

GARZA COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

GARZA COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

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ANNUAL FINANCIAL REPORT
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GARZA COUNTY, TEXAS

**COUNTY OFFICIALS
SEPTEMBER 30, 2016**

Lee Norman	County Judge
Gary McDaniel	Commissioner Precinct 1
Charles Morris	Commissioner Precinct 2
Ted Brannon	Commissioner Precinct 3
Jerry Benham	Commissioner Precinct 4
Jim Plummer	District and County Clerk
LuAnne Terry	County Treasurer
Nancy Wallace	Tax-Assessor-Collector
Gordon Terry	Justice of the Peace Precinct 1
Angela Massey	Justice of the Peace Precinct 2
Terry Morgan	County Sheriff
Preston Poole Jr.	County Attorney
Daniel Yarbro	County Constable
Eric Cilotry	County Constable

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

Independent Auditor's Report

To the Honorable Judge and
Members of the Commissioners' Court of
Garza County, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Garza County, Texas (the County), as of and for the fiscal 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.

Basis for Qualified Opinion on Governmental Activities

The County has not recognized the Other Post-Employment Benefit (OPEB) expense or obligation which is required, in accordance with accounting principles generally accepted in the United States of America and under Governmental Accounting Standards Board (GASB) Statement No. 45, to be recorded in the government-wide financial statements. The effects of the departure from generally accepted accounting principles is not reasonably determinable. The County has also not disclosed the descriptive information about the other post-employment benefits required by standards.

Qualified Opinion

In our opinion, except for the omission of the OPEB expense, obligation, and disclosures as described in the “Basis for Qualified Opinions on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the County, as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employer contributions, and budgetary comparison information on pages 4 through 9 and 37 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report February 15, 2017, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering of the County's internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

February 15, 2017

GARZA COUNTY, TEXAS
MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Garza County’s (the County) annual financial report presents our discussion and analysis of the County’s financial performance during the fiscal year ended September 30, 2016. Please read it in conjunction with the County’s financial statements.

FINANCIAL HIGHLIGHTS

- The County’s net position was \$6,017,965 at September 30, 2016. Of this amount, \$2,385,535 (unrestricted net position) may be used to meet the County’s ongoing obligations.
- The General Fund reported a fund balance this year of \$1,987,743, of which \$207,852 is assigned for renovations and improvements and \$1,779,891 is unassigned and can be used as needed by the County.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—Management’s Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the County:

- The first two statements are Government-Wide Financial Statements that provide both long-term and short-term information about the County’s overall financial status.
- The remaining statements are Fund Financial Statements that focus on individual parts of the government, reporting the County’s operations in more detail than the Government-Wide statements.
- The Governmental Funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
- Fiduciary Fund statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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

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

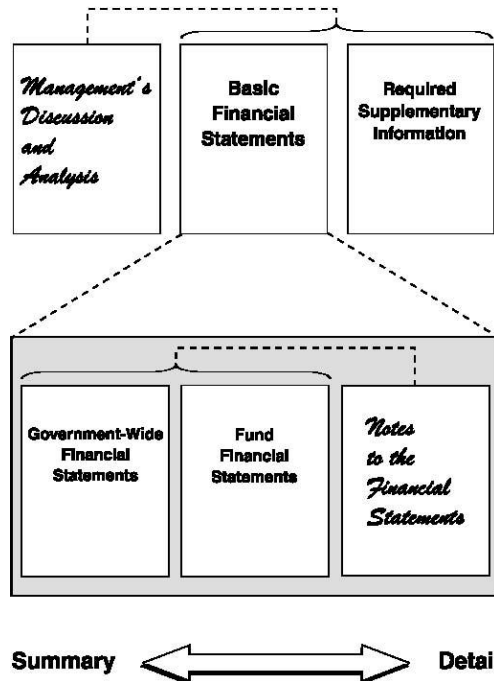


Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County government they cover and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis explains the structure and contents of each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

**FIGURE A-2
MAJOR FEATURES OF THE COUNTY'S GOVERNMENT-WIDE AND FUND STATEMENTS**

Type of Statement	Government-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire County's government (except fiduciary funds)	The activities of the County that are not proprietary or fiduciary	Instances in which the County is the trustee or agent for someone else's resources
Required financial statements	Statement of net position	Balance Sheet	Statement of fiduciary net position
	Statement of activities	Statement of revenues, expenditures and changes in fund balances	Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of flow/outflow	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services are received	All revenues and expenses during year; regardless of when cash is received or paid

Government-Wide Statements

The Government-Wide Financial Statements are designed to provide readers with a broad overview of the County's finances, using accounting methods similar to those used by private-sector companies. The Statement of Net Position presents information on all of the County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the County's financial position is improving or deteriorating when examined in conjunction with non-financial factors. The Statement of Activities presents information showing how the government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Both of these Government-Wide Financial Statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Governmental activities include Emergency Medical Services, County Jail, Road and Bridge, Extension Services, Museum, Social Services, Probations, Weighstation, Law Enforcement, Fire Station, Constable, Courthouse Maintenance, County Tax Assessor/Collector, County Treasurer, County Attorney, Justice of the Peace Precinct, District Court, General Administration, HAVA Grant, County Clerk, Emergency Management Office, and County Judge. The County does not have business-type activities.

Fund Financial Statements

The Fund Financial Statements provide more detailed information about the County's most significant funds – not the County as a whole. Funds are groupings of related accounts that the County uses to keep track of specific sources of funding and spending for particular purposes. The County, like other state and local governments, uses funds to show compliance with finance-related legal requirements as well as to control and manage money for other particular purposes. The County has two types of funds: governmental and fiduciary.

- *Governmental funds*—Most of the County's basic services are included in governmental funds, which focus on short-term inflows and outflows of available resources and the balances of these resources that are available at the end of the year. Because the focus of governmental funds is narrower than that of the Government-Wide Financial Statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Government-Wide Financial Statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations can be found on Pages 13 and 15 of the basic financial statements section.

The County maintains three individual major governmental funds. Information is presented separately in the governmental fund statements for the General Fund, Garza County Jail Fund, and Road and Bridge Fund. The remaining special revenue and permanent funds are considered nonmajor and are reported aggregately in the basic financial statements.

The County adopts an annual appropriated budget for its funds. A budgetary comparison schedule has been provided in the required supplementary information section of the report to demonstrate compliance with this budget.

- *Fiduciary funds*—The County is the trustee, or fiduciary, for certain funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County's fiduciary activities are reported in a separate statement of fiduciary net position. Fiduciary funds are not reflected in the Government-Wide Financial Statements because the County cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

The County's net position was \$6,017,965 at September 30, 2016. The largest portion of the County's total assets and deferred outflows (\$8,280,004) reflects its capital assets with the remainder (\$5,911,571) reported as cash, investments, accounts receivable, deferred outflows, and other assets.

Table A-1
Garza County's Net Position

	Governmental Activities	
	2016	2015
Current and Other Assets	\$ 5,037,006	\$ 4,768,929
Capital and Non-Current Assets	8,280,004	8,650,348
Total Assets	\$ 13,317,010	\$ 13,419,277
Deferred Outflows of Resources	\$ 874,565	\$ 273,223
Current Liabilities	\$ 489,091	\$ 679,432
Long Term Liabilities	7,571,780	7,446,762
Total Liabilities	\$ 8,060,871	\$ 8,126,194
Deferred Inflows of Resources	\$ 112,739	\$ 67,467
Net Position		
Net Investment in Capital Assets	\$ 1,249,624	\$ 1,205,773
Restricted	2,382,806	1,992,531
Unrestricted	2,385,535	2,300,535
Total Net Position	\$ 6,017,965	\$ 5,498,839

Changes in Net Position—The County's net position increased by \$519,126 during the current fiscal year. This increase was mainly due to receiving state and federal grants for road repairs and general cost cutting across departments.

Governmental Activities—Total revenues for the fiscal year ending September 30, 2016 were \$8,686,468. Approximately 10.6% of the County's revenue comes from charges for services, while 44.4% comes from property taxes. Investment earnings account for 0.3% of total revenues. Operating grants and contributions, rents and royalties, sale of property, and miscellaneous revenue accounted for the other 44.7% of total revenues.

Table A-2
Garza County Changes in Net Position

	Governmental Activities			
	2016	%	2015	%
Revenues:				
Program Revenues				
Fines, Fees, and Charge for Services	\$ 926,528	10.6	\$ 773,064	8.6
Operating Grants and Contributions	1,248,073	14.4	1,827,641	20.4
Capital Grants and Contributions	203,415	2.3		
General Revenues				
Property Taxes	3,852,879	44.4	3,863,833	43.0
Miscellaneous	216,062	2.5	87,553	1.0
Rents and Royalties	2,200,346	25.3	2,394,214	26.7
Gain on Sale of Real and Personal Property	15,800	0.2		
Investment Earnings	23,365	0.3	23,910	0.3
Total Revenues	\$ 8,686,468	100.0	\$ 8,970,215	100.0
Expenses:				
County Functions	\$ 7,330,337	84.4	\$ 7,527,234	83.9
Depreciation	438,385	5.0	442,696	4.9
Interest on Long-Term Debt	398,620	4.6	413,128	4.6
Total Expenses	\$ 8,167,342	94.0	\$ 8,383,058	93.4
Increase in Net Position	\$ 519,126		\$ 587,157	
Beginning Net Position	5,498,839		4,911,682	
Ending Net Position	\$ 6,017,965		\$ 5,498,839	

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As of the end of the fiscal year, the County's General Fund reported a fund balance of \$1,987,743, an increase of \$176,330 from the prior year. The unassigned fund balance is \$1,779,891 and is available for spending at the government's discretion. The County has assigned \$207,852 to be used for renovations and improvements as necessary.

As a measure of the fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 40.5% of total General Fund expenditures.

General Fund Budgetary Highlights — As of September 30, 2016, actual expenditures were \$421,244 under final budgeted amounts. Revenues came in under budget by \$235,580.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets — As of September 30, 2016, the County had invested \$8,280,004 in a broad range of capital assets, including land, buildings and equipment, net of accumulated depreciation.

Major events affecting capital assets during the year were:

- The County received funding and enrolled in the County Energy Transportation Reinvestment Program through the State of Texas.
- The County received funding from the Federal Emergency Management Agency related to natural disaster in the County's jurisdiction.

More detailed information about the County's capital assets can be found in the notes to the financial statements.

Table A-3
Garza County's Capital Assets

	Governmental Activities	
	2016	2015
Land	\$ 66,671	\$ 66,671
Buildings and Equipment	12,224,915	12,270,709
Construction Work In Progress		5,000
Total	\$ 12,291,586	\$ 12,342,380
Total Accumulated Depreciation	\$ 4,011,582	\$ 3,692,032
Net Capital Assets	\$ 8,280,004	\$ 8,650,348

Long-Term Debt — As of September 30, 2016, the County had \$7,030,380 in debt net of discounts outstanding. See the notes to the financial statements related to debt service requirements on the above outstanding debt.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Office of the Garza County Treasurer, 300 West Main, Post, Texas 79356.

BASIC FINANCIAL STATEMENTS

GARZA COUNTY, TEXAS

Exhibit A-1

STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>	<u>Component Unit</u> <u>Garza Public</u> <u>Facility Corp.</u>
ASSETS:		
Cash and Cash Equivalents	\$ 2,272,458	\$
Investments	1,083,633	
Restricted Investments - Held by Trustee	726,544	13,927,184
Taxes Receivable, Net	67,171	
Accounts Receivable, Net	319,672	3,161,674
Due From Public Facility Corp	426,282	
Office Receivables, Net	141,246	
Capital Assets, Net:		
Land	66,671	188,500
Buildings and Equipment	8,213,333	
Correctional Facilities		26,889,363
Total Assets	<u>\$ 13,317,010</u>	<u>\$ 44,166,721</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Pension Plan - Earnings Differences	\$ 621,837	\$
Pension Plan - Assumption Changes	83,890	
Pension Plan - Contribution Deferrals	168,838	
Total Deferred Outflows of Resources	<u>\$ 874,565</u>	<u>\$ 0</u>
LIABILITIES:		
Accounts Payable	\$ 198,273	\$
Accrued Interest Payable	71,112	1,089,123
Due to County		426,282
Due to MTC		11,317,273
Accrued Compensated Absences	14,819	
Accrued Wages Payable	164,011	
Other Current Liabilities	12,543	
Unearned Revenue - Supplements	28,333	
Noncurrent Liabilities:		
Net Pension Liability	541,400	
Due Within One Year	405,455	2,100,000
Due in More Than One Year	6,624,925	30,092,327
Total Liabilities	<u>\$ 8,060,871</u>	<u>\$ 45,025,005</u>
DEFERRED INFLOWS OF RESOURCES:		
Pension Plan - Experience Differences	\$ 112,739	\$ 0
NET POSITION:		
Net Investment in Capital Assets	\$ 1,249,624	\$ (5,114,464)
Restricted For:		
County Schools - Non-Spendable	148,284	
Enabling Legislation	155,809	
Debt Service	726,544	3,987,185
Road and Bridge	1,352,169	
Renovations/Improvements		
Unrestricted	2,385,535	268,995
Total Net Position	<u>\$ 6,017,965</u>	<u>\$ (858,284)</u>

The accompanying notes are an integral part of this statement.

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GARZA COUNTY, TEXAS

Exhibit A-2

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Departments/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Fines, Fees & Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Unit
					Governmental Activities	Garza Public Facility Corp.
Net (Expense) Revenue						
Governmental Activities						
County Judge	\$ 211,813	\$ 3,631	\$ 34,185	\$	\$ (173,997)	\$
Emergency Management Office	95,361				(95,361)	
County Clerk	236,236	105,949			(130,287)	
General Administration	420,852	9,892	47,983		(362,977)	
District Court	130,716	83,098			(47,618)	
Justices of the Peace	221,609				(221,609)	
County Attorney	136,819	5,665	25,203		(105,951)	
County Treasurer	173,144	14,063			(159,081)	
County Tax Assessor/Collector	161,037	141,566			(19,471)	
Courthouse Maintenance	264,653	7,562			(257,091)	
Constables	272,330	8,913			(263,417)	
Fire Station	23,925				(23,925)	
Law Enforcement	1,097,662	13,570	736,365		(347,727)	
Weighstation	5,312				(5,312)	
Probations	177,872				(177,872)	
Social Services	805,306	24,596	357,386		(423,324)	
Museum	64,100				(64,100)	
Extension Services	109,870				(109,870)	
Road and Bridge	891,316	507,708	10,930	203,415	(169,263)	
County Jail	1,770,762				(1,770,762)	
Emergency Medical Services	34,091	315	36,021		2,245	
Other Expenditures	25,551				(25,551)	
Depreciation	438,385				(438,385)	
Interest on Long-Term Debt	398,620				(398,620)	
Total Governmental Activities	\$ 8,167,342	\$ 926,528	\$ 1,248,073	\$ 203,415	\$ (5,789,326)	\$ 0
Total Primary Government	\$ 8,167,342	\$ 926,528	\$ 1,248,073	\$ 203,415	\$ (5,789,326)	\$ 0
Component Units						
Garza Public Facility Corp	\$ 34,740,043	\$ 36,169,292	\$	\$	\$	\$ 1,429,249
Depreciation	846,416					(846,416)
Interest on Long-Term Debt	2,494,806					(2,494,806)
Total Component Units	\$ 38,081,265	\$ 36,169,292	\$ 0	\$ 0	\$ 0	\$ (1,911,973)
General Revenues:						
Property Taxes	\$	\$ 3,852,879	\$	\$	\$	\$
Rents and Royalties		2,200,346				
Gain on Sale of Assets		15,800				
Misc. Revenue		216,062				
Investment Earnings		23,365				55,890
Total General Revenues	\$	\$ 6,308,452	\$	\$	\$	\$ 55,890
Change in Net Position	\$	\$ 519,126	\$	\$	\$	\$ (1,856,083)
Net Position - Beginning		5,498,839				997,799
Net Position - Ending	\$	\$ 6,017,965	\$	\$	\$	\$ (858,284)

The accompanying notes are an integral part of this statement.

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GARZA COUNTY, TEXAS

Exhibit A-3

**BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

	Major			Non-Major	Total
	General Fund	County Jail Fund	Road and Bridge Fund	Other Governmental Funds (See Exhibit C-1)	
ASSETS:					
Cash and Cash Equivalents	\$ 967,783	\$ 5,194	\$ 1,007,027	\$ 292,454	\$ 2,272,458
Investments	805,419		278,214		1,083,633
Restricted Investments - Held by Trustee		726,544			726,544
Taxes Receivable, Net of Allowance	57,095		10,076		67,171
Accounts Receivable, Net of Allowance	86,350	113,251	96,994	23,077	319,672
Due From Public Facility Corp	426,282				426,282
Total Assets	\$ 2,342,929	\$ 844,989	\$ 1,392,311	\$ 315,531	\$ 4,895,760
LIABILITIES:					
Accounts Payable	\$ 149,186	\$ 32,801	\$ 7,003	\$ 9,283	\$ 198,273
Accrued Compensated Absences Payable	9,041	3,216	2,562		14,819
Accrued Wages	98,988	42,367	20,501	2,155	164,011
Other Current Liabilities	12,543				12,543
Unearned Revenue - Supplements	28,333				28,333
Total Liabilities	\$ 298,091	\$ 78,384	\$ 30,066	\$ 11,438	\$ 417,979
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue - Property Taxes	\$ 57,095		\$ 10,076		\$ 67,171
FUND BALANCES:					
Nonspendable:					
Permanent School Fund	\$	\$	\$	\$ 148,284	\$ 148,284
Restricted:					
Enabling Legislation				155,809	155,809
Debt Service		726,544			726,544
Road and Bridge			1,352,169		1,352,169
Assigned:					
Renovations/Improvements	207,852				207,852
Jail Facility		40,061			40,061
Unassigned:					
Reported in the General Fund	1,779,891				1,779,891
Total Fund Balances	\$ 1,987,743	\$ 766,605	\$ 1,352,169	\$ 304,093	\$ 4,410,610
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,342,929	\$ 844,989	\$ 1,392,311	\$ 315,531	\$ 4,895,760

The accompanying notes are an integral part of this statement.

GARZA COUNTY, TEXAS

Exhibit A-4

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

Total Fund Balances - Governmental Funds Balance Sheet	\$ 4,410,610
Amounts reported for governmental activities in the statement of net position (SNP) are different because:	
Capital assets used in governmental activities are not reported in the funds.	8,280,004
Revenues unavailable to pay for current period expenditures are deferred in the funds.	67,171
Payables for long term debt which are not due in the current period are not reported in the funds.	(7,116,597)
Payables for bond interest which are not due in the current period are not reported in the funds.	(71,112)
Net pension liability and related deferred outflows and inflows are not recognized in the governmental funds.	220,426
To record the Justice of Peace and County/Dist. Clerk fines receivable.	141,246
Bond Issuance Discounts are not recorded in the funds.	<u>86,217</u>
Net Position of Governmental Activities - Statement of Net Position	<u>\$ 6,017,965</u>

The accompanying notes are an integral part of this statement.

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

	Major			Non-Major	Total Governmental Funds
	General Fund	County Jail Fund	Road and Bridge Fund	Other Governmental Funds (See Exhibit C-2)	
Revenue:					
Property Taxes	\$ 3,253,847	\$	\$ 584,954	\$	\$ 3,838,801
License and Permits	1,428		239,294	500	241,222
Intergovernmental Revenue and Grants	954,425		214,345	254,790	1,423,560
Charges for Services	27,928		205,860		233,788
Fines and Fees	427,005		62,554	48,897	538,456
Rents and Royalties	1,280,492	919,854			2,200,346
Investment Earnings	12,234	209	5,640	5,282	23,365
Other Revenue	216,062				216,062
Total Revenues	\$ 6,173,421	\$ 920,063	\$ 1,312,647	\$ 309,469	\$ 8,715,600
Expenditures:					
Current:					
County Judge	\$ 212,019	\$	\$	\$	\$ 212,019
Emergency Management Office	95,431				95,431
County Clerk	235,995				235,995
General Administration	398,491			22,538	421,029
District Court	130,716				130,716
Justices of the Peace	221,609				221,609
County Attorney	136,752				136,752
County Treasurer	172,873				172,873
County Tax Assessor/Collector	159,740				159,740
Courthouse Maintenance	258,928			26,877	285,805
Constables	271,800				271,800
Fire Station	23,925				23,925
Law Enforcement	1,101,390				1,101,390
Weighstation	5,312				5,312
Probations	177,872				177,872
Social Services	577,760			227,858	805,618
Museum	64,100				64,100
Extension Services	109,797				109,797
Road and Bridge			932,396		932,396
County Jail		1,768,864			1,768,864
Emergency Medical Services				34,008	34,008
Other Expenditures	25,551				25,551
Debt Service:					
Principal	5,647	335,000	75,180		415,827
Interest	226	382,991	7,284		390,501
Total Expenditures	\$ 4,385,934	\$ 2,486,855	\$ 1,014,860	\$ 311,281	\$ 8,198,930
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 1,787,487	\$ (1,566,792)	\$ 297,787	\$ (1,812)	\$ 516,670
Other Financing Sources (Uses):					
Proceeds from the Sale of Assets	\$ 16,500	\$	\$	\$	\$ 16,500
Transfers In/Out	(1,627,657)	1,525,736	80,835	21,086	
Total Other Financing Sources (Uses)	\$ (1,611,157)	\$ 1,525,736	\$ 80,835	\$ 21,086	\$ 16,500
Net Change in Fund Balances	\$ 176,330	\$ (41,056)	\$ 378,622	\$ 19,274	\$ 533,170
Fund Balances - Beginning	1,811,413	807,661	973,547	284,819	3,877,440
Fund Balances - Ending	\$ 1,987,743	\$ 766,605	\$ 1,352,169	\$ 304,093	\$ 4,410,610

The accompanying notes are an integral part of this statement.

GARZA COUNTY, TEXAS

Exhibit A-6

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

Net Change in Fund Balances - Total Governmental Funds	\$	533,170
Amounts reported for governmental activities in the statement of activities (SOA) are different because:		
Capital assets are not reported as expenses in the SOA.		68,741
The depreciation of capital assets used in governmental activities is not reported in the funds.		(438,385)
Losses on disposition of capital assets us in governmental activities are not recorded in the funds.		(700)
Net change in pension expense to convert amounts paid in for the governmental funds to accrued pension expense for governmental activities.		(6,476)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.		14,078
To record the change in the Justice of the Peace and County/Dist. Clerk fines receivable.		(59,010)
Change in accrued interest payable from beginning of period to end of period.		(1,487)
Payments on long-term debt are recorded as expenditures in the funds.		415,827
Bond issuance discounts are not recorded in the funds.		<u>(6,632)</u>
Change in Net Position of Governmental Activities - Statement of Activities	\$	<u><u>519,126</u></u>

The accompanying notes are an integral part of this statement.

GARZA COUNTY, TEXAS

Exhibit A-7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2016**

	<u>Agency Fund</u>
ASSETS:	
Current Assets	
Cash and Cash Equivalents	\$ 314,798
Property Taxes Receivable	<u>23,528</u>
Total Current Assets	<u>\$ 338,326</u>
LIABILITIES:	
Current Liabilities	
Due to Others	\$ 338,326
Total Current Liabilities	<u>\$ 338,326</u>

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The authority of county governments and their specific functions and responsibilities are created by and are dependent upon laws and legal regulations of the Texas State Constitution and Vernon’s Annotated Civil Statutes (V.A.C.S.).

Garza County, Texas (the County) operates under a County Judge and Commissioners’ Court type of government as provided by state statute. The financial and reporting policies of the County conform to generally accepted accounting principles (GAAP) applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), which includes all statements and interpretations of the National Council on Governmental Accounting unless modified by the GASB, and those principles prescribed by the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*.

The Commissioners’ Court has governance responsibilities over all activities related to Garza County, Texas. The County receives funding from local, state, and federal government sources and must comply with the concomitant requirements of these funding source entities; however, the County is not included in any other governmental “reporting entity” as defined by GASB, Statement No. 61, “The Financial Reporting Entity.” There is one blended component unit included within the reporting entity.

Component units are legally separate entities for which the County is considered to be financially accountable. The discretely presented component unit, although a legally separate entity, is in substance part of the County’s operations. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the County.

The following table describes the County’s component unit:

<u>Component Unit</u>	<u>Description; Criteria for Inclusion</u>	<u>Reporting Method</u>	<u>For Separate Financial Statements</u>
Garza County Public Facility Corporation	Formed to Finance the Construction of Dalby Correctional Facility and the Acquisition of Garza Juvenile Correctional Facility	Discretely Presented	Not Available

The County’s major activities or departments include: Emergency Medical Services, County Jail, Road and Bridge, Extension Services, Museum, Social Services, Probations, Weighstation, Law Enforcement, Fire Station, Constables, Courthouse Maintenance, County Tax Assessor/Collector, County Treasurer, County Attorney, Justices of the Peace Precincts, District Court, General Administration, County Clerk, Emergency Management Office, and County Judge.

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Garza County, Texas non-fiduciary activities with most of the interfund activities removed. Governmental activities include programs supported primarily by taxes, fines and fees, grants and other intergovernmental revenues.

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

Interfund activities between governmental funds appear as due to/due from on the governmental fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

The fund financial statements provide information about the County's funds, including fiduciary funds and discretely presented component units. Since the resources in the fiduciary funds cannot be used for the County operations, they are not included in the government-wide statements. The County considers some governmental funds major and reports their financial condition and results of operations in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds (other governmental funds).

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

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

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

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available. Available means collectible within the current period or expected to be collected within 60 days after year end and be used to pay liabilities of the current period. Expenditures are generally recognized in the accounting period in which the fund liability is incurred, if measurable. Exceptions to this general rule include unmatured principal and interest on general long-term obligations which are recognized when due. This exception is in conformity with generally accepted accounting principles. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Property tax revenues and sales tax receipts are considered measurable and available when collected by the tax assessor/collector and recognized as revenue at that time. Property tax revenues are considered measurable at the time of levy and are recognized as deferred revenue and taxes receivable, net of an allowance for estimated uncollectible taxes, at that time. Property tax revenues are considered available if collected within 60 days subsequent to year end. However, the amount of taxes collected in the period 60 days subsequent to year end are considered immaterial and not recorded as current year revenue. All tax collections expected to be received subsequent to year end are, therefore, reported as deferred revenues. Licenses and permits, fines and forfeits, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded on the accrual basis in all funds.

Intergovernmental revenues are recorded on a basis applicable to the legal and contractual requirements of the individual grant programs. If funds must be expended on the specific purpose or project before any amounts will be paid to the County, revenues are recognized as the expenditures or expenses are recorded. If funds are virtually unrestricted and irrevocable, except for failure to comply with required compliance requirements, revenues are recognized when received or susceptible to accrual. Federal and State grants awarded on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other federal reimbursable-type grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred.

Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position.

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

D. FUND ACCOUNTING

The County applies GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions for classifying governmental fund balances into specifically defined classifications. Classifications are hierarchical and are based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which the amounts in the funds may be spent. Application of the Statement requires the County to classify and report amounts in the appropriate fund balance classifications. The County's accounting and finance policies are used to interpret the nature and/or requirements of the funds and their corresponding assignment of restricted, committed, assigned, or unassigned. From interpretation of the adopted policy the County will spend its fund in the following order: Committed, Assigned, and Unassigned, if more than one classification of fund balance is available.

The County reports the following classifications:

Nonspendable Fund Balance – Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

Restricted Fund Balance – Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Restrictions are placed on fund balances when legally enforceable legislation establishes the County's right to assess, levy, or charge fees to be used for a specific purpose – such as the County's property tax revenue for debt service requirements, which must be used to repay debt. Legal enforceability means that the County can be compelled by an external party to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed Fund Balance – Committed fund balances are amounts that can only be used for specific purposes as a result of constraints imposed by the Commissioners' Court. Committed amounts cannot be used for any other purposes unless the Commissioners' Court removes those constraints by taking the same type of actions (legislation, resolution, and ordinance). Committed fund balances include non-liquidated encumbrances at year end that are carried forward to the next fiscal year. Amounts in the committed fund balance classification may be used for other purposes with appropriate due process by the Commissioners' Court. Committed fund balances differ from restricted balances because the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – Assigned fund balances are amounts that are constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the County Treasurer or (b) an appointed body or official to which the Commissioners' Court has delegated the authority to assign, modify, or rescind amounts to be used for specific purposes.

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as nonspendable, restricted, or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, are assigned for purposes in accordance with the nature of their fund type. Assignment with the General Fund conveys that the intended use of those amounts is for specific purposes that are narrower than the general purposes of the County itself.

Unassigned Fund Balance – Unassigned fund balance is the residual classification for the General Fund. This classification represents General 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.

The accounts of the County are organized 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 balance, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. County funds do not include funds held by County offices, which are not yet remitted to the County Treasurer. County funds are amounts which have been received by the County Treasurer and which are subject to control by the Commissioners' Court. These various County funds, which are reported as Governmental Funds in the financial statements of this report, are grouped into five fund types: General Fund, Garza County Jail Fund, and Road and Bridge Fund, and aggregate remaining funds. The remaining funds held by other County offices are reported as Fiduciary Funds and are not subject to control by the Commissioner's Court.

The County maintains the following Major funds:

Major Governmental Funds:

General Fund – This fund is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available for any purpose, provided it is expended or transferred in accordance with the legally adopted budget of the County.

Road and Bridge Fund – This special revenue fund is used to account for proceeds of specific revenue sources that are legally reserved for expenditures for public transportation for county citizens.

Garza County Jail Fund – This special revenue fund is used to account for intergovernmental revenues received for housing prisoners and the correlating expenditures to run and maintain the county jail.

Fiduciary Funds:

Fiduciary Funds, which include funds held by County offices, also are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other government, and/or other funds. These include Agency Funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Formal budgetary accounting is not required for Fiduciary Funds.

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

E. OTHER ACCOUNTING POLICIES

1. Capital assets include land, buildings, furniture and equipment and are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Buildings, vehicles, furniture and equipment, and infrastructure of the County are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Equipment	10-60

2. The County provides statutory workers' compensation insurance for its employees through Texas Association of Counties (TAC), a joint insurance fund, in which the County is a member. Health insurance is provided to the County's employees through a licensed insurer paid by the County.

F. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Governmental Funds:

In addition to liabilities, the governmental funds balance sheet 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 County has one type of item, which arise under a modified accrual basis of accounting that qualify for reporting in this category. Accordingly, the item, unavailable revenue – property taxes, is reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Government-Wide Financial Statements:

In addition to assets and liabilities, the statement of net position will report a separate section for deferred outflows and inflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the County has four items that qualify for reporting in this category, and they all relate to pension plan outflows and inflows.

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

II. PROPERTY TAX

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the following year. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

Legislation was passed in 1979 and amended in 1981 by the Texas Legislature that affects the methods of property assessment and tax collection in the County. This legislation, with certain exceptions, exempts intangible personal property, household goods and family-owned automobiles from taxation. In addition, this legislation creates a "Property Tax Code" and provides, among other things, for the establishment of county wide Appraisal Districts and for the State Property Tax Board which commenced operation in January, 1980.

Garza County Appraisal District (the Appraisal District) appraises property values in the County. The Garza County Tax Assessor-Collector assesses and collects the County's property taxes. The County is required under the Property Tax Code to assess all property within the Appraisal District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. Beginning January 1, 1984, the value of property within the Appraisal District must be reappraised every three years. The County may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action. Under this legislation, the County continues to set tax rates on County property. However, if the effective tax rates for bonds and other contractual obligations and adjustments for new improvements exceeds the rate for the previous year by more than eight percent, qualified voters of the County may petition for an election to determine whether to limit the tax rate to no more than eight percent above the effective tax rate of the previous year.

The County is permitted by Article 8, Section 9 of the State of Texas Constitution to levy taxes up to \$0.80 per \$100 of assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. A practical limitation on taxes levied for debt service is \$1.50 per \$100 of assessed valuation as established by the Attorney General of the State of Texas. The tax rates assessed for the year ended September 30, 2016 to finance maintenance and operations of the County was \$0.67 per \$100 valuation.

The County's taxes on real property are a lien against such property until paid. The County may foreclose real property upon which it has a lien for unpaid taxes. Although the County makes little effort to collect delinquent taxes through foreclosure proceedings, delinquent taxes on property not otherwise collected are generally paid when there is a sale or transfer of the title on property.

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The funds of the County must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the County's agent bank in an amount sufficient to protect County funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At September 30, 2016, the carrying amount of the County's deposits (cash, short-term certificates of deposit, and interest-bearing savings accounts included in cash and cash equivalents) was \$2,272,458 and the bank balance was \$2,439,432.

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

Statutes authorize the County to invest in: (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

TexPool is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Texas Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy. This Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool.

TexPool is subject to annual review by an independent auditor consistent with the Public Funds Investment Act. KPMG Peat Marwick, 111 Congress Avenue, Suite 1100, Austin, Texas 78701 performs the annual audit. In addition, TexPool is subject to review by the State Auditor's Office and by the Internal Auditor of the Comptroller's Office.

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

The carrying value of unrestricted investments at September 30, 2016 was \$1,083,633. The investments consist of:

	Cost	Market Value
TexPool	\$ 154,598	\$ 154,598
TexStar	203,859	203,859
ICT - Money Market	725,176	725,176
	<u>\$ 1,083,633</u>	<u>\$ 1,083,633</u>

The carrying value of the restricted investments - held by trustee (US Bank) at September 30, 2016 was \$726,544. The restricted investments consist of money market and certificates of deposit.

The carrying value of the restricted investments - held by trustee (US Bank) for the component unit at September 30, 2016 was \$13,927,184. The restricted investments consist of money market accounts and certificates of deposit.

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board require or permit in the statements at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The County's investments as of September 30, 2016 were all considered Level 1.

Policies Governing Deposits and Investments

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

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the County's deposits may not be returned to it. The County was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2016 were covered by depository insurance or by pledged collateral held by the County's agent bank in the County's name.

Custodial Credit Risk – Investments: This is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Thus positions in external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. The County's other securities are exposed to custodial credit risk to extent they are not invested in United States Treasury instruments.

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Other Credit Risk: There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Counties investments were exposed to credit risk to the extent they were not invested in local government investment pools.

B. DISAGGREGATION OF RECEIVABLES

Receivables at September 30, 2016, were as follows:

	<u>Property Tax Receivables</u>	<u>Office Receivables</u>	<u>Inmate Receivables</u>	<u>Grants/Other Receivables</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	\$ 107,799	\$ 1,685,510	\$ 426,282	\$ 86,350	\$ 2,305,941
Garza County Jail Fund			113,251		113,251
Road and Bridge Fund	19,123			96,994	116,117
Other Governmental Funds				23,077	23,077
Less: Allowance for Uncollectibles	<u>(59,751)</u>	<u>(1,544,264)</u>			<u>(1,604,015)</u>
Total - Governmental	<u>\$ 67,171</u>	<u>\$ 141,246</u>	<u>\$ 539,533</u>	<u>\$ 206,421</u>	<u>\$ 954,371</u>

C. CAPITAL ASSET ACTIVITY

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

	<u>Balance October 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2016</u>
Governmental Activities				
Land	\$ 66,671	\$	\$	\$ 66,671
Buildings and Equipment	12,270,709	73,741	119,535	12,224,915
Construction Work in Progress	5,000	(5,000)		
Totals at Historic Cost	<u>\$ 12,342,380</u>	<u>\$ 68,741</u>	<u>\$ 119,535</u>	<u>\$ 12,291,586</u>
Less: Accumulated Depreciation				
Buildings and Equipment	\$ 3,692,032	\$ 438,385	\$ 118,835	\$ 4,011,582
Total Accumulated Depreciation	<u>\$ 3,692,032</u>	<u>\$ 438,385</u>	<u>\$ 118,835</u>	<u>\$ 4,011,582</u>
Governmental Activities Capital Assets, Net	<u>\$ 8,650,348</u>	<u>\$ (369,644)</u>	<u>\$ 700</u>	<u>\$ 8,280,004</u>

D. ACCRUED COMPENSATED ABSENCES

Accumulated unpaid leave amounts are accrued in governmental funds because they are considered a current liability based on the County's policy, therefore they are recorded in the funds and are also reflected in the government-wide Statement of Net Position. At September 30, 2016, accrued employee benefits recorded on the Statement of Net Position were for vacation pay in the amount of \$14,819.

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

E. LONG-TERM OBLIGATIONS

Long-term obligations include bonds, capital leases, short-term loans, and related issuance discounts. The changes in long-term obligations for the year ended September 30, 2016, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Certificate of Obligation					
Bonds, Series 2008	\$ 7,280,000	\$	\$ 335,000	\$ 6,945,000	\$ 350,000
Capital Leases	252,424		80,827	171,597	55,455
Unamortized Discounts	(92,849)		(6,632)	(86,217)	
Totals:	<u>\$ 7,439,575</u>	<u>\$ 0</u>	<u>\$ 409,195</u>	<u>\$ 7,030,380</u>	<u>\$ 405,455</u>

Total Debt service requirements on Long-Term Debt at September 30, 2016, are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending September 30,			
2017	\$ 405,455	\$ 369,759	\$ 775,214
2018	401,641	351,833	753,474
2019	404,701	332,664	737,365
2020	420,324	312,418	732,742
2021	440,964	291,068	732,032
2022-2026	2,483,512	1,083,720	3,567,232
2027-2029	2,560,000	265,478	2,825,478
Less: Unamortized Discounts	(86,217)		(86,217)
Less: Reserve Fund		(726,544)	(726,544)
Totals	<u>\$ 7,030,380</u>	<u>\$ 2,280,396</u>	<u>\$ 9,310,776</u>

The Reserve Fund is held by the Trustee with US Bank.

Certificate of Obligation Bonds:

A summary of the Certificate of Obligations Bonds is as follows:

<u>Date of Issue</u>	<u>Original Issue</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Outstanding</u>
1/1/2008	\$ 9,240,000	4.2%-5.75%	2/15/2029	\$ 6,945,000

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Capital Leases:

The assets acquired through capital leases are as follows:

<u>Capital Lease Assets</u>	<u>Governmental Activities</u>
Machinery and Equipment	\$ 767,775
Less: Accumulated Depreciation	<u>(347,773)</u>
Totals	<u>\$ 420,002</u>

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2016, are as follows:

Year Ending September 30,	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 55,455	\$ 3,124	\$ 58,579
2018	36,638	2,541	39,179
2019	19,703	1,939	21,642
2020	20,324	1,318	21,642
2021	20,964	678	21,642
2022	18,513	18	18,531
Totals	<u>\$ 171,597</u>	<u>\$ 9,618</u>	<u>\$ 181,215</u>

The effective interest rate on capital leases is 3.00%-3.50%.

F. INTERFUND ACTIVITY

The nature and amount of Interfund Transactions are as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Reason for Transfer</u>
General	\$	\$ 1,627,657	County Jail Operations and Operating Transfers
County Jail	1,525,736		Local Portion of Jail Operating Costs
Road and Bridge	80,835		Operating Transfers
Non-major Funds	21,086		Operating Transfers
	<u>\$ 1,627,657</u>	<u>\$ 1,627,657</u>	

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

G. RETIREMENT PENSION PLAN

Plan Description:

The County provides retirement, disability and death benefits for all of its full time employees through a non-traditional defined benefit pension plan in TCDRS. The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 701 non-traditional defined benefit pension plans. TCDRS in the aggregate issues a Comprehensive Annual Financial Report (CAFR) on a calendar basis. The CAFR is available upon written request from the Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS. Members can retire at ages 60 and above with eight 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 ten years of service.

Members are vested after ten years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee’s contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the Texas state statutes governing TCDRS 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 Texas state statutes governing TCDRS.

Pension Plan Fiduciary Net Position:

Detailed information about the TCDRS fiduciary net position is available in a separately-issued CAFR that includes financial statements and required supplementary information mentioned in the above section.

The information provided by TCDRS shows the following information regarding the Pension Plan fiduciary net position for the County as of December 31, 2015.

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 9,074,421
Less: Plan Fiduciary Net Position	(8,533,021)
Net Pension Liability (Asset)	<u>\$ 541,400</u>
 Net Position as Percentage of Total Pension Liability	 94.03%

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Benefits Provided:

TCDRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries). The normal service retirement is at age 60 with eight years of credited service, when the sum of the member's age and years of credited service equals 75 or more years, or after 30 years of service regardless of age. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

Contributions:

The plan is funded by monthly contributions from employee deposits and from employer contributions based on the covered payroll of employee members. Under the variable rate plan provisions, the contribution rate of the employer is actuarially determined annually. The required contribution was determined as part of the December 31, 2015 actuarial valuation using the entry age actuarial cost method.

The actuarial assumptions at December 31, 2015 included (a) an 8.00% investment rate of return (net of administrative expenses), and (b) a projected salary increase of 4.90%. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The employer contribution rate was 8.03% for 2015. The deposit rate payable by employee members is the rate of 7.00% as adopted by the governing body of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the Texas state statutes governing TCDRS.

	Contribution Rates	
	2015	2014
Member	7.00%	7.00%
Employer	8.03%	8.50%
2015 Employer Contributions	\$	239,873
2015 Member Contributions	\$	209,942

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Actuarial Assumptions:

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	
Smoothing Period	Five years
Recognition Method	Non-asymptotic
Corridor	None
Remaining Amortization Period	13.4 years
Discount Rate	8.10%
Long-Term Expected Investment	
Rate of Return*	8.10%
Salary Increases*	3.50% - 4.90%
Payroll Growth Rate	3.50%
<i>*Includes Inflation of 3%</i>	

The actuarial methods and assumptions are primarily based on a study of the County's workforce and estimate of benefits it will pay its employees. The economic and demographic assumptions have been established based on the 2013 experience study for TCDRS, details of which can be found in the 2013 Investigation and Experience Report on the TCDRS website. The RP-2000 Active Employee Mortality Table was used with a four year set forward.

Discount Rate:

The discount rate used to measure the total pension liability was 8.10%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8.10%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of December 31, 2015 are summarized below:

Asset Class	Target Allocation	Long-term Expected Portfolio Real Rate of Return*
U.S. 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%
Commodities	0.00%	0.00%
Master Limited Partnerships	3.00%	6.80%
Private Real Estate Partnerships	5.00%	6.90%
Hedge Funds	25.00%	5.25%
Total	100.00%	

* - Geometric real rates of return in addition to assumed inflation of 1.6%, per Cliffwater's 2015 capital market assumptions

Discount Rate Sensitivity Analysis:

The following schedule shows the impact of the Net Pension Liability if the discount rate used was one percent less than and one percent greater than the discount rate that was used (8.10%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate (7.1%)	Discount Rate (8.1%)	1% Increase in Discount Rate (9.1%)
Total Pension Liability	\$ 10,200,533	\$ 9,074,421	\$ 8,135,296
Fiduciary Net Position	(8,533,021)	(8,533,021)	(8,495,563)
Net Pension Liability/(Asset)	\$ 1,667,512	\$ 541,400	\$ (360,267)

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

At December 31, 2015, the County reported a liability of \$541,400 for its proportionate share of the TCDRS net pension liability.

The net pension liability was measured as of December 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period January 1, 2015 through December 31, 2015.

There were changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period. The total deferred outflow added as a result of those changes was \$104,863 and is being amortized over a five year period starting January 1, 2015.

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

At December 31, 2015, the County reported its proportionate share of the TCDRS deferred outflows of resources related to pensions from the following sources:

	Deferred (Inflows) Outflows of Resources
Differences Between Expected and Actual Economic Experience	\$ (112,739)
Assumption Changes or Inputs	83,890
Net Difference Between Projected and Actual Earnings	168,838
Contributions Paid to TCDRS Subsequent to the Measurement Date	<u>621,836</u>
Total	<u>\$ 761,825</u>

The net amounts of the employer's balances of deferred outflows related to pensions will be recognized in pension expense as follows:

	Pension Expense Amount
2016	\$ 320,120
2017	151,282
2018	151,282
2019	139,141
2020	0

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

At December 31, 2015, the County reported deferred resource outflows for the TCDRS pension plan as follows:

	Deferred (Inflows) Outflows of Resources
Total Net Amounts as of December 31, 2014 Measurement Date	\$ 234,089
Contributions Made Subsequent to the Measurement Date	168,838
Contributions Made Prior to the Measurement Date	(185,528)
Experience Differences	(104,235)
Earnings Differences	695,082
Assumption Changes or Inputs	104,863
Amortization of Deferred (Inflows) Outflows	(151,284)
Total Net Amounts as of December 31, 2015	\$ <u>761,825</u>

Employees Covered by Benefit Terms:

At the December 31, 2015 valuation and measurement, the plan reported the following regarding employees covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	33
Inactive Employees Entitled to but not Yet Receiving Benefits	51
Active Employees	<u>80</u>
Total Plan Employees	<u>164</u>

H. DISCRETELY PRESENTED COMPONENT UNIT

Garza County Public Facility Corporation leased Dalby Correctional Facility (the Facility) to Management and Training Corporation (MTC) in exchange for rental payments based on inmate man-days. Garza County Public Facility Corporation is a legally separate non-profit public corporation. The Corporation constructed the Facility through the issuance of lease revenue bonds (the Bonds). The County has no obligation relating to the payments under the Bonds. The Bonds are solely payable from the revenue generated from the Facility. The Facility is under an operational contract with Management and Training Corporation (MTC).

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Capital Assets:

	Balance October 1, 2015	Additions	Retirements	Balance September 30, 2016
Component Unit				
Land	\$ 188,500	\$	\$	\$ 188,500
Correctional Facilities	38,542,406			38,542,406
Totals at Historic Cost	<u>\$ 38,730,906</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 38,730,906</u>
Less: Accumulated Depreciation				
Correctional Facilities	\$ 10,806,627	\$ 846,416	\$	\$ 11,653,043
Total Accumulated Depreciation	<u>\$ 10,806,627</u>	<u>\$ 846,416</u>	<u>\$ 0</u>	<u>\$ 11,653,043</u>
Component Unit Capital Assets, Net	<u>\$ 27,924,279</u>	<u>\$ (846,416)</u>	<u>\$ 0</u>	<u>\$ 27,077,863</u>

Long-Term Debt:

Series	Original Issue	Interest Rates	Maturity Date	Outstanding	Type of Debt
2012	\$ 4,165,000	7.75%	2/15/2029	\$ 3,815,000	Taxable Revenue Bonds
2012	35,890,000	6.75%-7.20%	10/1/2025	29,915,000	Taxable Revenue Refunding Bonds
2012	<u>(1,929,675)</u>			<u>(1,537,673)</u>	Unamortized Discounts
	<u>\$ 38,125,325</u>			<u>\$ 32,192,327</u>	

Debt Service Requirements:

Year Ending September 30,	Component Unit		
	Principal	Interest	Total
2017	\$ 2,100,000	\$ 2,272,619	\$ 4,372,619
2018	2,230,000	2,136,063	4,366,063
2019	2,370,000	1,990,984	4,360,984
2020	2,525,000	1,836,565	4,361,565
2021	2,680,000	1,672,342	4,352,342
2022-2026	20,055,000	4,994,910	25,049,910
2027-2030	1,770,000	332,861	2,102,861
Less: Reserve Fund		(3,987,185)	(3,987,185)
Less: Unamortized Discounts	<u>(1,537,673)</u>		<u>(1,537,673)</u>
Totals	<u>\$ 32,192,327</u>	<u>\$ 11,249,159</u>	<u>\$ 43,441,486</u>

GARZA COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

I. LITIGATION, COMMITMENTS, AND SUBSEQUENT EVENTS

There is no pending litigation against the County at September 30, 2016, that would have a material effect on the financial statements.

Management has evaluated subsequent events through February 15, 2017 the date which the financial statements were available to be issued.

J. DEFERRED COMPENSATION PLAN

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The County's Deferred Compensation Plan is administered by one trustee; New York Life. In 1997, the County implemented the requirements of GASB No. 32, *Accounting and Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. In accordance with this statement and recent tax law changes, the County amended their trust agreements, which establish that all assets and income of the trust are for the exclusive benefit of eligible employees and their beneficiaries. Due to the implementation of these changes, the County does not have any fiduciary responsibility or administrative duties relating to the deferred compensation plan other than remitting employees' contributions to the trustees. Accordingly, the County has not presented the assets and liabilities from the Deferred Compensation Plan in these basic financial statements. Deferred compensation investments are held by and outside trustee. The County's Deferred Compensation Plan investments are chosen by the individual (employee) participant and include mutual funds whose focus is on stocks, bonds, treasury securities, money market-type investments or a combination of these. The County's Deferred Compensation Plan, available to all permanent County employees, permits them to defer until future years up to \$16,500. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

REQUIRED SUPPLEMENTARY INFORMATION

GARZA COUNTY, TEXAS

Exhibit B-1

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

	<u>12/31/2015</u>	<u>12/31/2016</u>
TOTAL PENSION LIABILITY:		
Service Cost	\$ 351,992	\$ 406,526
Interest Cost	645,370	688,233
Effect of Plan Changes		(54,034)
Effect of Economic/Demographic losses	(48,918)	(104,235)
Effect of Assumption Changes or Inputs		104,863
Benefit Payments/Refunds of Contributions	<u>(472,120)</u>	<u>(469,682)</u>
Net Change in Total Pension Liability	\$ 476,324	\$ 571,671
Total Pension Liability, Beginning	<u>8,026,425</u>	<u>8,502,749</u>
Total Pension Liability, Ending	<u>\$ 8,502,749</u>	<u>\$ 9,074,420</u>
FIDUCIARY NET POSITION:		
Employer Contributions	\$ 255,203	\$ 239,873
Member Contributions	210,167	209,942
Investment Income, Net of Expenses	543,248	644
Benefit Payments/Refunds of Contributions	(472,120)	(469,682)
Administrative Expenses	(6,355)	(6,123)
Other	<u>(44,387)</u>	<u>62,804</u>
Net Change in Fiduciary Net Position	\$ 485,756	\$ 37,458
Fiduciary Net Position, Beginning	<u>8,009,806</u>	<u>8,495,562</u>
Fiduciary Net Position, Ending	<u>\$ 8,495,562</u>	<u>\$ 8,533,020</u>
NET PENSION LIABILITY:	<u>\$ 7,187</u>	<u>\$ 541,400</u>
Fiduciary Net Position as a % of Total Pension Liability	<u>99.92%</u>	<u>94.03%</u>
County's Covered-Employee Payroll	<u>\$ 3,002,392</u>	<u>\$ 2,987,265</u>
Net Pension Liability as a % of Covered Payroll	<u>0.24%</u>	<u>18.12%</u>

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

GARZA COUNTY, TEXAS

Exhibit B-2

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

<u>Year Ending September 30,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Pensionable Covered Payroll (1)</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2015	\$ 243,726	\$ 243,726	\$ 0	\$ 2,989,641	8.15%
2016	234,062	234,062	0	3,109,275	7.53%

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

GARZA COUNTY, TEXAS

Exhibit B-3

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

	(Unaudited) Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive or (Negative)
	Original	Final		
	Revenue:			
Taxes:				
Property Taxes	\$ 3,356,194	\$ 3,356,192	\$ 3,253,847	\$ (102,345)
License and Permits	1,000	1,000	1,428	428
Intergovernmental Revenue and Grants	913,911	939,060	954,425	15,365
Charges for Services	30,000	30,000	27,928	(2,072)
Fines and Fees	414,440	417,668	427,005	9,337
Investment Earnings	10,000	10,000	12,234	2,234
Rents and Royalties	1,430,550	1,430,550	1,280,492	(150,058)
Other Revenue	28,650	224,531	216,062	(8,469)
Total Revenues	<u>\$ 6,184,745</u>	<u>\$ 6,409,001</u>	<u>\$ 6,173,421</u>	<u>\$ (235,580)</u>
Expenditures:				
Current:				
County Judge	\$ 205,159	\$ 210,159	\$ 212,019	\$ (1,860)
Emergency Management Office	90,973	93,420	95,431	(2,011)
County Clerk	242,890	242,890	235,995	6,895
General Administration	403,939	425,309	398,491	26,818
District Court	150,972	150,972	130,716	20,256
Justices of the Peace	238,412	238,412	221,609	16,803
County Attorney	146,548	146,548	136,752	9,796
County Treasurer	173,172	173,172	172,873	299
County Tax Assessor/Collector	174,765	174,765	159,740	15,025
Courthouse Maintenance	311,851	428,000	258,928	169,072
Constables	269,188	269,914	271,800	(1,886)
Fire Station	34,800	34,800	23,925	10,875
Law Enforcement	1,137,038	1,183,565	1,101,390	82,175
Weighstation	6,400	6,400	5,312	1,088
Probations	182,195	181,195	177,872	3,323
Social Services	620,677	620,677	577,760	42,917
Museum	67,151	67,151	64,100	3,051
Extension Services	126,416	126,416	109,797	16,619
Other Expenditures	27,540	27,540	25,551	1,989
Debt Service:				
Principal	5,647	5,647	5,647	
Interest	226	226	226	
Total Expenditures	<u>\$ 4,615,959</u>	<u>\$ 4,807,178</u>	<u>\$ 4,385,934</u>	<u>\$ 421,244</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 1,568,786</u>	<u>\$ 1,601,823</u>	<u>\$ 1,787,487</u>	<u>\$ 185,664</u>
Other Financing Sources (Uses):				
Proceeds from the Sale of Assets	\$	\$	\$ 16,500	\$ 16,500
Transfers In/Out	<u>(1,568,786)</u>	<u>(1,568,786)</u>	<u>(1,627,657)</u>	<u>(58,871)</u>
Total Other Financing Sources (Uses)	<u>\$ (1,568,786)</u>	<u>\$ (1,568,786)</u>	<u>\$ (1,611,157)</u>	<u>\$ (42,371)</u>
Net Changes in Fund Balance	\$ 0	\$ 33,037	\$ 176,330	<u>\$ 143,293</u>
Fund Balances - Beginning	<u>1,811,413</u>	<u>1,811,413</u>	<u>1,811,413</u>	
Fund Balances - Ending	<u>\$ 1,811,413</u>	<u>\$ 1,844,450</u>	<u>\$ 1,987,743</u>	

GARZA COUNTY, TEXAS

Exhibit B-4

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

	(Unaudited) Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive or (Negative)
	Original	Final		
Revenue:				
Rents and Royalties	\$ 767,125	\$ 767,125	\$ 919,854	\$ 152,729
Investment Earnings			209	209
Total Revenues	<u>\$ 767,125</u>	<u>\$ 767,125</u>	<u>\$ 920,063</u>	<u>\$ 152,938</u>
Expenditures:				
Current:				
County Jail	\$ 1,605,368	\$ 1,605,368	\$ 1,768,864	\$ (163,496)
Debt Service:				
Principal	335,000	335,000	335,000	
Interest	382,991	382,991	382,991	
Total Expenditures	<u>\$ 2,323,359</u>	<u>\$ 2,323,359</u>	<u>\$ 2,486,855</u>	<u>\$ (163,496)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (1,556,234)</u>	<u>\$ (1,556,234)</u>	<u>\$ (1,566,792)</u>	<u>\$ (10,558)</u>
Other Financing Sources (Uses):				
Transfers In/Out	\$ 1,556,234	\$ 1,556,234	\$ 1,525,736	\$ (30,498)
Total Other Financing Sources (Uses)	<u>\$ 1,556,234</u>	<u>\$ 1,556,234</u>	<u>\$ 1,525,736</u>	<u>\$ (30,498)</u>
Net Changes in Fund Balance	\$ 0	\$ 0	\$ (41,056)	<u>\$ (41,056)</u>
Fund Balances - Beginning	<u>807,661</u>	<u>807,661</u>	<u>807,661</u>	
Fund Balances - Ending	<u>\$ 807,661</u>	<u>\$ 807,661</u>	<u>\$ 766,605</u>	

GARZA COUNTY, TEXAS

Exhibit B-5

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - ROAD & BRIDGE FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

	(Unaudited) Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive or (Negative)
	Original	Final		
Revenue:				
Taxes:				
Property Taxes	\$ 592,270	\$ 592,269	\$ 584,954	\$ (7,315)
License and Permits	228,907	228,907	239,294	10,387
Intergovernmental Revenue and Grants	17,621	650,842	214,345	(436,497)
Charges for Services		185,000	205,860	20,860
Fines and Fees	64,000	64,000	62,554	(1,446)
Investment Earnings	2,100	2,100	5,640	3,540
Total Revenues	<u>\$ 904,898</u>	<u>\$ 1,723,118</u>	<u>\$ 1,312,647</u>	<u>\$ (410,471)</u>
Expenditures:				
Current:				
Road and Bridge	\$ 856,300	\$ 1,551,843	\$ 932,396	\$ 619,447
Debt Service:				
Principal	75,180	75,180	75,180	
Interest	7,284	7,284	7,284	
Total Expenditures	<u>\$ 938,764</u>	<u>\$ 1,634,307</u>	<u>\$ 1,014,860</u>	<u>\$ 619,447</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (33,866)</u>	<u>\$ 88,811</u>	<u>\$ 297,787</u>	<u>\$ 208,976</u>
Other Financing Sources (Uses):				
Transfers In/Out	\$ 33,866	\$ 33,866	\$ 80,835	\$ 46,969
Total Other Financing Sources (Uses)	<u>\$ 33,866</u>	<u>\$ 33,866</u>	<u>\$ 80,835</u>	<u>\$ 46,969</u>
Net Changes in Fund Balance	\$ 0	\$ 122,677	\$ 378,622	<u>\$ 255,945</u>
Fund Balances - Beginning	<u>973,547</u>	<u>973,547</u>	<u>973,547</u>	
Fund Balances - Ending	<u>\$ 973,547</u>	<u>\$ 1,096,224</u>	<u>\$ 1,352,169</u>	

GARZA COUNTY, TEXAS

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

A. PENSION PLAN

CHANGES OF BENEFIT TERMS

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

CHANGES OF ASSUMPTIONS

There were changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period. The total deferred outflow added as a result of those changes was \$104,863 and is being amortized over a five year period.

B. BUDGETARY DATA

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

1. The County Judge, as budget officer, prepares a budget to cover all proposed expenditures and the means of financing them, for the succeeding year and delivers the proposed budget to Commissioners' Court.
2. Commissioners' Court holds budget sessions with each department head.
3. Commissioners' Court holds budget hearings for the public at which all interested persons' comments concerning the budget are heard.
4. Commissioners' Court formally adopts the budget in the open court meeting.
5. The adopted budget becomes the authorization for all legal expenditures for the County for the fiscal year. Appropriations lapse at the end of the fiscal year.
6. The formally adopted budget may legally be amended by Commissioners' in accordance with article 689A-11 or 689A-20 of Vernon's Annotated Civil Statutes.

An appropriate resolution (the appropriated budget) to control the level of expenditures must be legally enacted on or before September 1. The County maintains its legal level of budgetary control at the department level. Amendments to the 2015-2016 budget were approved by the Commissioners' Court as provided by law.

COMBINING STATEMENTS

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GARZA COUNTY, TEXAS

Exhibit C-1

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

	Special Revenue Funds						Other	Total
	Commercial Residential Permits	Victims Assistance	Courthouse Security	Preservation and Records Management	Justice of the Peace Technology	Garza County EMS	Governmental Funds (See Exhibit C-3)	Non-major Governmental Funds (See Exhibit A-3)
ASSETS:								
Cash and Cash Equivalents	\$ 7,271	\$ 2,097	\$ 7,741	\$ 60,627	\$ 22,472	\$ 5,428	\$ 186,818	\$ 292,454
Accounts Receivable, Net of Allowance			603	2,794	546	3	19,131	23,077
Total Assets	<u>\$ 7,271</u>	<u>\$ 2,097</u>	<u>\$ 8,344</u>	<u>\$ 63,421</u>	<u>\$ 23,018</u>	<u>\$ 5,431</u>	<u>\$ 205,949</u>	<u>\$ 315,531</u>
LIABILITIES AND FUND BALANCES								
LIABILITIES:								
Accounts Payable	\$	\$ 1	\$	\$ 21	\$ 9	\$ 1	\$ 9,251	\$ 9,283
Accrued Wages			830			1,325		2,155
Total Liabilities	<u>\$ 0</u>	<u>\$ 1</u>	<u>\$ 830</u>	<u>\$ 21</u>	<u>\$ 9</u>	<u>\$ 1,326</u>	<u>\$ 9,251</u>	<u>\$ 11,438</u>
FUND BALANCES:								
Permanently Restricted for:								
County Schools	\$	\$	\$	\$	\$	\$	\$ 148,284	\$ 148,284
Restricted for:								
Enabling Legislation	7,271	2,096	7,514	63,400	23,009	4,105	48,414	155,809
Total Fund Balances	<u>\$ 7,271</u>	<u>\$ 2,096</u>	<u>\$ 7,514</u>	<u>\$ 63,400</u>	<u>\$ 23,009</u>	<u>\$ 4,105</u>	<u>\$ 196,698</u>	<u>\$ 304,093</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 7,271</u>	<u>\$ 2,097</u>	<u>\$ 8,344</u>	<u>\$ 63,421</u>	<u>\$ 23,018</u>	<u>\$ 5,431</u>	<u>\$ 205,949</u>	<u>\$ 315,531</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Special Revenue Funds						Other Governmental Funds (See Exhibit C-4)	Total Non-Major Governmental Funds (See Exhibit A-5)
	Commercial Residential Permits	Victims Assistance	Courthouse Security	Preservation and Records Management	Justice of the Peace Technology	Garza County EMS		
Revenue:								
Licenses and Permits	\$ 500	\$	\$	\$	\$	\$	\$	\$ 500
Intergovernmental Revenue and Grants						36,021	218,769	254,790
Fines and Fees			7,578	32,295	6,766		2,258	48,897
Investment Earnings		7	66	313	119	84	4,693	5,282
Total Revenues	\$ 500	\$ 7	\$ 7,644	\$ 32,608	\$ 6,885	\$ 36,105	\$ 225,720	\$ 309,469
Expenditures:								
Current:								
General Administration	\$	\$	\$ 21,562	\$	\$ 6,286	\$	\$ 976	\$ 22,538
Courthouse Maintenance				20,591				26,877
Social Services							227,858	227,858
Emergency Medical Services						34,008		34,008
Total Expenditures	\$ 0	\$ 0	\$ 21,562	\$ 20,591	\$ 6,286	\$ 34,008	\$ 228,834	\$ 311,281
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 500	\$ 7	\$ (13,918)	\$ 12,017	\$ 599	\$ 2,097	\$ (3,114)	\$ (1,812)
Other Financing Sources:								
Transfers In	\$	\$	\$ 21,086	\$	\$	\$	\$	\$ 21,086
Total Other Financing Sources	\$ 0	\$ 0	\$ 21,086	\$ 0	\$ 0	\$ 0	\$ 0	\$ 21,086
Net Change in Fund Balances	\$ 500	\$ 7	\$ 7,168	\$ 12,017	\$ 599	\$ 2,097	\$ (3,114)	\$ 19,274
Fund Balances - Beginning	6,771	2,089	346	51,383	22,410	2,008	199,812	284,819
Fund Balances - Ending	\$ 7,271	\$ 2,096	\$ 7,514	\$ 63,400	\$ 23,009	\$ 4,105	\$ 196,698	\$ 304,093

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GARZA COUNTY, TEXAS

Exhibit C-3

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

	Special Revenue Funds					Permanent Fund	Total Non-Major Governmental Funds (See Exhibit C-1)
	Voter Registration	Garza County Title IV-E	County Estray Fee	National School Lunch Program	Available School	Permanent School	
ASSETS:							
Cash and Cash Equivalents	\$ 650	\$ 491	\$ 1,653	\$ 34,011	\$ 201	\$ 149,812	\$ 186,818
Accounts Receivables, Net of Allowance				19,008		123	19,131
Interfund Balances					1,590	(1,590)	
Total Assets	<u>\$ 650</u>	<u>\$ 491</u>	<u>\$ 1,653</u>	<u>\$ 53,019</u>	<u>\$ 1,791</u>	<u>\$ 148,345</u>	<u>\$ 205,949</u>
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Accounts Payable	\$	\$	\$	\$ 9,190	\$	\$ 61	\$ 9,251
Total Liabilities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,190</u>	<u>\$ 0</u>	<u>\$ 61</u>	<u>\$ 9,251</u>
FUND BALANCES:							
Permanently Restricted for:							
County Schools	\$	\$	\$	\$	\$	\$ 148,284	\$ 148,284
Restricted for:							
Enabling Legislation	650	491	1,653	43,829	1,791		48,414
Total Fund Balances	<u>\$ 650</u>	<u>\$ 491</u>	<u>\$ 1,653</u>	<u>\$ 43,829</u>	<u>\$ 1,791</u>	<u>\$ 148,284</u>	<u>\$ 196,698</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 650</u>	<u>\$ 491</u>	<u>\$ 1,653</u>	<u>\$ 53,019</u>	<u>\$ 1,791</u>	<u>\$ 148,345</u>	<u>\$ 205,949</u>

GARZA COUNTY, TEXAS

Exhibit C-4

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Special Revenue Funds					Permanent Fund	Total Non-Major Governmental Funds (See Exhibit C-2)
	Voter Registration	Garza County Title IV-E	County Estray Fee	National School Lunch Program	Available School	Permanent School	
Revenue:							
Intergovernmental Revenue and Grants	\$	\$	\$	\$ 218,769	\$	\$	\$ 218,769
Fines and Fees			2,258				2,258
Investment Earnings		2		151	1	4,539	4,693
Total Revenues	\$ 0	\$ 2	\$ 2,258	\$ 218,920	\$ 1	\$ 4,539	\$ 225,720
Expenditures:							
Current:							
General Administration	\$	\$	\$ 605	\$	\$ 293	\$ 78	\$ 976
Social Services				227,858			227,858
Total Expenditures	\$ 0	\$ 0	\$ 605	\$ 227,858	\$ 293	\$ 78	\$ 228,834
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 0	\$ 2	\$ 1,653	\$ (8,938)	\$ (292)	\$ 4,461	\$ (3,114)
Other Financing Sources:							
Transfers In/(Out)	\$	\$	\$	\$	\$ 400	\$ (400)	\$
Total Other Financing Sources	\$ 0	\$ 0	\$ 0	\$ 0	\$ 400	\$ (400)	\$ 0
Net Change in Fund Balances	\$ 0	\$ 2	\$ 1,653	\$ (8,938)	\$ 108	\$ 4,061	\$ (3,114)
Fund Balances - Beginning	650	489	0	52,767	1,683	144,223	199,812
Fund Balances - Ending	\$ 650	\$ 491	\$ 1,653	\$ 43,829	\$ 1,791	\$ 148,284	\$ 196,698

OTHER INFORMATION REQUIRED BY GAO

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

**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**

Independent Auditor's Report

To the Honorable Judge and
Members of the Commissioners' Court of
Garza County, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Garza County, Texas, (the County) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Garza County, Texas' basic financial statements, and have issued our report thereon dated February 15, 2017.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. [2016-1]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Garza 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*.

The County's Response to Findings

The County's response to the findings identified in our audit is described in the accompanying schedule of findings and responses [2016-1]. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

February 15, 2017

GARZA COUNTY, TEXAS

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

Current Year's Findings: [2016-1]

Condition: Lack of review and authorization procedures surrounding the reconciliation of balance sheet accounts (excluding cash and cash equivalents).

Criteria: The County does not have a system in place that ensures balance sheet accounts are being properly reconciled and that necessary journal entries are being posted to ensure that the accounts are in balance with reconciliations available.

Cause of Condition: Lack of Internal Controls related to review and authorization procedures.

Recommendation: The County needs to have procedures in place for recording and reconciling journal entries and other activity posted to all balance sheet accounts.

Client Response: The County is investing resources in training the accounting staff will continue to improve controls in this area in the future.