

**COUNTY OF GAINES
INDEPENDENT AUDITOR'S REPORT**

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

COUNTY OF GAINES

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Judge and Commissioners' Court
County of Gaines
P.O. Box 847
Seminole, Texas 79360

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Gaines, Seminole, Texas, as of September 30, 2016, and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and the schedule of employer contributions on pages 3 – 10 and 41 – 50 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 assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Gaines, Seminole, Texas' basic financial statements. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by Texas Uniform Grant Management Standards and is not required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 schedule of expenditures of state awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

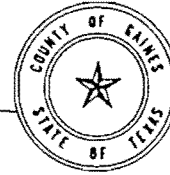
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2016, on our consideration of the County of Gaines, Seminole, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County of Gaines, Seminole, Texas' internal control over financial reporting and compliance.

Davis, Ray & Co.

Seminole, Texas
December 14, 2016

COUNTY OF GAINES



RICK DOLLAHAN, County Auditor

P. O. Box 847

Seminole, Texas 79360

December 14, 2016

Honorable Carter T. Schildknecht, District Judge, 106th Judicial District

Honorable Commissioners Court:

Tom N. Keyes	County Judge		
Danny Yocom	Commissioner, PCT 1	Craig Belt	Commissioner, PCT 2
Blair Tharp	Commissioner, PCT 3	Biz Houston	Commissioner, PCT 4

In accordance with Chapter 114.025(c) VTCA, I submit herewith my report of the financial position of County of Gaines, Texas as of September 30, 2016 together with the results of the operations for the fiscal year of 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Audited Financial Report, the management of County of Gaines, Texas, discusses and analyzes the County's financial performance for the fiscal year ended September 30, 2016. Please read it in conjunction with the independent auditors' report and the County's basic financial statements which begin on page 11.

FINANCIAL HIGHLIGHTS

- At the close of the most recent fiscal year, County of Gaines's net position was \$60,661,465 an increase of \$610,210 from the prior year. Of this amount, \$26,168,091 was unrestricted net position.
- The County has no capital long term debt, but does have various operating leases for computer equipment and copiers, as well as a capital lease for golf course maintenance equipment. Everything else is on a cash basis.
- During the year, the County had expenses of \$23,029,159 which were \$610,210 less than the \$23,639,369 generated in Program and General Revenues. This compares to last year when revenues exceeded expenses by \$8,148,450.
- The General Fund ended the year with a fund balance of \$8,261,814 as compared to last year's fund balance of \$8,523,559.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to County of Gaines' basic financial statements. County of Gaines' basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 11 and 12). These provide information about the activities of the County as a whole and present a long-term view of the County's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

The Road to Excellence is Built with Vision

Fund financial statements (starting on page 13) report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the County were sold to departments within the County or to external consumers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of other County funds or those outside of the County. They show what assets these funds have and who they belong to.

The notes to the financial statements (starting on page 20) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

REPORTING THE COUNTY AS A WHOLE – THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The analysis of the County's overall financial condition and operations begins on page 11. Its primary purpose is to show whether the County is better or worse off as a result of the year's activities. The Statement of Net Position includes all the County's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the County's operations during the year. The County has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities and in the fund financial statements for proprietary fund activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

These two statements report the County's net position and changes in position. The County's net position (the difference between assets and liabilities) provides one measure of the County's financial health or financial position. Over time, increases or decreases in the County's net position is one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the County, however, you should consider non-financial factors as well, such as changes in the County's property tax base and the condition of the County's facilities.

In the Statement of Net Position and the Statement of Activities, the County reports governmental activities:

Governmental activities – Most of the basic services are reported here, including general administration, law enforcement, judicial, road and bridge maintenance, cemetery, parks, airport and library services. Property taxes, courts and services revenue and vehicle registration fees finance most of these activities.

REPORTING THE COUNTY'S MOST SIGNIFICANT FUNDS – THE FUND FINANCIAL STATEMENTS

The fund financial statements begin on page 13 and provide detailed information about the most significant funds—not the County as a whole. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Laws and contracts require the County to establish some funds. The County's administration can establish many other funds to help it control and manage money for particular purposes (e.g. capital projects). All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds. Each category uses a different accounting approach.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide statements, governmental funds focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements. These funds use modified cash basis of accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) to reflect that focus. The governmental fund statements provide a detailed near-term view of the County's general operations and the basic services it provides.

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 County's near-term financing decisions. Following each of the governmental fund financial statements (the balance sheet and the statement of revenues, expenditures and changes in fund balance) is a reconciliation to facilitate this comparison between the governmental fund financial statements and the government-wide statements.

Fiduciary funds – The County is the trustee, or fiduciary, for money received in numerous offices. All of the County's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 19. We report the resources these activities produce that are due to County operating funds as an interfund receivable in those funds and as an interfund payable in the Statement of Fiduciary Net Position. All other resources within the fiduciary activities are excluded from the County's other financial reports because the County cannot use those assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the County's governmental and business-type activities.

Net position of the County's governmental activities increased from \$60,051,255 to \$60,661,465. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – was \$26,168,091 at September 30, 2016.

	Governmental Activities 2016	Governmental Activities 2015
Assets:		
Current and Other Assets	26,168,091	25,229,830
Capital Assets	34,620,974	34,994,448
Total Assets	60,789,065	60,224,278
Liabilities:		
Lease Obligation Payable-Current Portion	46,805	45,423
Noncurrent Liabilities		
Lease Obligation Payable-Noncurrent Portion	80,795	127,600
Total Liabilities	127,600	173,023
Net Assets:		
Net Investment in Capital Assets	34,493,374	34,994,448
Unrestricted Net Position	26,168,091	25,056,807
Total Net Position	60,661,465	60,051,255

	Governmental Activities 2016	Governmental Activities 2015
Revenues:		
Program Revenues:		
Charges for Services	1,844,920	1,898,569
Operating Grants and Contributions	253,746	249,885
Capital Grants and Contributions	965,012	3,392,352
Total Program Revenues	3,063,678	5,540,806
General Revenues:		
Taxes		
Property Taxes, Levied for General Purposes	20,347,594	22,527,216
Investment Earnings	89,860	18,813
Miscellaneous Revenue	4,710	2,722
Gain on Sale of Assets	133,527	82,388
Total General Revenue and Special Items	20,575,691	22,631,139
Total Program & General Revenues	23,639,369	28,171,945

Table II (Continued)
County of Gaines, Texas
CHANGES IN NET POSITION

	Governmental Activities 2016	Governmental Activities 2015
Expenses:		
General Administration	2,938,597	2,410,360
Judicial	1,902,664	1,844,176
Elections	162,712	161,926
Financial Administration	614,038	624,364
Tax Administration	545,681	546,458
Facilities Management	1,523,766	1,409,733
Law Enforcement	1,465,968	1,489,436
Fire Protection	352,475	349,224
Corrections	2,872,895	2,097,289
Civil Defense	84,127	53,306
Road and Bridge	7,473,439	6,065,807
Sanitation	22,519	22,519
Airport	202,119	67,229
Health	692,933	674,831
Human Services	71,340	72,002
Golf Course	763,764	746,872
Parks	341,851	400,615
Museums	136,475	126,725
County Extension Service	173,746	157,244
Libraries	425,907	430,048
Senior Citizens	262,143	273,331
Total Expenses	23,029,159	20,023,495
Change in Net Position	610,210	8,148,450
Net Position at Beginning of Year	60,051,255	51,902,805
Net Position at End of Year	60,661,465	60,051,255

Key factors related to the County's financial performance over the last year include the following:

1. Mineral values decreased more than 30% while real property taxable values stayed about the same.
2. The ad valorem property tax revenue levy was 2 million dollars less than the prior year. The court worked hard this year to stay well below the effective tax rate and were able to do that by cutting various items from the prior year budget.
3. The county paid off its retirement system deficit and in effect invested in lower employee benefit costs for years to come by doing so.
4. Local officials, department heads and employees are committed to staying within their budgets and not asking for unnecessary things. This attention to budget discipline really helps the county control its costs.

The cost of all governmental activities this year was \$23,029,159 which was a 15.01% increase over the prior year. However, as shown in the Statement of Activities on page 12, the amount that our taxpayers ultimately financed for these activities was \$19,965,481 because some of the costs were paid with charges for services of \$1,844,920 a \$53,649 decrease from the year before and operating grants and contributions of \$253,746 a \$3,861 increase. In addition, the county received Capital Grants and Contributions of \$965,012 that were almost entirely used to rebuild roads damaged by heavy oil field traffic. All of the costs for this repair were capitalized.

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as reported on the balance sheet on page 13-14) reported a combined fund balance of \$26,168,091 which is \$938,261 more than last year's total of \$25,229,830. Included in this year's total change in fund balance is an increase of \$792,810 in the County's Capital Project Fund.

For fiscal year 2016, actual expenditure and transfers out of the General Fund were \$15,275,076 compared to the original budget expenditures of \$16,065,905. Actual revenue on a budgetary basis was \$15,013,331 compared to the original budget of \$14,591,135. Reasons for the actual numbers varying from the budget follow:

- The various categories of revenues were generally equal to the prior year, with the exception of property tax revenues, which decreased by \$2,179,622.
- Property tax was higher than budgeted because the Court only budgets 97% of the levy.
- Interest earnings received were much higher than budgeted, a reflection of the uptick in rates.
- Total disbursements were less than budgeted but transfers out were well above the original budget, as money was moved to the Capital Projects fund as planned.
- In fact, virtually every category came in under budget as the court and the various officials and department heads really limited spending to only what was necessary.

Over the course of the year, the County's Commissioners' Court revised the County budget several times. These revisions include amendments and supplemental appropriations that were approved during the year to address mid-year situational changes and amendments. This was accomplished by moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs. The primary amendments include moving contingency/reserve budgeted amounts to amend other lines to allow:

- Increasing several line items in a variety of departments to purchase or replace various items,
- Upgrading or replacing office computers and hardware as they wore out,
- Purchasing furniture and equipment.

Page 41 provides a comparison of these changes as they relate to the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At the end of fiscal year 2016, the County had \$34,620,974, a decrease of \$373,474, invested in a broad range of capital assets, including land, buildings and equipment. The County's fiscal year 2016 capital outlay expenditures in all funds totaled \$1,930,734. This includes the following:

- Completing the construction the new building for the maintenance department,
- Various pieces of heavy machinery was purchased, and
- Various pieces of fleet replacement equipment was purchased,
- Reconstruction of roads as described on page 7.

More detailed information about the County's capital assets is presented in Note III, Item D to the financial statements.

At year end, the County had \$305,779 in commitments under operating and capital leases.

More detailed information about the County's long-term liabilities is presented in Note III, Item E and F to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County Judge and Commissioners' Court members considered many factors when setting the FY 2017 budget and tax rates. Some key items that should be noted are as follows:

1. Mineral and related taxable values plunged almost 40% for this budget causing the effective tax rate to increase by 22.9 cents above the tax rate for FY 2016. On the other hand, local property tax values increased slightly. The net result of these changes completely reversed the recent trend of shifting the burden of the tax levy from private property to minerals.
2. The Court undertook a dramatic change in the way the expenditure budget was funded in 2008. As can be seen from recent financial statements that is all that allowed the court to weather this dramatic change in available revenue without catastrophic changes to the overall budget. The courts' past planning and budget decisions helped them again this year as they were able to cut almost \$3.3 million from the prior year budget and still fund essential services.
3. The Court continues to save and pay cash for projects. By paying cash for these projects, the county continues to be able to say that it is debt free and saves the taxpayers a small fortune in debt servicing costs. In the end, the Court adopted a tax rate of \$0.605445 some 11.3 cents below the effective tax rate. This is the second year in a row for major cuts in revenue for the county as they were 5.6 cents below the effective tax rate in 2016. The only taxing entity in Gaines County that reduced its levy in these tough times.
4. Elected official/employee base pay stayed the same but the Court did allow longevity increases for the employees. There were no changes to the retirement system or other employee benefits.
5. However, as discussed during the budget hearings, the court paid off the retirement system deficit in 2016 and this significant reduction in employee benefit costs will help the county for years to come.
6. Most of the other special revenue funds are projecting no major changes. The court believes in maintaining all county facilities and the Capital Projects fund may be used to upgrade and modify existing county buildings this year. If that happens this fund may decrease somewhat.
7. The oil and agriculture industries in our area have had successful years but continue to be very unpredictable. This year is a classic example of the boom and bust cycle of the oil industry, and agriculture continues to be challenging for those that work in this vital industry. These two industries remain the largest parts of our local business activity, and the uncertainty that goes along with them makes it a challenge to accurately predict long-term economic and population numbers for County of Gaines. Possibilities that will help strengthen and expand existing business and industry remain a focal point for economic development, along with seeking and pursuing opportunities not directly linked to oil and agriculture to help create stability and diversification for our local economy.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, consumers, investors and creditors with a general overview of the County of Gaines' finances and to show the County's accountability for the money it receives. For questions concerning any information provided in this report or requests for additional financial information, contact County Auditor, County of Gaines, Texas, PO Box 847, Seminole, Texas 79360.

ACKNOWLEDGMENTS

For their assistance and cooperation already and during the upcoming year, we thank the District Judge, County Judge, Commissioners' Court, Treasurer's Office and other elected officials, department heads, foremen and employees in the various departments. The interest and involvement of the Commissioners' Court in planning and conducting the financial operations of the County is appreciated.

Kudos also to the Auditor's staff for their hard work, knowledge and willingness to help the great folks serving the County of Gaines. Please remember that County Auditor's Office is here to help, and looks forward to the opportunity of working with anyone who calls upon them.

Respectfully submitted,

Rick Dollahan

County of Gaines Auditor

BASIC FINANCIAL STATEMENTS

COUNTY OF GAINES
 STATEMENT OF NET POSITION - MODIFIED CASH BASIS
 SEPTEMBER 30, 2016

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 25,427,180
Inventory	740,911
Capital assets:	
Land	488,215
Infrastructure, net	10,757,740
Buildings, net	17,958,833
Machinery and equipment, net	5,233,463
Construction in progress	182,723
<i>Total Assets</i>	<u>60,789,065</u>
<u>LIABILITIES</u>	
Current Liabilities:	
Lease obligation payable-current portion	46,805
Noncurrent Liabilities:	
Lease obligation payable-noncurrent portion	80,795
<i>Total Liabilities</i>	<u>127,600</u>
<u>NET POSITION</u>	
Net investment in capital assets	34,493,374
Unrestricted	26,168,091
<i>Net Position</i>	<u>\$ 60,661,465</u>

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

COUNTY OF GAINES
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Expenses	Program Revenues			Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental
Governmental Activities:					
General administration	\$ 2,938,597	\$ 24,501	\$ 18,632	\$ -	\$ (2,895,464)
Judicial	1,902,664	638,091	194,016	-	(1,070,557)
Elections	162,712	20,115	-	-	(142,597)
Financial administration	614,038	-	-	-	(614,038)
Tax administration	545,681	153,114	-	-	(392,567)
Facilities management	1,523,766	-	-	-	(1,523,766)
Law enforcement	1,465,968	55,843	2,197	-	(1,407,928)
Fire protection	352,475	-	-	-	(352,475)
Corrections	2,872,895	97,283	-	-	(2,775,612)
Civil defense	84,127	-	-	-	(84,127)
Road and bridge	7,473,439	548,419	37,925	905,006	(5,982,089)
Sanitation	22,519	-	-	-	(22,519)
Airport	202,119	3,271	-	60,006	(138,842)
Health	692,933	-	-	-	(692,933)
Human services	71,340	-	-	-	(71,340)
Golf course	763,764	236,083	-	-	(527,681)
Parks	341,851	41,023	-	-	(300,828)
Museums	136,475	157	-	-	(136,318)
County extension	173,746	-	-	-	(173,746)
Libraries	425,907	27,020	976	-	(397,911)
Senior citizens	262,143	-	-	-	(262,143)
Total Primary Government	\$ 23,029,159	\$ 1,844,920	\$ 253,746	\$ 965,012	\$ (19,965,481)
General Revenues:					
Property taxes					\$ 20,347,594
Interest income					89,860
Miscellaneous income					4,710
Gain on sale of assets					133,527
Total General Revenues					20,575,691
Changes in Net Position					610,210
Net Position - Beginning					60,051,255
Net Position - Ending					\$ 60,661,465

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

COUNTY OF GAINES
GOVERNMENTAL FUNDS BALANCE SHEET
MODIFIED CASH BASIS
SEPTEMBER 30, 2016

	General Fund	Road & Bridge Fund	Precinct #1
<u>ASSETS</u>			
Cash and cash equivalents	\$ 8,261,814	\$ 64,563	\$ 3,859,213
Inventory	-	-	147,857
Total Assets	<u>\$ 8,261,814</u>	<u>\$ 64,563</u>	<u>\$ 4,007,070</u>
Fund Balances:			
Non-Spendable:			
Inventory	\$ -	\$ -	\$ 147,857
Assigned:			
Road and bridge	-	64,563	3,859,213
Capital projects	-	-	-
Special revenue funds	-	-	-
Unassigned:	8,261,814	-	-
Total Fund Balances	<u>8,261,814</u>	<u>64,563</u>	<u>4,007,070</u>
Total Liabilities and Fund Balances	<u>\$ 8,261,814</u>	<u>\$ 64,563</u>	<u>\$ 4,007,070</u>

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

Precinct #2	Precinct #3	Precinct #4	Farm to Market Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 2,434,812	\$ 2,548,473	\$ 4,159,986	\$ -	\$ 3,042,751	\$ 1,055,568	\$ 25,427,180
158,951	125,590	308,513	-	-	-	740,911
<u>\$ 2,593,763</u>	<u>\$ 2,674,063</u>	<u>\$ 4,468,499</u>	<u>\$ -</u>	<u>\$ 3,042,751</u>	<u>\$ 1,055,568</u>	<u>\$ 26,168,091</u>
\$ 158,951	\$ 125,590	\$ 308,513	\$ -	\$ -	\$ -	\$ 740,911
2,434,812	2,548,473	4,159,986	-	-	-	13,067,047
-	-	-	-	3,042,751	-	3,042,751
-	-	-	-	-	1,055,568	1,055,568
-	-	-	-	-	-	8,261,814
<u>2,593,763</u>	<u>2,674,063</u>	<u>4,468,499</u>	<u>-</u>	<u>3,042,751</u>	<u>1,055,568</u>	<u>26,168,091</u>
<u>\$ 2,593,763</u>	<u>\$ 2,674,063</u>	<u>\$ 4,468,499</u>	<u>\$ -</u>	<u>\$ 3,042,751</u>	<u>\$ 1,055,568</u>	<u>\$ 26,168,091</u>

COUNTY OF GAINES
RECONCILIATION OF THE GOVERNMENTAL
FUNDS BALANCE SHEET - MODIFIED CASH BASIS
SEPTEMBER 30, 2016

Reconciliation of Governmental Fund Balances to Net Position of Governmental Activities:

Governmental Fund Balances	\$ 26,168,091
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	34,620,974
Long-term liabilities, including capital lease obligations are not due and payable in the current period and therefore are not reported in the funds.	<u>(127,600)</u>
Net Position of Governmental Activities	<u>\$ 60,661,465</u>

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

COUNTY OF GAINES
GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	General Fund	Road & Bridge Fund	Precinct #1
REVENUES			
Property taxes	\$ 13,961,826	\$ -	\$ -
Intergovernmental revenue and grants	-	-	360,236
Charges for services	730,252	480,811	-
Fines	211,689	67,608	-
Investment income	61,661	-	-
Contributions & donations from private sources	-	-	-
Miscellaneous revenue	4,710	-	-
Total Revenues	14,970,138	548,419	360,236
EXPENDITURES			
General administration	2,514,871	-	-
Judicial	1,764,259	-	-
Elections	155,403	-	-
Financial administration	614,038	-	-
Tax administration	545,681	-	-
Facilities management	1,402,259	-	-
Public safety:			
Law enforcement	1,367,058	-	-
Fire protection	352,475	-	-
Corrections	2,537,725	-	-
Civil defense	84,127	-	-
Road and bridge	1,700	59,257	1,605,153
Sanitation	22,519	-	-
Airport	-	-	-
Health	651,961	-	-
Human services	71,340	-	-
Culture and recreation:			
Golf course	-	-	-
Parks	247,746	-	-
Museums	136,475	-	-
County extension	145,814	-	-
Libraries	423,814	-	-
Senior citizens	253,207	-	-
Principal on long-term debt	-	-	-
Interest on long-term debt	-	-	-
Capital outlay	-	-	660,240
Total Expenditures	13,292,472	59,257	2,265,393
OTHER FINANCING SOURCES (USES)			
Sale of real and personal property	43,193	-	76,513
Issuance of capital lease	-	-	-
Transfers in (out)	(1,982,604)	(424,599)	1,792,125
Total Other Financing Sources (Uses)	(1,939,411)	(424,599)	1,868,638
Net Change in Fund Balance	(261,745)	64,563	(36,519)
Fund Balances - Beginning	8,523,559	-	4,043,589
Fund Balances - Ending	\$ 8,261,814	\$ 64,563	\$ 4,007,070

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

Precinct #2	Precinct #3	Precinct #4	Farm to Market Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 6,385,768	\$ -	\$ -	\$ 20,347,594
375,518	116,292	52,960	37,925	-	254,022	1,196,953
-	-	-	-	-	344,946	1,556,009
-	-	-	-	-	9,614	288,911
-	-	-	28,195	-	4	89,860
-	-	-	-	-	21,805	21,805
-	-	-	-	-	-	4,710
<u>375,518</u>	<u>116,292</u>	<u>52,960</u>	<u>6,451,888</u>	<u>-</u>	<u>630,391</u>	<u>23,505,842</u>
-	-	-	-	33,872	15,311	2,564,054
-	-	-	-	-	137,200	1,901,459
-	-	-	-	-	7,309	162,712
-	-	-	-	-	-	614,038
-	-	-	-	-	-	545,681
-	-	-	-	-	97,669	1,499,928
-	-	-	-	-	2,953	1,370,011
-	-	-	-	-	-	352,475
-	-	-	-	59,970	-	2,597,695
-	-	-	-	-	-	84,127
1,469,330	1,657,702	1,416,344	-	-	-	6,209,486
-	-	-	-	-	-	22,519
-	-	-	-	-	176,466	176,466
-	-	-	-	-	40,972	692,933
-	-	-	-	-	-	71,340
-	-	-	-	-	652,556	652,556
-	-	-	-	-	-	247,746
-	-	-	-	-	-	136,475
-	-	-	-	-	348	146,162
-	-	-	-	-	2,093	425,907
-	-	-	-	-	-	253,207
-	-	-	-	-	45,423	45,423
-	-	-	-	-	4,384	4,384
<u>709,331</u>	<u>109,052</u>	<u>55,460</u>	<u>-</u>	<u>363,348</u>	<u>33,303</u>	<u>1,930,734</u>
<u>2,178,661</u>	<u>1,766,754</u>	<u>1,471,804</u>	<u>-</u>	<u>457,190</u>	<u>1,215,987</u>	<u>22,707,518</u>
2,672	6,655	10,904	-	-	-	139,937
-	-	-	-	-	-	-
1,731,298	1,692,874	1,660,190	(6,451,888)	1,250,000	732,604	-
<u>1,733,970</u>	<u>1,699,529</u>	<u>1,671,094</u>	<u>(6,451,888)</u>	<u>1,250,000</u>	<u>732,604</u>	<u>139,937</u>
(69,173)	49,067	252,250	-	792,810	147,008	938,261
<u>2,662,936</u>	<u>2,624,996</u>	<u>4,216,249</u>	<u>-</u>	<u>2,249,941</u>	<u>908,560</u>	<u>25,229,830</u>
<u>\$ 2,593,763</u>	<u>\$ 2,674,063</u>	<u>\$ 4,468,499</u>	<u>\$ -</u>	<u>\$ 3,042,751</u>	<u>\$ 1,055,568</u>	<u>\$ 26,168,091</u>

COUNTY OF GAINES
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
 OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
 SEPTEMBER 30, 2016

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
 of Governmental Funds to the Statement of Activities:**

Net changes in Governmental Fund Balances	\$	938,261
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized		1,930,734
Depreciation expense		(2,297,798)
Net book value of disposed assets		(6,410)
Debt service payments are not reported as expenses in the Statement of Activities		45,423
Change in Net Position of Governmental Activities	\$	610,210

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

COUNTY OF GAINES
STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS -
FIDUCIARY FUNDS
SEPTEMBER 30, 2016

<u>ASSETS</u>	Private Purpose Trust Fund	Agency Funds
Cash and cash equivalents	\$ -	\$ 833,815
Investments	16,560	-
Total Assets	<u>16,560</u>	<u>833,815</u>
 <u>LIABILITIES</u>		
Current Liabilities:		
Intergovernmental payable	-	154,866
Due to others	-	678,949
Total Liabilities	<u>-</u>	<u>833,815</u>
 <u>NET POSITION</u>		
Restricted for cemetery use	<u>16,560</u>	<u>-</u>
Total Net Position	<u>\$ 16,560</u>	<u>\$ -</u>

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

COUNTY OF GAINES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note I.C, these financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

A. REPORTING ENTITY

Gaines County, Texas (the "County"), was created in 1905 by the Texas Legislature. The County operates under the authority of the Commissioners' Court and provides the following services: Law Enforcement, Judicial, Health, Safety, Welfare, Culture, Road & Bridge Maintenance and General Administrative Services. The Commissioners' Court (the "Court") consists of four County Commissioners and the County Judge who are elected by the public. The Court has the primary accountability for fiscal matters.

B. BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. They report information in all of Gaines County, Texas with most of the interfund activities removed. Governmental activities include programs supported primarily by taxes, intergovernmental revenues, and other non-exchange revenues.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the County or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

The General Fund-The General Fund is the County's primary operating fund and is always classified as a major fund. It accounts for all financial resources except those required to be accounted for in another fund. This fund is operated and maintained separately by the Commissioners' Court decision. There are not any outside requirements for the self-imposed separation, and the funds can be used for general County operations.

COUNTY OF GAINES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIS OF PRESENTATION (CONTINUED)

Governmental Funds (Continued)

Other Major Governmental Funds-The Road & Bridge Fund is designated to receive the road and bridge taxes. A portion of these monies is expended in the fund, but the bulk (99%) is transferred to the four precinct funds. All of the precincts' funds have been presented as major funds to obtain a more meaningful presentation. The Farm to Market Fund and Capital Projects Fund are also major special revenue funds.

Special Revenue Funds-The County accounts for resources restricted to, or designated for, specific purposes by the County or a grantor in special revenue funds. Most federal and some state financial assistance is accounted for in a special revenue fund and sometimes unused balances must be returned to the grantor. Most of the County's special revenue funds are not from grants but simply have restrictions on their use.

Fiduciary Funds

Private Purpose Trust Funds-The County accounts for funds that both the principal and the income must be used for purposes that benefit parties other than the County. The Private Purpose Trust Fund is the Memorial Cemetery Fund and is restricted to cemetery use.

Agency Funds-The County accounts for resources held for others in a custodial capacity in agency funds. The County's agency funds are the County Attorney's funds, Sheriff's funds, Justice of the Peace's funds, County Clerk's funds, Tax Assessor Collector's funds, District Clerk's funds, Golf Course fund, State Fee fund, Appellate Judicial fund, County Wide Equalization fund, Employee Flexible Spending fund, Employee Insurance fund and the Probation funds.

Proprietary Funds

The County has no proprietary funds at this time.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

MEASUREMENT FOCUS

In the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined on page 22.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

COUNTY OF GAINES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

MEASUREMENT FOCUS (CONTINUED)

- b. Proprietary funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position. The County currently has no proprietary funds.

BASIS OF ACCOUNTING

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the County utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. ASSETS, LIABILITIES, AND EQUITY

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts or investments if they are in bank money market accounts, certificates of deposits maturing within 90 days or money market investment pools.

DUE FROM (TO) OTHER FUNDS

Interfund receivables and payables arise from interfund transactions and are recorded in the affected funds in the period in which transactions are executed. See Note III, C for additional discussion of interfund receivables, payables and transfers.

CONSUMABLE MATERIAL AND SUPPLIES/INVENTORY

Inventories consist of consumable materials and supplies held for future consumption. Inventory is accounted for under the purchases method. The cost is recorded as an expenditure at the time inventory is purchased. Quantities on hand at year-end are recorded at cost on a first-in, first-out basis with an offsetting nonspendable fund balance.

COUNTY OF GAINES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND EQUITY (CONTINUED)

CAPITAL ASSETS

The County's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over infrastructure, land, buildings, furniture and equipment, depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable.

Depreciation on all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided on the assets' estimated useful lives using the straight-line method of depreciation. The County defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. The range of estimated useful lives by type of asset is as follows:

<u>Assets</u>	<u>Years</u>
Roads	40
Buildings	40-50
Building Improvements	15-25
Vehicles	5-10
Other Equipment	5-10

Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

EQUITY CLASSIFICATION

Government-Wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets—Consists of capital assets including restricted capital assets, net of accumulated depreciation.
- b. Restricted net position—Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulation of other governments; or (2) law through constitutional provisions or enabling legislation. The County has no restricted net position.
- c. Unrestricted net position—Consists of all other net position that does not meet the definition of restricted or net investment in capital assets.

COUNTY OF GAINES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND EQUITY (CONTINUED)

Fund Financial Statements

The Commissioner's Court meets regularly to manage and review cash financial activities and to ensure compliance with established policies. It is the County's policy to keep adequate fund balance to provide a stable financial foundation. The target level for the County's unassigned General Fund balance is set at 120 days of the budgeted General Fund expenditures, considering the annual budget, as amended, for any given fiscal year. Any shortfalls or excess fund balance shall be considered and remedied as set forth in the policy by the Commissioner's Court.

In accordance with GASB Statement No. 54, fund balances are required to be reported according to the following classifications:

- a. Nonspendable fund balance—Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories.
- b. Restricted fund balance—Constraints placed on the use of these resources are either externally imposed by creditors, grantors, contributors or other governments; or are imposed by law (through constitutional provisions or enabling legislation).
- c. Committed fund balance—Includes amounts designated only by formal action of Commissioners Court.
- d. Assigned fund balance—Includes amounts that are constrained by the County's intent to use for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be determined by the County Judge, with assistance of the County Auditor and County Attorney, as needed. The Governmental Funds Balance Sheet provides details of the amounts that have been assigned for specific purposes.
- e. Unassigned fund balance—This is the residual classification for the general fund. The general fund is the only governmental fund that can report a positive unassigned fund balance. Other governmental funds might have a negative unassigned fund balance as a result of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

E. REVENUES, EXPENDITURES, AND EXPENSES

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the County's taxpayers are reported as program revenues. The Statement of Activities demonstrates how other people or entities that participate in programs the County operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use or directly benefit from goods or services provided by a given function or segment of the County such as vehicle registrations.

COUNTY OF GAINES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. REVENUES, EXPENDITURES, AND EXPENSES (CONTINUED)

The "grants and contributions" column includes amounts paid by organizations outside the County to help meet the operational or capital requirements of a given function.

If a revenue is not program revenue, it is general revenue used to support all of the County's functions. Taxes are always general revenues.

The Fund financial statements provide reports on the financial condition and results of operations for three fund categories—governmental, proprietary and fiduciary. Since the resources in the fiduciary funds cannot be used for County operations, they are not included in the government-wide statements. The County considers some governmental funds major and reports their financial condition and results of operations in a separate column. Grants and similar items are recognized as revenue when collected and all eligibility requirements imposed by the provider have been met.

F. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES

In the process of aggregating the financial information for the government-wide Statement of Net Position and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

FUND FINANCIAL STATEMENTS

Interfund activity, if any, within and among the governmental category is reported as follows in the fund financial statements:

1. Interfund loans—Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
2. Interfund services—Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
3. Interfund reimbursements—Repayments from funds responsible for certain expenditures/adjustments to expenditures/expenses in the respective funds.
4. Interfund transfers—Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal balances—Amounts reported in the fund financial statement as interfund receivables and payables are eliminated in the governmental columns of the Statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
2. Internal activities—Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount between governmental and business-type activities, which are reported as Transfers—Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

COUNTY OF GAINES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. USE OF ESTIMATES

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the County requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY COMPLIANCE

The Commissioners' Court adopts an "appropriated budget" for the General Fund and all other funds. The adopted and final amended budgeted revenues and expenditures for the General Fund are presented in the Required Supplementary Information.

The following procedures are used in establishing the budgetary data reflected in the general purpose financial statements:

- a. In July, the County Judge, with the assistance of the County Auditor, prepares a budget for the succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
- b. The budget is filed with the County Clerk and is open to public inspection. The Commissioners' Court is required to hold at least one public hearing on the budget no less than 15 days subsequent to the filing by the County Judge.
- c. Prior to October 1, the budget is legally enacted through passage of a resolution by the Commissioners' Court. Once a budget is approved, it can only be amended at the department and fund level by approval of a majority of the members of the Commissioners' Court. The law requires that such amendments are made before the fact, are reflected in the official minutes of the Commissioners' Court and are not made after fiscal year end. The County had several routine budget amendments during the year. The largest was to move General Fund reserves into a Capital Projects Fund for upcoming capital improvements/purchases. The remaining amendments were mainly to purchase capital items, fund miscellaneous projects throughout the County, and absorb higher fuel costs, insurance increases and road materials.
- d. Each budget is controlled at the revenue and expenditure function level in accordance with Texas statutory guidance. The County Auditor audits and approves legal expenditures. The Commissioners' Court audits and settles claims against the County but can spend money only in accordance with the adopted budget. The Treasurer disburses money after ordered by the Court if the expenditure is in accordance with Texas statutes. All budget appropriations lapse at year end.

COUNTY OF GAINES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following funds had expenditures in excess of revenues with the resulting reduction of fund balance:

General Fund	\$ 261,745
Precinct #1	36,519
Precinct #2	69,173
911 Addressing Fund	4,007
Wal-Mart Grant Fund	314
Appellate Judicial Fund	20
Library Memorial Fund	40

The following funds had planned deficit spending as reflected by budgeted expenditures in excess of expected revenue:

General Fund	\$ 1,555,316
Precinct #1	493,693
Precinct #2	693,693
Precinct #3	493,693
Precinct #4	493,693
Sheriff Forfeiture Fund	3,990
911 - Addressing Fund	9,872
(RAF) Record Archive Fund	56,238
Unclaimed Capital Credits Fund	5,800
Wal-Mart Grant Fund	312
Appellate Judicial Fund	75
Sheriff Commissary Fund	2,995
Capital Projects Fund	679,995

III. NOTES ON FUNDS AND ACCOUNTS

A. DEPOSITS AND INVESTMENTS

County Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits (cash and savings accounts)-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 banks place 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 banks' dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

The County's depository during the year was Commercial State Bank. There were no instances of uninsured or uncollateralized deposits during the year.

At September 30, 2016, the carrying amount of the County's deposits (cash, certificates of deposits and interest-bearing savings accounts) was \$2,771,313, and the bank balance was \$3,290,212. The County's cash deposits as of September 30, 2016 were fully covered by FDIC insurance or by pledged collateral held by the County's agent bank in the County's name.

COUNTY OF GAINES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

III. NOTES ON FUNDS AND ACCOUNTS (CONTINUED)

A. DEPOSITS AND INVESTMENTS (CONTINUED)

A Summary of the County's cash and cash equivalents and investments at September 30, 2016 is shown below:

	Checking and Savings Accounts	Certificate of Deposit	Investment Pools	Total
General	\$ 865,370	\$ -	\$ 7,396,444	\$ 8,261,814
Road & Bridge	-	-	64,563	64,563
Precinct #1	-	-	3,859,213	3,859,213
Precinct #2	-	-	2,434,812	2,434,812
Precinct #3	-	-	2,548,473	2,548,473
Precinct #4	-	-	4,159,986	4,159,986
Capital Projects	-	-	3,042,751.00	3,042,751
Other Governmental Funds	1,055,568	-	-	1,055,568
Total Governmental Funds	<u>\$ 1,920,938</u>	<u>\$ -</u>	<u>\$ 23,506,242</u>	<u>\$ 25,427,180</u>
Fiduciary Fund	-	16,560	-	16,560
Agency Funds	685,411	148,404	-	833,815
Total	<u><u>\$ 2,606,349</u></u>	<u><u>\$ 164,964</u></u>	<u><u>\$ 23,506,242</u></u>	<u><u>\$ 26,277,555</u></u>

Legal and Contractual Provisions Governing Investments

The Public Funds Investments 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.

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

Investment Type	Fair Value	Yield
Certificate of Deposit-		
Commercial State Bank	\$ 164,964	0.3%-0.5%
Texas Class Investment Pool	8,026,169	0.77%
Tex Pool Investment Pool	7,764,555	0.38%
Tex Star Investment Pool	7,715,518	0.41%
Total	<u><u>\$ 23,671,206</u></u>	

COUNTY OF GAINES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

III. NOTES ON FUNDS AND ACCOUNTS (CONTINUED)

A. DEPOSITS AND INVESTMENTS (CONTINUED)

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

Policies Governing Deposits and Investments

Interest Rate Risk-Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The County invests in certificates of deposit and securities with short-term maturity dates to limit the interest rate risk.

Custodial Credit Risk for Deposits (cash, savings account and certificates of deposit)-This is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County's policy regarding types of deposits allowed and collateral requirements is that all deposits must be insured by FDIC or secured by another manner provided by law.

Custodial Credit Risk for Investments-To limit the risk that an issuer or other counter-party to an investment will not fulfill its obligations, the County limits investments to certificates of deposit and public funds investment pools.

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

The public fund investment pool invests only in securities issued or backed by the U.S. Government or its agencies. An investment in these securities is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the issuer seeks to preserve the value of an investment at \$1.00 per share, it is possible to lose money by investing in the security. At September 30, 2016, the County had approximately \$8,026,169 uninsured with Texas Class Investment Pool, \$7,764,555 uninsured with Tex Pool Investment Pool, and \$7,715,518 uninsured with Tex Star Investment Pool.

B. PROPERTY TAXES

In accordance with State Law, The Gaines County Appraisal District makes all appraisals for tax purposes. Assessed values are based upon 100 percent of market value and reviewed every three years. Taxpayers have the right to challenge the assessed value.

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the County in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. Property tax revenues are not considered available in the funds until the County collects them.

COUNTY OF GAINES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

III. NOTES ON FUNDS AND ACCOUNTS (CONTINUED)

B. PROPERTY TAXES (CONTINUED)

The tax rate for the fiscal year ended September 30, 2016, (2015 tax levy) was \$.336 per \$100 assessed value for County General Fund operations and \$.154 for Farm-Market Lateral Road maintenance and operations for a total rate of \$.490. The County is subject to tax rate rollback if the total amount of the property taxes imposed in any year, as defined by statute, exceeds the total amount of property taxes imposed in the preceded year by 8 percent.

C. INTERFUND BALANCES AND TRANSFERS

The interfund transfers reflected on the Statements of Revenues and Expenditures were for routine purposes except for specific transfers totaling \$1,250,000 from the General Fund to the Capital Projects Fund. Transfers from the Road and Bridge and the Farm to Market funds were to the corresponding precinct funds for precinct operations. Transfers from the General Fund were for operations of the Special Revenue Fund for indigent health care, airport operations, cemetery maintenance, and golf course operations.

D. CAPITAL ASSET ACTIVITY

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Land	\$ 488,215	\$ -	\$ -	\$ 488,215
Infrastructure	18,229,593	1,000,880	-	19,230,473
Buildings and Improvements	29,133,230	516,871	-	29,650,101
Furniture and Equipment	16,939,086	533,204	(767,111)	16,705,179
Construction in Progress	302,944	182,723	(302,944)	182,723
Totals at Historic Cost	<u>\$ 65,093,068</u>	<u>\$ 2,233,678</u>	<u>\$ (1,070,055)</u>	<u>\$ 66,256,691</u>
Less Accumulated Depreciation for:				
Infrastructure	\$ (8,016,994)	\$ (455,739)	\$ -	\$ (8,472,733)
Buildings and Improvements	(10,950,481)	(740,787)	-	(11,691,268)
Furniture and Equipment	(11,131,145)	(1,101,272)	760,701	(11,471,716)
Total Accumulated Depreciation	<u>\$ (30,098,620)</u>	<u>\$ (2,297,798)</u>	<u>\$ 760,701</u>	<u>\$ (31,635,717)</u>
Governmental Activities Capital Assets, Net	<u>\$ 34,994,448</u>	<u>\$ (64,120)</u>	<u>\$ (309,354)</u>	<u>\$ 34,620,974</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 374,543
Justice System	1,205
Facilities Management	23,838
Law Enforcement	95,957
Corrections	275,200
Roads and Bridges	1,263,953
Airport	25,653
Golf Course	106,824
Parks	94,105
County Extension Service	27,584
Senior Citizens	8,936
Total Depreciation Expense	<u>\$ 2,297,798</u>

COUNTY OF GAINES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

III. NOTES ON FUNDS AND ACCOUNTS (CONTINUED)

E. COMMITMENTS

Commitments under operating (noncapitalized) lease agreements for several copiers, a postage machine and software provide for minimum future rental payments as of September 30, 2016, as follows:

	2017	\$	73,662
	2018		50,854
	2019		32,925
	2020		20,738
	2021		-
Total Minimum Rentals		<u>\$</u>	<u>178,179</u>

In the current year, the County entered into a contract for the construction of a new community center. Contractual commitments and estimated costs to complete this project were approximately, \$1,607,053 as of September 30, 2016.

F. LONG-TERM OBLIGATIONS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Governmental Activities:</u>					
Capital leases	\$ 173,023	\$ -	\$ 45,423	\$ 127,600	\$ 46,805

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

	2017	\$	46,805
	2018		48,229
	2019		32,566
	2020		-
	2021		-
Total Minimum Rentals		<u>\$</u>	<u>127,600</u>

COUNTY OF GAINES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. OTHER NOTES

A. HEALTH CARE COVERAGE

During the current fiscal year, the employees of Gaines County were covered by a health insurance plan. The coverage is purchased through Blue Cross Blue Shield. The County's cost per employee per month was \$733. The employees, at their option, authorized payroll withholdings to pay contributions for dependents.

B. CAFETERIA PLAN

The County entered into a Pre-Tax Premium Plan that qualifies as a "cafeteria plan." The insurance premiums that qualify for the plan are medical, life and accidental death and dismemberment. The individuals who are eligible to participate are all employees who are covered or who are eligible to be covered under the County's group health plan.

C. EMPLOYEE RETIREMENT BENEFITS

The County provides two separate retirement benefit plans. One plan is the defined benefit plan that is provided through the Texas County and District Retirement System. The County also offers a deferred compensation plan to its employees.

TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM PLAN

Plan Description. Gaines County, Texas provides retirement, disability and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees, P.O. Box 2034, Austin, Texas 78768-0234.

The plan provisions are adopted by the governing body of the employer within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age or when the sum of their age and years of service equals 80 or more. Members are vested after 8 years of service but must leave their accumulated deposits in the plan to receive any employer-financed benefit. Members who withdraw their personal deposits 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 deposits 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 TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death or disability, the benefit is calculated by converting the sum of the employee's accumulated deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy. The employer has elected the annually determined contribution rate (variable-rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. It varied from 10.33% to 6.22% for the year ending September 30, 2016, as a result of an additional lump-sum plan contribution made during the year. The deposit rate payable by the employee members is 7% 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 TCDRS Act.

COUNTY OF GAINES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. OTHER NOTES (CONTINUED)

C. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

Actuarial Assumptions. All actuarial methods and assumptions used for this GASB analysis were the same as those used in the December 31, 2015 funding valuation, except as noted below and throughout this report. Please see the employer summary actuarial valuation report as of December 31, 2015 for further details.

Following are the key assumptions and methods used in this GASB analysis.

Valuation Timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age Normal ⁽¹⁾
Amortization Method	
Recognition of economic/demographic gains or losses	Straight-line amortization over expected working life
Recognition of assumptions changes or inputs	Straight-line amortization over expected working life
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	Same as funding valuation: See Appendix C of TCDRS report.
Salary Increases	Same as funding valuation: See Appendix C of TCDRS report.
Investment Rate of Return	8.10%
Cost-of-Living Adjustments	Cost-of-Living Adjustments for County of Gaines are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Same as funding valuation: See Appendix C of TCDRS report.
Turnover	Same as funding valuation: See Appendix C of TCDRS report.
Mortality	Same as funding valuation: See Appendix C of TCDRS report.

⁽¹⁾ Individual entry age normal cost method, as required by GASB 68, used for GASB calculations. Note that a slightly different version of the entry age normal cost method is used for the funding actuarial valuation.

COUNTY OF GAINES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. OTHER NOTES (CONTINUED)

C. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

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

Note the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013.

Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected Inflation) ⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	14.50%	5.45%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	14.00%	8.45%
Global Equities	MSCI World (net) Index	1.50%	5.75%
International Equities - Developed	MSCI World Ex USA (net)	10.00%	5.45%
International Equities - Emerging	MSCI World Ex USA (net)	8.00%	6.45%
Investment-Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	1.00%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	5.10%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	5.09%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	5.00%	6.40%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	8.10%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	3.00%	4.00%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	6.80%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁴⁾	5.00%	6.90%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	25.00%	5.25%

⁽¹⁾ Target asset allocation adopted at the April 2016 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return in addition to assumed inflation of 1.6%, per 2016 capital market assumptions.

⁽³⁾ Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

⁽⁴⁾ Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

COUNTY OF GAINES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. OTHER NOTES (CONTINUED)

C. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

Depletion of Plan Assets/GASB Discount Rate. The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

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

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

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

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

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

COUNTY OF GAINES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. OTHER NOTES (CONTINUED)

C. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

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

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used a discount rate of 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

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

	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total pension liability	\$35,588,154	\$31,912,647	\$28,805,052
Fiduciary net position	32,370,762	32,370,762	32,370,762
Net pension liability/(asset)	<u>\$3,217,392</u>	<u>(\$458,115)</u>	<u>(\$3,565,710)</u>

COUNTY OF GAINES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. OTHER NOTES (CONTINUED)

C. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

Changes in Net Pension Liability/(Asset). The following presents the increases/(decreases) in net pension liability/(asset):

Changes in Net Pension Liability/ (Asset)	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) – (b)
Balances as of December 31, 2014	\$30,381,310	\$29,758,878	\$622,432
Changes for the year:			
Service cost	935,599	0	935,599
Interest on total pension liability ⁽¹⁾	2,437,789	0	2,437,789
Effect of plan changes	(165,778)	0	(165,778)
Effect of economic/demographic losses	(324,776)	0	(324,776)
Effect of assumptions changes or inputs	361,169	0	361,169
Refund of contributions	(31,325)	(31,325)	0
Benefit payments	(1,681,341)	(1,681,341)	0
Administrative expenses	0	(22,392)	22,392
Member contributions	0	561,451	(561,451)
Net investment income	0	186,139	(186,139)
Employer contributions	0	3,801,209	(3,801,209)
Other ⁽²⁾	0	(201,857)	201,857
Balances as of December 31, 2015	<u>\$31,912,647</u>	<u>\$32,370,762</u>	<u>\$(458,115)</u>

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

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

COUNTY OF GAINES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. OTHER NOTES (CONTINUED)

C. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

Breakdown of Pension Expense. The following presents the components of pension expense:

Pension Expense/(Income)	January 1, 2015 to December 31, 2015
Service cost	\$935,599
Interest on total pension liability ⁽¹⁾	2,437,789
Effect of plan changes	(165,778)
Administrative expenses	22,392
Member contributions	(561,451)
Expected investment return net of investment expenses	(2,529,191)
Recognition of deferred inflows/outflows of resources:	
Recognition of economic/demographic gains or losses	(110,481)
Recognition of assumption changes or inputs	72,234
Recognition of investment gains or losses	542,162
Other ⁽²⁾	201,855
Pension expense/(income)	\$845,130

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

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

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

Deferred Inflows/Outflows of Resources:	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$396,399	\$0
Changes in assumptions	0	288,935
Net difference between projected and actual earnings	0	2,095,098
Contributions subsequent to measurement date ⁽³⁾	N/A	361,981

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

Year ended December 31:	
2016	\$503,915
2017	503,915
2018	503,915
2019	475,889
2020	0
Thereafter ⁽⁴⁾	0

⁽³⁾ If eligible employer contributions were made subsequent to the measurement date through the employer's fiscal year-end, the employer should reflect these contributions, adjusted as outlined in Appendix C of the TCDRS report.

⁽⁴⁾ Total remaining balance to be recognized in future years, if any. Note that additional future deferred inflows and outflows of resources may impact these numbers.

COUNTY OF GAINES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. OTHER NOTES (CONTINUED)

C. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

Schedule of Deferred Inflows and Outflows of Resources. The following presents the components of deferred inflows and outflows of resources:

	Original Amount	Date Established	Original Recognition Period ⁽¹⁾	Amount Recognized in 12/31/2015 Expense ⁽¹⁾	Balance of Deferred Inflows 12/31/2015	Balance of Deferred Outflows 12/31/2015
Investment (gains) or losses	\$2,343,054	12/31/2015	5.0	\$468,611	\$0	\$1,874,443
	367,758	12/31/2014	5.0	73,552	\$0	220,655
Economic/demographic (gains) or losses	(324,776)	12/31/2015	5.0	(64,955)	259,821	0
	(227,631)	12/31/2014	5.0	(45,526)	136,578	0
Assumption changes or inputs	361,169	12/31/2015	5.0	72,234	0	288,935
	0	12/31/2014	5.0	0	0	0
Employer contributions Made subsequent to measurement date	N/A	12/31/2015	N/A	N/A	N/A	361,981
	N/A	12/31/2014	N/A	N/A	N/A	0

⁽¹⁾ Investment (gains)/losses are recognized in pension expense over a period of five years; economic/demographic (gains)/losses and assumption changes or inputs are recognized over the average remaining service life for all active, inactive, and retired members.

⁽²⁾ If eligible employer contributions were made subsequent to the measurement date, the employer should reflect these contributions, adjusted as outlined in Appendix C of the TCDRS report.

DEFERRED COMPENSATION PLAN

The County offers a deferred compensation plan for employees who elect to participate. In a plan set up under Section 457 of the Internal Revenue Code, Participants may defer up to \$18,000 per year. Withdrawals are permitted because of death, emergency as defined by the Internal Revenue Service, termination of employment or retirement. The County does not contribute to the plan, and all assets in the plan belong to the employees.

D. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts, thefts, damage or destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2016, the County purchased commercial insurance to cover these risks. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

COUNTY OF GAINES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. OTHER NOTES (CONTINUED)

E. JOINT VENTURE ARRANGEMENTS

The County is involved in joint ventures with the City of Seminole, Northeast Gaines County Emergency Service District and South Plains Public Health District. These shared costs are for fire protection, landfill operations, emergency medical service, and public health services. Many of these agreements result in the County paying approximately half of the budget, but significant accumulations of financial resources or deficits are not generated from these joint ventures.

F. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 14, 2016, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF GAINES
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
RECEIPTS:				
Taxes-property	\$ 13,805,000	\$ 13,805,000	\$ 13,961,826	\$ 156,826
Charges for services	505,115	505,115	730,252	225,137
Fines	178,195	178,195	211,689	33,494
Investment income	22,000	22,000	61,661	39,661
Miscellaneous revenue	80,820	80,820	4,710	(76,110)
<i>Total receipts</i>	<u>14,591,130</u>	<u>14,591,130</u>	<u>14,970,138</u>	<u>379,008</u>
DISBURSEMENTS:				
Current:				
General administrative	4,449,751	2,717,147	2,514,871	202,276
Judicial	1,869,477	1,889,020	1,764,259	124,761
Elections	177,009	177,009	155,403	21,606
Financial administration	705,645	705,645	614,038	91,607
Tax administration	549,118	549,118	545,681	3,437
Facilities management	1,388,855	1,457,154	1,402,259	54,895
Public safety:				
Law enforcement	1,360,854	1,382,997	1,367,058	15,939
Fire protection	393,105	393,105	352,475	40,630
Corrections	2,205,418	2,551,238	2,537,725	13,513
Civil defense	82,470	84,219	84,127	92
Road and bridge	1,700	1,700	1,700	-
Sanitation	22,519	22,519	22,519	-
Health	650,941	654,091	651,961	2,130
Human services	71,330	71,430	71,340	90
Culture and recreation:				
Parks	300,206	300,206	247,746	52,460
Museums	138,089	138,089	136,475	1,614
County extension	192,528	192,528	145,814	46,714
Libraries	430,899	432,699	423,814	8,885
Senior citizens	271,799	291,799	253,207	38,592
Capital Outlay	140	140	-	140
<i>Total disbursements</i>	<u>15,261,853</u>	<u>14,011,853</u>	<u>13,292,472</u>	<u>719,381</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(670,723)</u>	<u>579,277</u>	<u>1,677,666</u>	<u>1,098,389</u>
OTHER FINANCING SOURCES (USES):				
Sale of real and personal property	5	5	43,193	43,188
Transfers in (out)	(804,052)	(2,134,598)	(1,982,604)	151,994
<i>Total other financing sources (uses)</i>	<u>(804,047)</u>	<u>(2,134,593)</u>	<u>(1,939,411)</u>	<u>195,182</u>
Net change in fund balance	(1,474,770)	(1,555,316)	(261,745)	1,293,571
<i>Fund balance, beginning of year</i>	<u>8,523,559</u>	<u>8,523,559</u>	<u>8,523,559</u>	<u>-</u>
<i>Fund balance, end of year</i>	<u>\$ 7,048,789</u>	<u>\$ 6,968,243</u>	<u>\$ 8,261,814</u>	<u>\$ 1,293,571</u>

COUNTY OF GAINES
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 ROAD & BRIDGE FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
RECEIPTS:				
Charges for services	\$ 391,740	\$ 391,740	\$ 480,811	\$ 89,071
Fines	135,000	135,000	67,608	(67,392)
<i>Total receipts</i>	<u>526,740</u>	<u>526,740</u>	<u>548,419</u>	<u>21,679</u>
DISBURSEMENTS:				
Current:				
Road and bridge	64,563	64,563	59,257	5,306
<i>Total disbursements</i>	<u>64,563</u>	<u>64,563</u>	<u>59,257</u>	<u>5,306</u>
Excess (deficiency) of receipts over (under) disbursements	<u>462,177</u>	<u>462,177</u>	<u>489,162</u>	<u>26,985</u>
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	(462,177)	(462,177)	(424,599)	37,578
<i>Total other financing sources (uses)</i>	<u>(462,177)</u>	<u>(462,177)</u>	<u>(424,599)</u>	<u>37,578</u>
Net change in fund balance	-	-	64,563	64,563
<i>Fund balance, beginning of year</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balance, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,563</u>	<u>\$ 64,563</u>

COUNTY OF GAINES
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 PRECINCT #1
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
RECEIPTS:				
Intergovernmental revenue and grants	\$ 5	\$ 5	\$ 360,236	\$ 360,231
Miscellaneous	5	5	-	(5)
<i>Total receipts</i>	<u>10</u>	<u>10</u>	<u>360,236</u>	<u>360,226</u>
DISBURSEMENTS:				
Current:				
Road and bridge	2,283,065	2,283,065	1,605,153	677,912
Capital outlay	2,005	2,005	660,240	(658,235)
<i>Total disbursements</i>	<u>2,285,070</u>	<u>2,285,070</u>	<u>2,265,393</u>	<u>19,677</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(2,285,060)</u>	<u>(2,285,060)</u>	<u>(1,905,157)</u>	<u>379,903</u>
OTHER FINANCING SOURCES (USES):				
Sale of real and personal property	5	5	76,513	76,508
Transfers in (out)	1,791,362	1,791,362	1,792,125	763
<i>Total other financing sources (uses)</i>	<u>1,791,367</u>	<u>1,791,367</u>	<u>1,868,638</u>	<u>77,271</u>
Net change in fund balance	(493,693)	(493,693)	(36,519)	457,174
<i>Fund balance, beginning of year</i>	<u>4,043,589</u>	<u>4,043,589</u>	<u>4,043,589</u>	<u>-</u>
<i>Fund balance, end of year</i>	<u>\$ 3,549,896</u>	<u>\$ 3,549,896</u>	<u>\$ 4,007,070</u>	<u>\$ 457,174</u>

COUNTY OF GAINES
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 PRECINCT #2
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
RECEIPTS:				
Intergovernmental revenue and grants	\$ 5	\$ 5	\$ 375,518	\$ 375,513
Miscellaneous	5	5	-	(5)
<i>Total receipts</i>	<u>10</u>	<u>10</u>	<u>375,518</u>	<u>375,508</u>
DISBURSEMENTS:				
Current:				
Road and bridge	2,186,431	2,186,431	1,469,330	717,101
Capital outlay	15	200,015	709,331	(509,316)
<i>Total disbursements</i>	<u>2,186,446</u>	<u>2,386,446</u>	<u>2,178,661</u>	<u>207,785</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(2,186,436)</u>	<u>(2,386,436)</u>	<u>(1,803,143)</u>	<u>583,293</u>
OTHER FINANCING SOURCES (USES):				
Sale of real and personal property	5	5	2,672	2,667
Transfers in (out)	1,692,738	1,692,738	1,731,298	38,560
<i>Total other financing sources (uses)</i>	<u>1,692,743</u>	<u>1,692,743</u>	<u>1,733,970</u>	<u>41,227</u>
Net change in fund balance	(493,693)	(693,693)	(69,173)	624,520
<i>Fund balance, beginning of year</i>	<u>2,662,936</u>	<u>2,662,936</u>	<u>2,662,936</u>	<u>-</u>
<i>Fund balance, end of year</i>	<u>\$ 2,169,243</u>	<u>\$ 1,969,243</u>	<u>\$ 2,593,763</u>	<u>\$ 624,520</u>

COUNTY OF GAINES
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 PRECINCT #3
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
RECEIPTS:				
Intergovernmental revenue and grants	\$ 5	\$ 5	\$ 116,292	\$ 116,287
Miscellaneous	5	5	-	(5)
<i>Total receipts</i>	10	10	116,292	116,282
DISBURSEMENTS:				
Current:				
Road and bridge	2,172,195	2,172,195	1,657,702	514,493
Capital outlay	10	10	109,052	(109,042)
<i>Total disbursements</i>	2,172,205	2,172,205	1,766,754	405,451
Excess (deficiency) of receipts over (under) disbursements	(2,172,195)	(2,172,195)	(1,650,462)	521,733
OTHER FINANCING SOURCES (USES):				
Sale of real and personal property	5	5	6,655	6,650
Transfers in (out)	1,678,497	1,678,497	1,692,874	14,377
<i>Total other financing sources (uses)</i>	1,678,502	1,678,502	1,699,529	21,027
Net change in fund balance	(493,693)	(493,693)	49,067	542,760
<i>Fund balance, beginning of year</i>	2,624,996	2,624,996	2,624,996	-
<i>Fund balance, end of year</i>	\$ 2,131,303	\$ 2,131,303	\$ 2,674,063	\$ 542,760

COUNTY OF GAINES
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 PRECINCT #4
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
RECEIPTS:				
Intergovernmental revenue and grants	\$ 5	\$ 5	\$ 52,960	\$ 52,955
Miscellaneous	5	5	-	(5)
<i>Total receipts</i>	10	10	52,960	52,950
DISBURSEMENTS:				
Current:				
Road and bridge	2,142,020	2,142,020	1,416,344	725,676
Capital outlay	10	10	55,460	(55,450)
<i>Total disbursements</i>	2,142,030	2,142,030	1,471,804	670,226
Excess (deficiency) of receipts over (under) disbursements	(2,142,020)	(2,142,020)	(1,418,844)	723,176
OTHER FINANCING SOURCES (USES):				
Sale of real and personal property	5	5	10,904	10,899
Transfers in (out)	1,648,322	1,648,322	1,660,190	11,868
<i>Total other financing sources (uses)</i>	1,648,327	1,648,327	1,671,094	22,767
Net change in fund balance	(493,693)	(493,693)	252,250	745,943
Fund balance, beginning of year	4,216,249	4,216,249	4,216,249	-
Fund balance, end of year	\$ 3,722,556	\$ 3,722,556	\$ 4,468,499	\$ 745,943

COUNTY OF GAINES
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 FARM TO MARKET FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
RECEIPTS:				
Taxes:				
Property Taxes	\$ 6,296,998	\$ 6,385,768	\$ 6,385,768	\$ -
Investment income	15,000	28,195	28,195	-
Other revenue	36,784	37,925	37,925	-
<i>Total receipts</i>	<u>6,348,782</u>	<u>6,451,888</u>	<u>6,451,888</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	(6,348,782)	(6,451,888)	(6,451,888)	-
<i>Total other financing sources (uses)</i>	<u>(6,348,782)</u>	<u>(6,451,888)</u>	<u>(6,451,888)</u>	<u>-</u>
Net change in fund balance	-	-	-	-
<i>Fund balance, beginning of year</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balance, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

COUNTY OF GAINES
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 CAPITAL PROJECTS FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
DISBURSEMENTS:				
Current:				
General government	\$ 300,010	\$ 300,010	\$ 33,872	\$ 266,138
Corrections	100,000	100,000	59,970	40,030
Capital outlay	280,005	280,005	363,348	(83,343)
<i>Total disbursements</i>	<u>680,015</u>	<u>680,015</u>	<u>457,190</u>	<u>222,825</u>
Excess (deficiency) of receipts over (under) disbursements	<u>680,015</u>	<u>680,015</u>	<u>457,190</u>	<u>222,825</u>
OTHER FINANCING SOURCES (USES):				
Sale of real and personal property	15	15	-	(15)
Transfers in (out)	5	5	1,250,000	1,249,995
<i>Total other financing sources (uses)</i>	<u>20</u>	<u>20</u>	<u>1,250,000</u>	<u>1,249,980</u>
Net change in fund balance	(679,995)	(679,995)	792,810	1,472,805
<i>Fund balance, beginning of year</i>	<u>2,249,941</u>	<u>2,249,941</u>	<u>2,249,941</u>	<u>-</u>
<i>Fund balance, end of year</i>	<u>\$ 1,569,946</u>	<u>\$ 1,569,946</u>	<u>\$ 3,042,751</u>	<u>\$ 1,472,805</u>

COUNTY OF GAINES
SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS
GASB 68 DISCLOSURE MEASUREMENT DATE DECEMBER 31, 2015

	YEAR ENDED DECEMBER 31, 2015	YEAR ENDED DECEMBER 31, 2014
TOTAL PENSION LIABILITY		
Service cost	\$ 935,599	\$ 919,180
Interest on total pension liability	2,437,789	2,320,034
Changes of benefit terms	(165,778)	0
Economic/demographic (gains) or losses	(324,776)	(227,631)
Change of assumptions	361,169	0
Benefit payments/refunds of contributions	(1,712,666)	(1,612,645)
Net Change in Total Pension Liability	1,531,337	1,398,938
Total Pension Liability, Beginning	30,381,310	28,982,372
Total Pension Liability, Ending	\$ 31,912,647	\$ 30,381,310
Fiduciary Net Position		
Employer contributions	\$ 3,801,209	\$ 1,763,096
Member contributions	561,451	501,625
Investment income net of investment expenses	186,139	1,895,727
Benefit payments/refunds of contributions	(1,712,666)	(1,612,645)
Administrative expenses	(22,392)	(22,042)
Other	(201,857)	(255,310)
Net Change in Fiduciary Position	2,611,884	2,270,451
Fiduciary Net Position, Beginning	29,758,878	27,488,427
Fiduciary Net Position, Ending	\$ 32,370,762	\$ 29,758,878
Net Pension Liability / (Asset), Ending	\$ (458,115)	\$ 622,432
Fiduciary Net Position as a % of total pension liability	101.44%	97.95%
Pensionable Covered Payroll	\$ 8,020,732	\$ 7,166,066
Net Pension Liability as a % of covered payroll	-5.71%	8.69%

This schedule is presented to illustrate the requirement to show information for 10 years. Recalculations of prior years are not required in accordance with GASB 68, therefore, only the years for which the new GASB statements have been implemented are shown.

COUNTY OF GAINES
SCHEDULE OF EMPLOYER CONTRIBUTIONS
GASB 68 DISCLOSURE

YEAR ENDING SEPTEMBER 30	ACTUARIALLY DETERMINED CONTRIBUTION	ACTUAL EMPLOYER CONTRIBUTION	CONTRIBUTION DEFICIENCY (EXCESS)	PENSIONABLE COVERED PAYROLL	ACTUAL CONTRIBUTION AS A % OF COVERED PAYROLL
2006	\$ 413,262	\$ 413,262	\$ -	\$ 4,581,618	9.0%
2007	461,776	461,776	-	4,790,211	9.6%
2008	498,476	498,476	-	5,400,602	9.2%
2009	656,652	656,652	-	6,052,095	10.8%
2010	673,366	673,366	-	6,275,541	10.7%
2011	690,524	690,524	-	6,582,833	10.5%
2012	731,057	731,057	-	6,658,084	11.0%
2013	765,094	765,094	-	6,861,855	11.1%
2014	824,096	1,763,096	(939,000)	7,166,066	24.6%
2015	828,542	3,801,209	(2,972,667)	8,020,732	47.4%

This schedule is presented to illustrate the requirement to show information for 10 years. Recalculations of prior years are not required in accordance with GASB 68, therefore, only the years for which the new GASB statements have been implemented are shown.

OTHER SUPPLEMENTARY INFORMATION

COUNTY OF GAINES
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

<u>State Grantor/Pass-Through Grantor/Program Title</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
Texas Department of Transportation:		
County Transportation Infrastructure Fund Grant Program	CTIF-01-084	\$ 732,149
Routine Airport Maintenance Program (RAMP) Grant	1505SEMNL	60,006
Total Texas Department of Transportation		<u>792,155</u>
Texas Office of Court Administration:		
Indigent Legal Grant	Not Available	18,088
Total Texas Office of Court Administration		<u>18,088</u>
Texas Commission of the Arts:		
Arts Respond Performance Support Grant	Not Available	788
Total Texas Commission of the Arts		<u>788</u>
Total Expenditure of State Awards		<u><u>\$ 811,031</u></u>

See accompanying notes to schedule of expenditures of state awards.

COUNTY OF GAINES
NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

I. BASIS OF PRESENTATION

The accompanying schedule of expenditures of state awards includes the state grant activity of the County of Gaines, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Texas Uniform Grant Management Standards; therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Because the Schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position or changes in net position of the County of Gaines.

II. SUMMARY OF SIGNIFICATION ACCOUNTING POLICIES

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Grant identifying numbers are presented where available.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To Honorable Judge and Commissioners' Court
County of Gaines
Seminole, TX 79360

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 modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Gaines, Seminole, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the County of Gaines, Seminole, Texas' basic financial statements, and have issued our report thereon dated December 14, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Davis, Ray & Co.

Seminole, Texas
December 14, 2016

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by Texas Uniform Grant Management Standards

To Honorable Judge and Commissioners' Court
County of Gaines
Seminole, TX 79360

Report on Compliance for Each Major State Program

We have audited the County of Gaines, Seminole, Texas' compliance with the types of compliance requirements described in the Texas Uniform Grant Management Standards that could have a direct and material effect on each of the County's major state program for the year ended September 30, 2016. The County's major state program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County of Gaines, Seminole, Texas' major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Texas Uniform Grant Management Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major State Program

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

Report on Internal Control over Compliance

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

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

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by Texas Uniform Grant Management Standards (Continued)

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

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

Davis, Ray & Co.

Seminole, Texas
December 14, 2016

COUNTY OF GAINES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – STATE PROGRAMS
SEPTEMBER 30, 2016

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? YES NO
- Reportable condition(s) identified that are not considered to be material weaknesses? YES NO
- Significant deficiencies identified? YES NO

Noncompliance material to financial statements noted? YES NO

State Awards

Internal control over major programs:

- Material weakness(es) identified? YES NO
- Reportable condition(s) identified that are not considered to be material weaknesses? YES NO

Type of auditor's report issued: Unmodified

Any audit findings disclosed required to be reported in accordance with Texas Uniform Grant Management Standards? YES NO

Identification of major programs

<u>State Grantor</u>	<u>Program Title</u>
TXDOT	County Transportation Infrastructure Fund Grant Program

Dollar threshold used to distinguish between type A and type B programs? \$750,000

Auditee qualified as low-risk auditee? YES NO

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported for the year ended September 30, 2016.

SECTION III – STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported for the year ended September 30, 2016.