fixed interest rate of 2.90%.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
John Deere Financial	\$ 32,841	\$ -	\$ (32,841)	\$ -	\$ -
Warren CAT Financing	197,889	-	(46,078)	151,811	48,270
2013 Note Payable	45,896	-	(45,896)	-	-
2016 Note Payable	-	98,046	-	98,046	23,471
Compensated absences	15,224	27,206	(26,949)	15,481	1,548
	<u>291,850</u>	<u>125,252</u>	<u>(151,764)</u>	<u>265,338</u>	<u>73,289</u>
Governmental activity long-term liabilities	<u>\$ 291,850</u>	<u>\$ 125,252</u>	<u>\$ (151,764)</u>	<u>\$ 265,338</u>	<u>\$ 73,289</u>

The County incurred interest expense of \$10,258 during the fiscal year ended September 30, 2016.

The annual debt service requirement on long-term liabilities outstanding as of September 30, 2016 is as follows:

Fiscal Year	Total	Warren CAT Financing		2016 Note Payable	
		Interest	Principal	Interest	Principal
2017	\$ 81,808	\$ 7,224	\$ 48,270	\$ 2,843	\$ 23,471
2018	81,808	4,927	50,567	2,163	24,151
2019	81,809	2,521	52,974	1,462	24,852
2020	26,314	-	-	742	25,572
	<u>\$ 271,739</u>	<u>\$ 14,672</u>	<u>\$ 151,811</u>	<u>\$ 7,210</u>	<u>\$ 98,046</u>

NOTE 10 – RISK MANAGEMENT

The County’s major areas of risk management are: public officials’, law enforcement, and automobile liability, general comprehensive liability and property damage, workers’ compensation, and employee health insurance. The County has obtained insurance with an insurance company and a public entity risk pool in which all risk is transferred to those entities for all the above areas. The County pays a deductible per incident except on the employee health insurance in which the deductible is the responsibility of the employee. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded insurance coverage for the current year.

HARTLEY COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 11 – PROBATION DEPARMENTS

Juvenile Probation Department

The Dallam, Hartley and Sherman Counties Juvenile Probation Department (Department) is a joint venture between the Counties. Each County makes a contribution to the Department based on a predetermined percentage of budgeted expenditures. The Department is governed by the Juvenile Probation Board whose members are the District Judge, the three County Judges and one citizen member appointed by the Board.

The Department operates on a fiscal year ending August 31 and issues a statement of revenues, expenditures and changes in fund balance – budget and actual. This financial statement is issued on a regulatory basis of accounting as mandated by the Texas Juvenile Justice Division. This report is solely the TJJD special revenue grant funds and not the Department as a whole.

Summarized information of the Dallam, Hartley and Sherman Counties Juvenile Probation Department for the year ended August 31, 2016 is as follows:

Department revenues:	
TJJD grant revenues - audited	\$ 168,906
Local funding - unaudited	83,000
Other revenues - unaudited	<u>4,777</u>
Total revenues	<u>256,683</u>
Department expenditures:	
Grant expenditures - audited	168,906
Grant and local expenditures - unaudited	<u>96,769</u>
Total expenditures	<u>265,675</u>
Excess of Revenues over Expenditures	<u><u>\$ (8,992)</u></u>
Total assets - unaudited	<u><u>\$ 83,860</u></u>
Fund balance - unaudited	<u><u>\$ 80,379</u></u>

Community Supervision and Corrections (Adult Probation)

The 69th District CSCD is a joint venture between Dallam, Hartley, Sherman and Moore Counties. The County’s local funding to this department for the year ended September 30, 2016 was \$5,456. This funding was not audited after it was sent to the CSCD by the County.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 2,543,000	\$ 2,543,000	\$ 2,552,721	\$ 9,721
Other taxes	1,000	8,000	8,366	366
Licenses and fees	189,500	209,500	216,019	6,519
Fines and forfeitures	281,500	281,500	230,878	(50,622)
Intergovernmental	56,933	56,933	59,853	2,920
Investment earnings	1,000	1,000	1,062	62
Miscellaneous	23,000	64,000	107,636	43,636
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	3,095,933	3,163,933	3,176,535	12,602
EXPENDITURES				
Current:				
Administrative				
County Judge	128,838	128,838	114,519	14,319
County Treasurer	82,961	82,961	81,982	979
District and County Clerk	256,833	256,833	256,708	125
Administrative	116,600	136,600	106,850	29,750
Tax Collector	239,411	239,411	236,279	3,132
	<hr/>	<hr/>	<hr/>	<hr/>
Total administrative	824,643	844,643	796,338	48,305
Judicial				
County Attorney	119,834	119,834	106,254	13,580
Justice of the Peace	162,235	162,235	149,752	12,483
District Judge	32,819	32,819	32,563	256
District Attorney	75,589	75,589	69,236	6,353
Judicial	84,892	109,392	108,425	967
	<hr/>	<hr/>	<hr/>	<hr/>
Total judicial	475,369	499,869	466,230	33,639
Public facilities				
Building operations	67,406	139,906	132,570	7,336
Rita Blanca Lake	35,000	35,000	35,000	-
Landfill operations	6,000	6,000	-	6,000
Bi-County Library	75,000	75,000	69,777	5,223
	<hr/>	<hr/>	<hr/>	<hr/>
Total public facilities	183,406	255,906	237,347	18,559

Continued

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

Continuation	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance With</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES				
Current:				
Public safety				
Sheriff's department	426,529	434,529	410,400	24,129
Fire protection	123,764	123,764	122,686	1,078
Ambulance service	30,500	30,500	15,500	15,000
Probation	37,652	37,652	36,249	1,403
Dallam/Hartley County Jail	391,000	391,000	366,022	24,978
Total public safety	<u>1,009,445</u>	<u>1,017,445</u>	<u>950,857</u>	<u>66,588</u>
Public service				
Public service	43,750	43,750	44,029	(279)
Extension service	112,000	112,000	99,719	12,281
Veteran's service	11,051	11,051	10,451	600
Total public service	<u>166,801</u>	<u>166,801</u>	<u>154,199</u>	<u>12,602</u>
Debt service:				
Principal	24,500	24,500	45,896	(21,396)
Interest	-	-	2,655	(2,655)
Total debt service	<u>24,500</u>	<u>24,500</u>	<u>48,551</u>	<u>(24,051)</u>
Capital outlay	-	-	78,659	(78,659)
Total expenditures	<u>2,684,164</u>	<u>2,809,164</u>	<u>2,732,181</u>	<u>76,983</u>
EXCESS / (DEFICIENCY) OF REVENUES				
OVER / (UNDER) EXPENDITURES	<u>411,769</u>	<u>354,769</u>	<u>444,354</u>	<u>89,585</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	-	-	98,046	98,046
Proceeds from sale of assets	-	-	5,000	5,000
Transfers out	(389,000)	(332,000)	(332,000)	-
Total other financing sources (uses)	<u>(389,000)</u>	<u>(332,000)</u>	<u>(228,954)</u>	<u>103,046</u>
NET CHANGE IN FUND BALANCE	22,769	22,769	215,400	192,631
FUND BALANCE - BEGINNING	<u>351,037</u>	<u>351,037</u>	<u>351,037</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 373,806</u>	<u>\$ 373,806</u>	<u>\$ 566,437</u>	<u>\$ 192,631</u>

HARTLEY COUNTY, TEXAS
ROAD AND BRIDGE
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Licenses and fees	\$ 350,000	\$ 350,000	\$ 358,836	\$ 8,836
Intergovernmental	15,000	15,000	35,277	20,277
Investment earnings	1,000	1,000	1,598	598
Miscellaneous	6,000	6,000	-	(6,000)
Total revenues	<u>372,000</u>	<u>372,000</u>	<u>395,711</u>	<u>23,711</u>
EXPENDITURES				
Current:				
Road and bridge				
Precinct 1	133,903	133,903	119,309	14,594
Precinct 2	118,124	118,124	115,211	2,913
Precinct 3	116,308	116,308	108,376	7,932
Precinct 4	151,076	151,076	118,789	32,287
County Wide	179,000	179,000	143,643	35,357
Total road and bridge	<u>698,411</u>	<u>698,411</u>	<u>605,328</u>	<u>93,083</u>
Debt service:				
Principal	67,346	67,346	78,919	(11,573)
Interest	-	-	9,760	(9,760)
Total debt service	<u>67,346</u>	<u>67,346</u>	<u>88,679</u>	<u>(21,333)</u>
Total expenditures	<u>765,757</u>	<u>765,757</u>	<u>694,007</u>	<u>71,750</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(393,757)</u>	<u>(393,757)</u>	<u>(298,296)</u>	<u>95,461</u>
OTHER FINANCING SOURCES				
Proceeds from sale of assets	5,000	5,000	130,500	125,500
Transfers in	389,000	389,000	322,000	(67,000)
Total other financing sources	<u>394,000</u>	<u>394,000</u>	<u>452,500</u>	<u>58,500</u>
NET CHANGE IN FUND BALANCE	243	243	154,204	153,961
FUND BALANCE - BEGINNING (DEFICIT)	<u>(206,506)</u>	<u>(206,506)</u>	<u>(206,506)</u>	<u>-</u>
FUND BALANCE - ENDING (DEFICIT)	<u><u>\$ (206,263)</u></u>	<u><u>\$ (206,263)</u></u>	<u><u>\$ (52,302)</u></u>	<u><u>\$ 153,961</u></u>

HARTLEY COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Fiscal Years

	Year Ended December 31,			
	2015	2014	2013	2012
Total Pension Liability:				
Service cost	\$ 169,108	\$ 161,733	\$ N/A	\$ N/A
Interest on total pension liability (1)	414,343	382,961	N/A	N/A
Effect of plan changes	(11,623)	-	N/A	N/A
Effect of assumption changes or inputs	55,658	-	N/A	N/A
Effect of economic/demographic (gains) or losses	(59,939)	70,159	N/A	N/A
Benefit payments/refunds of contributions	(260,504)	(245,033)	N/A	N/A
Net change in total pension liability	307,043	369,820	N/A	N/A
Total pension liability, beginning	5,138,569	4,768,749	N/A	N/A
Total pension liability, ending (a)	<u>\$ 5,445,612</u>	<u>\$ 5,138,569</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Fiduciary Net Position:				
Employer contributions	\$ 135,823	\$ 146,877	\$ N/A	\$ N/A
Member contributions	76,000	75,822	N/A	N/A
Investment income net of investment expenses	(10,034)	321,048	N/A	N/A
Benefit payments/refunds of contributions	(260,504)	(245,033)	N/A	N/A
Administrative expenses	(3,607)	(3,750)	N/A	N/A
Other	38,439	22,876	N/A	N/A
Net change in fiduciary net position	(23,883)	317,840	N/A	N/A
Fiduciary net position, beginning	5,025,615	4,707,775	N/A	N/A
Fiduciary net position, ending (b)	<u>\$ 5,001,732</u>	<u>\$ 5,025,615</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Net pension liability / (asset), ending = (a) - (b)	<u>\$ 443,880</u>	<u>\$ 112,954</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Fiduciary net position as a % of total pension liability	91.85%	97.80%	N/A	N/A
Pensionable covered payroll	\$ 1,085,717	\$ 1,083,165	\$ N/A	\$ N/A
Net pension liability as a % of covered payroll	40.88%	10.43%	N/A	N/A

This schedule is presented to show information for 10 years in accordance with the standards of GASB 68. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 68, they have not been shown. Therefore, we have shown only years for which the new standard has been implemented.

OTHER SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds account for the proceeds of specific sources that are legally restricted to expenditures for specified purposes.

Records Management – The Records Management Fund accounts for revenue from fees collected by the County and District Clerk on court cases. The fees are dedicated by law to be used for specific records management projects of the office.

Records Preservation – The Records Preservation Fund accounts for revenue from fees collected by the County and District Clerk on court cases. The fees are dedicated by law to be used for specific records preservation projects of the office.

Records Archives – The Records Archives Fund accounts for revenue from fees collected by the County and District Clerk on court cases. The fees are dedicated by law to be used for specific records archiving projects of the office.

Seized Property – The Seized Property Fund accounts for proceeds from asset forfeitures and seizures collected by the County Sheriff to statutorily supplement the cost of the Sheriff's office.

Courthouse Security – The Courthouse Security Fund accounts for statutory filing fees collected by the District and County Clerks which are dedicated by law to maintain the security of the courthouse.

Justice Court Technology – The Justice Court Technology Fund accounts for money charged to a defendant convicted of a misdemeanor in a justice court. It is designated for the purpose of financing the purchase of technological enhancements for a justice court.

Hot Check – The Hot Check Fund is used to account for revenues derived from the fees assessed on the collection and processing of dishonored and forged checks. The funds are designated to be used at the discretion of the County Attorney to defray the salaries and expenses of the prosecutor's office.

Justice Building Security – The Justice Building Security Fund accounts for statutory filing fees collected by the District and County Clerks which are dedicated by law to maintain the security of a justice court.

District Clerk Technology – The District Clerk Technology Fund accounts for money charged to a defendant convicted of a misdemeanor in a justice court. It is designated for the purpose of financing the purchase of technological enhancements for the district clerk's office.

Pretrial Diversion – The Pretrial Diversion Fund accounts for fees charged to any defendant willing to participate in a pretrial intervention program. The fees are dedicated by law to be used to administer and maintain the pretrial diversion programs.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for resources accumulated to fund future capital acquisitions or construction. The fund also accounts for property taxes levied for debt service requirements of the note used to finance the Dallam-Hartley Counties Jail Facility.

**HARTLEY COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

Special Revenue Funds

	Records Management	Records Preservation	Records Archives	Seized Property	Courthouse Security	Justice Court Technology	Hot Check
ASSETS							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 894
Due from other funds	1,671	4,272	38,283	9,482	6,725	7,896	-
Total assets	<u>\$ 1,671</u>	<u>\$ 4,272</u>	<u>\$ 38,283</u>	<u>\$ 9,482</u>	<u>\$ 6,725</u>	<u>\$ 7,896</u>	<u>\$ 894</u>
FUND BALANCES							
Restricted:							
By enabling legislation for special projects	\$ 1,671	\$ 4,272	\$ 38,283	\$ 9,482	\$ 6,725	\$ 7,896	\$ 894
Committed for:							
Capital projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>1,671</u>	<u>4,272</u>	<u>38,283</u>	<u>9,482</u>	<u>6,725</u>	<u>7,896</u>	<u>894</u>
Total liabilities and fund balances	<u>\$ 1,671</u>	<u>\$ 4,272</u>	<u>\$ 38,283</u>	<u>\$ 9,482</u>	<u>\$ 6,725</u>	<u>\$ 7,896</u>	<u>\$ 894</u>

Continued

**HARTLEY COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

Continuation

Special Revenue Funds

	Justice Building Security	District Clerk Technology	Pretrial Diversion	Total Special Revenue Funds	Capital Projects	Total Nonmajor Funds
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ 1,140	\$ 2,034	\$ 5,803	\$ 7,837
Due from other funds	5,937	5,419	-	79,685	685	80,370
Total assets	<u>\$ 5,937</u>	<u>\$ 5,419</u>	<u>\$ 1,140</u>	<u>\$ 81,719</u>	<u>\$ 6,488</u>	<u>\$ 88,207</u>
FUND BALANCES						
Restricted:						
By enabling legislation for special projects	\$ 5,937	\$ 5,419	\$ 1,140	\$ 81,719	\$ -	\$ 81,719
Committed for:						
Capital projects	-	-	-	-	6,488	6,488
Total fund balances	<u>5,937</u>	<u>5,419</u>	<u>1,140</u>	<u>81,719</u>	<u>6,488</u>	<u>88,207</u>
Total liabilities and fund balances	<u>\$ 5,937</u>	<u>\$ 5,419</u>	<u>\$ 1,140</u>	<u>\$ 81,719</u>	<u>\$ 6,488</u>	<u>\$ 88,207</u>

**HARTLEY COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Special Revenue Funds

	Records Management	Records Preservation	Records Archives	Seized Property	Courthouse Security	Justice Court Technology	Hot Check
REVENUES							
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and fees	11,043	3,394	10,885	-	6,096	5,453	315
Fines and forfeitures	-	-	-	11,560	-	-	-
Investment earnings	281	38	279	124	-	133	-
Miscellaneous	-	-	-	-	-	-	-
Total revenues	<u>11,324</u>	<u>3,432</u>	<u>11,164</u>	<u>11,684</u>	<u>6,096</u>	<u>5,586</u>	<u>315</u>
EXPENDITURES							
Current:							
Administrative	12,132	3,033	23,136	-	-	-	-
Judicial	-	-	-	-	6,592	11,151	1,000
Public safety	-	-	-	22,980	-	-	-
Total expenditures	<u>12,132</u>	<u>3,033</u>	<u>23,136</u>	<u>22,980</u>	<u>6,592</u>	<u>11,151</u>	<u>1,000</u>
EXCESS / (DEFICIENCY) OF REVENUES OVER / (UNDER) EXPENDITURES	<u>(808)</u>	<u>399</u>	<u>(11,972)</u>	<u>(11,296)</u>	<u>(496)</u>	<u>(5,565)</u>	<u>(685)</u>
OTHER FINANCING SOURCES							
Transfers in	-	-	-	-	10,000	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(808)</u>	<u>399</u>	<u>(11,972)</u>	<u>(11,296)</u>	<u>9,504</u>	<u>(5,565)</u>	<u>(685)</u>
FUND BALANCES - BEGINNING (DEFICIT)	<u>2,479</u>	<u>3,873</u>	<u>50,255</u>	<u>20,778</u>	<u>(2,779)</u>	<u>13,461</u>	<u>1,579</u>
FUND BALANCES - ENDING	<u>\$ 1,671</u>	<u>\$ 4,272</u>	<u>\$ 38,283</u>	<u>\$ 9,482</u>	<u>\$ 6,725</u>	<u>\$ 7,896</u>	<u>\$ 894</u>

Continued

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

Continuation

Special Revenue Funds

	Justice Building Security	District Clerk Technology	Pretrial Diversion	Total Special Revenue Funds	Capital Projects	Total Nonmajor Funds
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 1,132	\$ 1,132
Licenses and fees	1,569	1,064	540	40,359	-	40,359
Fines and forfeitures	-	-	-	11,560	-	11,560
Investment earnings	44	42	-	941	26	967
Miscellaneous	-	-	-	-	282	282
Total revenues	<u>1,613</u>	<u>1,106</u>	<u>540</u>	<u>52,860</u>	<u>1,440</u>	<u>54,300</u>
EXPENDITURES						
Current:						
Administrative	-	-	-	38,301	42	38,343
Judicial	-	-	-	18,743	-	18,743
Public safety	-	-	-	22,980	-	22,980
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,024</u>	<u>42</u>	<u>80,066</u>
EXCESS / (DEFICIENCY) OF REVENUES OVER / (UNDER) EXPENDITURES	<u>1,613</u>	<u>1,106</u>	<u>540</u>	<u>(27,164)</u>	<u>1,398</u>	<u>(25,766)</u>
OTHER FINANCING SOURCES						
Transfers in	-	-	-	10,000	-	10,000
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>
NET CHANGE IN FUND BALANCES	1,613	1,106	540	(17,164)	1,398	(15,766)
FUND BALANCES - BEGINNING (DEFICIT)	<u>4,324</u>	<u>4,313</u>	<u>600</u>	<u>98,883</u>	<u>5,090</u>	<u>103,973</u>
FUND BALANCES - ENDING	<u>\$ 5,937</u>	<u>\$ 5,419</u>	<u>\$ 1,140</u>	<u>\$ 81,719</u>	<u>\$ 6,488</u>	<u>\$ 88,207</u>

FIDUCIARY FUNDS

AGENCY FUNDS

The Agency Funds account for assets received in the capacity of trustee or agent for the County, other governmental entity or individual.

County and District Clerk – The County and District Clerk’s Fund accounts for registry funds held by the County and District Clerk.

HARTLEY COUNTY, TEXAS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
SEPTEMBER 30, 2016

	ASSETS	<u>County and District Clerk</u>
Cash and cash equivalents		\$ <u>1,891,149</u>
Total assets		\$ <u><u>1,891,149</u></u>
	LIABILITIES	
Deposits		\$ <u>1,891,149</u>
Total liabilities		\$ <u><u>1,891,149</u></u>

PART III
COMPLIANCE

To The Honorable County Judge and
Commissioners Comprising the
Commissioners' Court of
Hartley County, Texas

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*

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 its respective budgetary comparison, and the aggregate remaining fund information of Hartley County, Texas as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Hartley County, Texas' basic financial statements and have issued our report thereon dated November 9, 2016.

Internal Control Over Financial Reporting

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

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

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

- Finding 2016-1

Compliance and Other Matters

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

DOSHIER, PICKENS & FRANCIS, L.L.C.

DOSHIER, PICKENS & FRANCIS, LLC
November 9, 2016

HARTLEY COUNTY, TEXAS
SCHEDULE OF FINDINGS
SEPTEMBER 30, 2016

Finding 2016-1

INTERNAL CONTROL OVER FINANCIAL REPORTING:

Finding: Inadequate segregation of duties within a significant account or accounting process is considered to be a deficiency in your financial reporting controls. Due to the small size of the offices of the Justice of the Peace and the County and District Clerk, they have not been able to adequately segregate the processes of cash receipts and deposits, and reconciling the bank accounts. This lack of segregation of duties within these processes of handling cash creates a risk that a material misstatement could be present in the financial statements or that fraud could occur and would not be detected by management timely. Though these offices may not be able to adequately segregate these processes within the office, the official should implement compensating controls over these processes.