

**HOUSTON COUNTY, TEXAS**

**AUDITED FINANCIAL STATEMENTS  
AND COMPLIANCE REPORTS**

**SEPTEMBER 30, 2016**



## **INTRODUCTORY SECTION**

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**HOUSTON COUNTY, TEXAS  
PRINCIPAL PUBLIC OFFICIALS  
AT SEPTEMBER 30, 2016**

**COMMISSIONERS COURT**

Erin Ford ..... County Judge  
Gary Lovell ..... Commissioner Precinct No. 1  
Willie Kitchen ..... Commissioner Precinct No. 2  
Pat Perry ..... Commissioner Precinct No. 3  
Kennon Kellum ..... Commissioner Precinct No. 4

**COUNTY ELECTED OFFICIALS**

Morris Luker ..... Constable Precinct No. 1  
Kenneth Smith ..... Constable Precinct No. 2  
Daphne Session ..... County Attorney  
Bridget Lamb ..... County Clerk  
Sarah T. Clark ..... County Court at Law  
Charles R. Hodges ..... County Surveyor  
Dina Herrera ..... County Treasurer  
Clyde Black ..... Justice of the Peace, Precinct No. 1  
Ronnie Jordan ..... Justice of the Peace, Precinct No. 2  
Darrel Bobbitt ..... Sheriff  
Danette Millican ..... Tax Assessor/Collector

**DISTRICT ELECTED OFFICIALS**

Donna Gordon Kaspar ..... District Attorney, 349th Judicial District  
Carolyn Rains ..... District Clerk  
Mark Alan Calhoon ..... District Judge, 3rd Judicial District  
Pam Foster Fletcher ..... District Judge, 349th Judicial District

**APPOINTED OFFICIALS**

Willie Spurlock ..... Building Maintenance Supervisor  
Brandon Sheeley ..... Community Supervision/Corrections Department  
Melissa Mosley ..... County Auditor  
Jo Smith ..... County Extension Agent – Agriculture  
Mandy Patrick ..... County Extension Agent – Family & Consumer Science  
Roger Dickey ..... Emergency Management Coordinator & Fire Marshal  
M. Brent Williams ..... Information Technology Director  
Angela B. Cross ..... Juvenile Probation Department  
Fred Newtz ..... Veteran Service Officer

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**FINANCIAL SECTION**

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# Todd, Hamaker & Johnson, LLP

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CERTIFIED PUBLIC ACCOUNTANTS

420 S 1<sup>st</sup> Street • PO Box 468 • Lufkin, TX 75902-0468 • (936) 632-8181  
301 N 6<sup>th</sup> Street • PO Box 1249 • Crockett, TX 75835-1249 • (936) 544-2143

Melvin R. Todd, CPA  
Daren Hamaker, CPA  
Kim Johnson, CPA  
Rachel Kennerly, CPA

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

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

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

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining

## INDEPENDENT AUDITORS' REPORT – CONTINUED

fund information of Houston County, Texas, as of September 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability, and the schedule of pension contributions and related notes on pages 11 - 17 and 61 - 77, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining nonmajor fund financial statements section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards, on pages 83-109 and 117-119, respectively, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2017, on pages 113-114, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit

**INDEPENDENT AUDITORS' REPORT – CONTINUED**

performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

*Todd, Hamaker & Johnson, LLP*

Todd, Hamaker & Johnson, LLP  
Lufkin, Texas

June 29, 2017

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**HOUSTON COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
(UNAUDITED)**

As management of Houston County, Texas (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended September 30, 2016. We encourage readers to consider information presented here as well as the County's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

**Government-wide financial statements**

- The County's overall assets exceeded its total liabilities by \$6,163,234 (net position) at September 30, 2016. Of this amount, \$2,379,586 may be used to meet the County's ongoing obligations to citizens and creditors.
- Total assets decreased by \$3,277,513 from the prior year; total liabilities increased by \$14,897 from the prior year.
- Overall expenses exceeded revenues (or a decrease in net position) by \$1,601,542. Depreciation expense of \$1,102,173 is included in these expenses.

**Fund financial statements**

- At the close of the current fiscal year, the County's governmental funds reported a combined fund balance of \$3,717,252. Overall expenses exceeded revenues by \$320,821.
- At September 30, 2016, unassigned fund balance for the General Fund was \$1,770,837, or approximately 25% of total General Fund expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary that further explains and supports the information in the financial statements.

**Government-wide Financial Statements.** The *government-wide financial statements*, which begin on page 23 of this report, are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

The *statement of net position* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the County's net position changed during the fiscal year. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows.

**Fund Financial Statements.** A *fund* is a grouping 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.

**HOUSTON COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
(UNAUDITED)**

**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 financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* available at the end of the fiscal year.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest, which are reported as expenditures in the year due.

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 in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The governmental fund financial statements can be found on pages 28 to 35 of this report.

**Fiduciary Funds** are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources are not available to support the County's own programs.

The fiduciary fund financial statement can be found on page 37 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 41 to 57 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of government's financial position. The County's assets exceeded its liabilities by \$6,163,234 at September 30, 2016.

The largest portion of the County's net position, or \$1,992,560, reflects its investment in capital assets (\$14,600,692) less the related debt used to acquire those assets that remains outstanding (\$12,608,132). The County uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net position totaling \$1,791,088 represents resources that are subject to restriction on how they may be used.

The remaining balance of \$2,379,586 is unrestricted in nature and used to meet the County's ongoing obligations to citizens and creditors.



**HOUSTON COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
(UNAUDITED)**

**The County's Net Position**

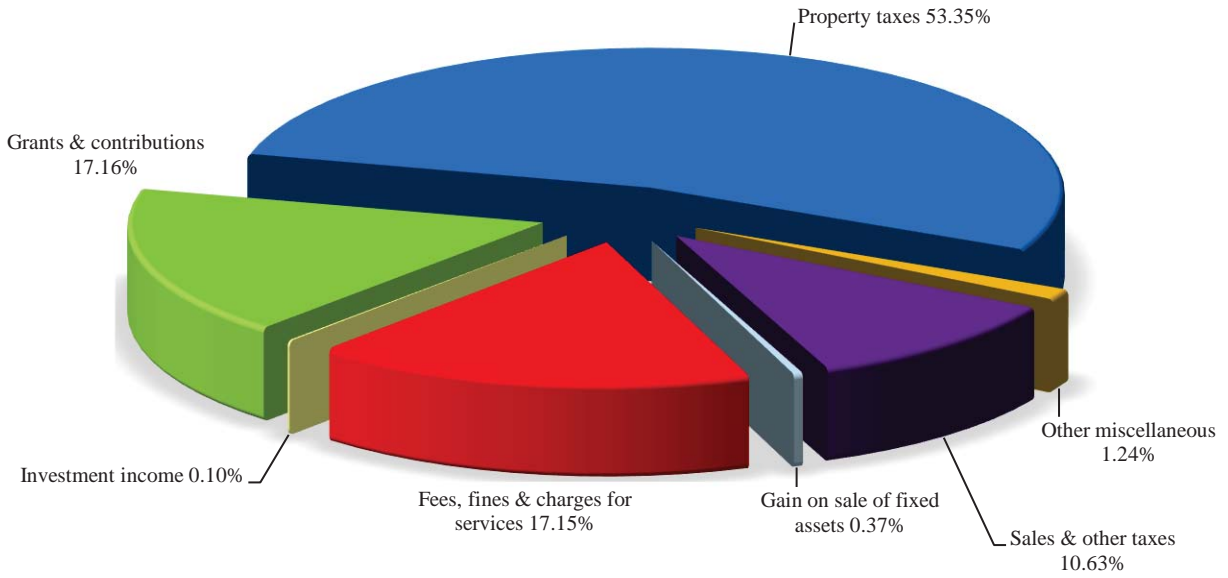
	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 3,603,387	\$ 6,584,534
Capital assets, net	<u>14,600,692</u>	<u>14,897,058</u>
Total assets	<u>18,204,079</u>	<u>21,481,592</u>
Deferred outflows of resources	<u>2,079,809</u>	<u>384,502</u>
Total deferred outflows	<u>2,079,809</u>	<u>384,502</u>
Long-term liabilities	12,608,132	12,070,324
Other liabilities	<u>1,479,609</u>	<u>2,002,520</u>
Total liabilities	<u>14,087,741</u>	<u>14,072,844</u>
Deferred inflows of resources	<u>32,913</u>	<u>28,474</u>
Total deferred inflows	<u>32,913</u>	<u>28,474</u>
Net position:		
Invested in capital assets, net of related debt	1,992,560	2,826,734
Restricted	1,791,088	2,301,996
Unrestricted	<u>2,379,586</u>	<u>2,636,046</u>
Total net position	<u>\$ 6,163,234</u>	<u>\$ 7,764,776</u>

**Change in Net Position**

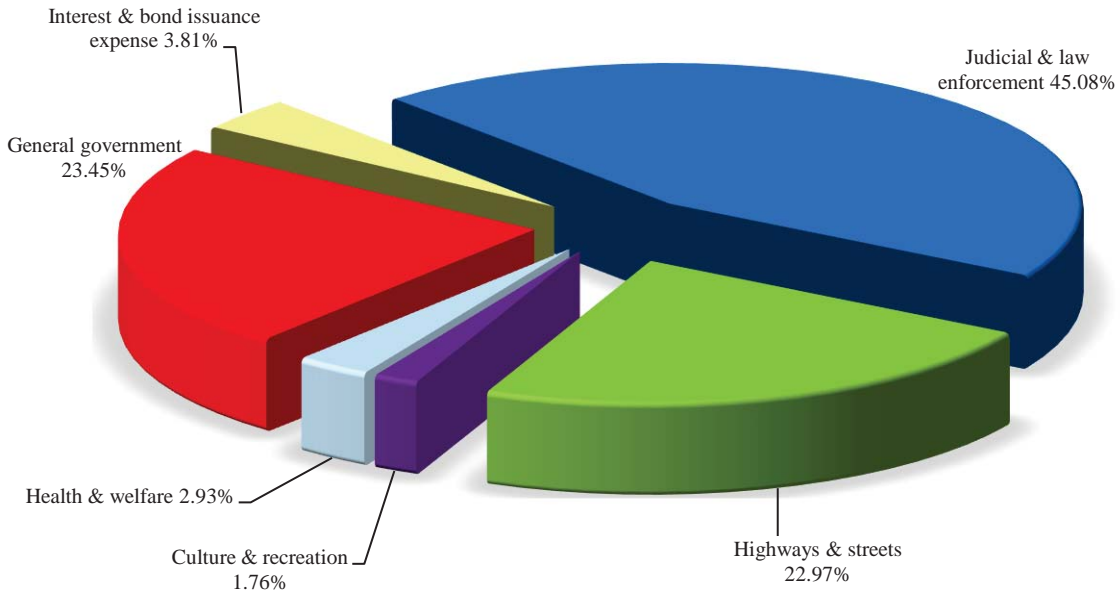
	<u>2016</u>	<u>2015</u>
Revenues		
Fees, fines, charges for services	\$ 1,985,222	\$ 2,088,211
Property taxes	6,174,108	6,705,827
Sales taxes	1,169,995	1,245,229
Other taxes	59,834	43,537
Investment income	11,317	2,247
Grants and contributions	1,986,348	5,017,491
Payment in lieu of taxes	41,541	31,080
Gain on sale of assets	42,424	22,254
Other miscellaneous	<u>144,023</u>	<u>82,429</u>
Total revenues	<u>11,614,812</u>	<u>15,238,305</u>
Expenses		
General government	3,048,351	2,749,651
Judicial and law enforcement	5,861,470	5,458,415
Highways and streets	2,985,885	5,397,439
Health and welfare	380,891	353,215
Culture and recreation	228,902	244,238
Pass-through expenditures	215,290	346,174
Bond issuance costs	180,954	-
Interest on long-term debt	<u>314,611</u>	<u>568,987</u>
Total expenses	<u>13,216,354</u>	<u>15,118,119</u>
Increase (decrease) in net position	(1,601,542)	120,186
Prior period adjustment	-	290,210
Net position at beginning of year	<u>7,764,776</u>	<u>7,354,380</u>
Net position at end of year	<u>\$ 6,163,234</u>	<u>\$ 7,764,776</u>

**HOUSTON COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
(UNAUDITED)**

**Revenues by Source  
For the Fiscal Year Ended September 30, 2016**



**Expenses by Function  
For the Fiscal Year Ended September 30, 2016**



**HOUSTON COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
(UNAUDITED)**

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

**Governmental Funds.** The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, *unassigned fund balances* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The County's governmental fund financial statements are presented on pages 28 to 35.

As of September 30, 2016, the County's governmental funds reported a total fund balance of \$3,717,252. This fund balance is comprised of \$2,064,629 that is either in a nonspendable form, restricted or assigned for specific purpose. The remaining balance, \$1,652,623, is unassigned. During the year, the fund balance in the County's governmental funds decreased by \$320,821.

**Budgetary Comparisons.** A comparison of the general fund, each individual road and bridge fund, and the FEMA grant fund budget and actual results are presented as required supplementary information on pages 61 to 71.

*General Fund.* Actual revenues were higher than budgeted amounts by \$891,302. Actual expenditures were lower than budgeted amounts by \$188,229. Actual other financing sources (uses) were favorable to budgeted amounts by \$18,254. An overall decrease in fund balance of \$979,899 had been projected, using prior year budget carryovers to fund the decrease. Actual amounts resulted in an increase in fund balance of \$117,886 for the fiscal year.

*Road and Bridge Funds.* Actual revenues were higher than budgeted amounts by \$74,488. Actual expenditures were higher than budgeted amounts by \$369,835. Actual other financing sources (uses) were favorable to budgeted amounts by \$202,533. An overall decrease in fund balance of \$220,000 had been projected, using prior year budget carryovers to fund the decrease. The actual decrease in fund balance was \$312,814 (an unfavorable budget variance of \$92,814).

*FEMA Grant Fund.* Actual revenues were higher than budgeted amounts by \$106,247. Actual expenditures were higher than budgeted amounts by \$106,247. A balanced budget was adopted, with no change in fund balance being projected. Actual amounts yielded no change in fund balance for the year.

**CAPITAL ASSETS**

The County's investment in capital assets as of September 30, 2016 totaled \$14,600,692 (net of accumulated depreciation).

Capital assets of \$861,683 were purchased during the year. Significant purchases included:

- Courthouse roof
- Courtroom re-cabling/new server room
- Justice Center server and licenses
- 1.66 acres adjacent to Precinct #1 barn
- Various trucks and heavy equipment (partially funded through capital leases/notes)

**HOUSTON COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
(UNAUDITED)**

**Capital Assets (Net of Depreciation)**

	2016	2015
Land	\$ 149,045	\$ 140,320
Construction in progress	-	5,050
Buildings and improvements	18,406,821	18,195,482
Infrastructure	72,792	72,792
Rolling stock	7,161,706	6,877,333
Furniture and equipment	1,584,931	1,518,777
Less: accumulated depreciation	(12,774,603)	(11,912,696)
Total	\$ 14,600,692	\$ 14,897,058

**DEBT ADMINISTRATION**

At the end of the current fiscal year, the County had total debt and capital lease obligations of \$12,608,132.

**Debt Outstanding**

	Beginning			Ending
	Balance	Additions	Reductions	Balance
Certificates of obligation	\$ 11,365,000	\$ 8,995,000	\$ 9,265,000	\$ 11,095,000
Unamortized premiums	162,237	789,204	166,040	785,401
Capital leases	543,087	360,034	175,390	727,731
Total	\$ 12,070,324	\$ 10,144,238	\$ 9,606,430	\$ 12,608,132

**ECONOMIC FACTORS AND FUTURE FUNDING**

Local property taxes provide the major source of funding for county governments in Texas. Property tax revenue is historically very stable and predictable.

Houston County has experienced a decrease in oil and gas valuations for the second year in a row. Due to cost cutting measures and FY 2017's adopted tax rate of 52.4 cents, a small overall tax rate increase, the County has continued to provide services to Houston County at a superior level.

Despite difficult statewide economic times, Houston County continues to be mindful of their financial condition and impact on the local taxpayers. We remain conservative and proactive in all aspects of county activities. We are concerned about the impact of declining state and federal revenues, including timber and mineral revenues from the Davy Crockett National Forest, and declining grant availability and have reached out to our representatives on all government levels to make them aware of our needs. It's frustrating that our Federal Government is not recognizing their obligation to adequately fund the timber revenue in lieu of property taxes on the National Forest. Houston County makes up 12% National Forest, which is tax exempt.

**HOUSTON COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
(UNAUDITED)**

The County experienced two declared natural disasters in 2015 and another in 2016—sustained rains (over 60”) significantly damaged our road infrastructure to the extent that many were impassable. The Commissioners fought to repair the roads, bridges, and culverts. From July to September of 2015, we had no rain, which resulted in serious impacts to our cattle and agriculture.

The Houston County Commissioners Court has worked with all of your elected officials to establish and adhere to a conservative, efficient budget while still providing adequate funding for important County services.

**REQUESTS FOR INFORMATION**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the County's finances. If you have questions about this report or need any additional information, contact the Houston County Auditor at (936) 544-3255 or write to 401 E. Goliad, Suite 204, Crockett, Texas 75835.

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**BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

	Primary Government	
	Governmental Activities	Total
<b>ASSETS</b>		
Cash and cash equivalents	\$ 445,296	\$ 445,296
Receivables		
Property taxes, net of allowance for uncollectibles	-	-
Sales tax receivable	200,819	200,819
Grants	904,580	904,580
Other - miscellaneous	37,601	37,601
Prepays	185,754	185,754
Restricted assets		
Cash and cash equivalents	918,565	918,565
Certificates of deposit	910,772	910,772
Capital assets, net of accumulated depreciation	14,600,692	14,600,692
<b>TOTAL ASSETS</b>	18,204,079	18,204,079
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amount on bond refunding	779,928	779,928
Pension plan	1,299,881	1,299,881
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	2,079,809	2,079,809
<b>LIABILITIES</b>		
Accounts payable	528,011	528,011
Accrued interest	51,868	51,868
Accrued compensated absences	220,562	220,562
Unearned revenues	77,160	77,160
Noncurrent liabilities		
Net pension liability	602,008	602,008
Debt		
Due within one year	691,959	691,959
Due in more than one year	11,916,173	11,916,173
<b>TOTAL LIABILITIES</b>	14,087,741	14,087,741
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension plan	32,913	32,913
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	32,913	32,913
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	1,992,560	1,992,560
Restricted for		
Deposits held as collateral by others	910,772	910,772
Debt service	81,988	81,988
General government	289,458	289,458
Judicial and law enforcement	96,675	96,675
Highways and streets	412,195	412,195
Unrestricted	2,379,586	2,379,586
<b>TOTAL NET POSITION</b>	\$ 6,163,234	\$ 6,163,234

See accompanying notes to the financial statements.

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

Functions/Programs	Expenses
Primary government	
Governmental activities	
General government	\$ 3,048,351
Judicial and law enforcement	5,861,470
Highways and streets	2,985,885
Health and welfare	380,891
Culture and recreation	228,902
Pass-through expenditures	215,290
Bond issuance costs	180,954
Interest on long-term debt	314,611
Total governmental activities	\$ 13,216,354

Program Revenues			Net (Expenses) Revenues and Changes in Net Position
Fees, Fines, Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
\$ 354,469	\$ 10,914	\$ 86,739	\$ (2,596,229)
840,394	765,268	-	(4,255,808)
703,169	640,816	-	(1,641,900)
51,221	235,732	-	(93,938)
35,969	31,589	-	(161,344)
-	215,290	-	-
-	-	-	(180,954)
-	-	-	(314,611)
<u>\$ 1,985,222</u>	<u>\$ 1,899,609</u>	<u>\$ 86,739</u>	<u>(9,244,784)</u>

General revenues

Property taxes	6,174,108
Sales taxes	1,169,995
Other taxes	59,834
Investment income	11,317
Payments in lieu of taxes	41,541
Gain on sale of assets	42,424
Miscellaneous income	144,023
Total general revenues	<u>7,643,242</u>
Change in net position	(1,601,542)
Net position - beginning	<u>7,764,776</u>
Net position - ending	<u>\$ 6,163,234</u>

See accompanying notes to the financial statements.

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**FUND FINANCIAL STATEMENTS**

**HOUSTON COUNTY, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2016**

	General Fund	Road and Bridge Fund Pct No. 1	Road and Bridge Fund Pct No. 2
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,320,352	\$ -	\$ -
Certificates of deposit	910,772	-	-
Receivables			
Property taxes	698,309	-	-
Sales taxes	200,819	-	-
Grants	38,703	32,800	30,948
Other - miscellaneous	20,921	-	-
Due from other funds	66,843	47,660	8,091
Prepaid items	95,681	795	1,349
<b>TOTAL ASSETS</b>	<b>\$ 3,352,400</b>	<b>\$ 81,255</b>	<b>\$ 40,388</b>
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
Liabilities			
Deficit in pooled cash	\$ -	\$ 54,777	\$ 12,323
Accounts payable and accrued expenses	317,082	10,411	27,859
Due to other funds	188,111	35,434	35,232
Unearned revenues	69,917	-	-
Total liabilities	575,110	100,622	75,414
Fund balances			
Nonspendable	95,681	795	1,349
Restricted	910,772	-	-
Assigned	-	-	-
Unassigned	1,770,837	(20,162)	(36,375)
Total fund balances	2,777,290	(19,367)	(35,026)
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 3,352,400</b>	<b>\$ 81,255</b>	<b>\$ 40,388</b>



Road and Bridge Fund Pct No. 3	Road and Bridge Fund Pct No. 4	FEMA Funds	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 60,243	\$ -	\$ 939,496	\$ 2,320,091
-	-	-	-	910,772
-	-	-	44,551	742,860
-	-	-	-	200,819
13,682	45,091	549,968	193,388	904,580
-	-	-	16,680	37,601
41,071	-	160,312	65,971	389,948
1,140	1,288	-	61,677	161,930
<u>\$ 55,893</u>	<u>\$ 106,622</u>	<u>\$ 710,280</u>	<u>\$ 1,321,763</u>	<u>\$ 5,668,601</u>

\$ 30,148	\$ -	\$ 681,684	\$ 177,298	\$ 956,230
24,755	8,986	21,667	117,251	528,011
15,240	75,659	6,929	33,343	389,948
-	-	-	7,243	77,160
<u>70,143</u>	<u>84,645</u>	<u>710,280</u>	<u>335,135</u>	<u>1,951,349</u>

1,140	1,288	-	61,677	161,930
-	-	-	864,797	1,775,569
-	20,689	-	106,441	127,130
(15,390)	-	-	(46,287)	1,652,623
<u>(14,250)</u>	<u>21,977</u>	<u>-</u>	<u>986,628</u>	<u>3,717,252</u>
<u>\$ 55,893</u>	<u>\$ 106,622</u>	<u>\$ 710,280</u>	<u>\$ 1,321,763</u>	<u>\$ 5,668,601</u>

See accompanying notes to the financial statements.

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**HOUSTON COUNTY, TEXAS**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Total fund balances - governmental funds balance sheet	\$ 3,717,252
Amounts reported for governmental activities in the statement of activities are different because:	
Certain revenues are not available to pay current period expenditures and therefore, are reported as deferred inflows in the governmental funds.	(742,860)
Prepaid bond insurance is not a current financial resource and therefore, is not reported in the governmental funds.	23,824
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds.	14,600,692
Differences resulting from the refunding of certificates of obligation relate to long-term debt and therefore, are not reported in the governmental funds.	779,928
Deferred pension plan amounts relate to subsequent pension plan measurement periods and/or do not consume current financial resources and therefore, these amounts are not reported in the governmental funds.	1,266,968
Payables for accrued interest on long-term liabilities and accrued compensated absences are not due in the current period and therefore, are not reported in the governmental funds.	(272,430)
Payables for long-term liabilities, including certificates of obligations, capital leases, and net pension liabilities are not due in the current period and therefore, are not reported in the governmental funds.	<u>(13,210,140)</u>
Net position of governmental activities	<u>\$ 6,163,234</u>

See accompanying notes to the financial statements.

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

	General Fund	Road and Bridge Fund Pct No. 1	Road and Bridge Fund Pct No. 2
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Property taxes	\$ 6,530,512	\$ -	\$ -
General sales and use taxes	1,169,995	-	-
Selective sales and use taxes	20,233	-	-
Fees, licenses, and permits	209,573	104,299	137,240
Charges for services	620,223	-	-
Fines and forfeitures	168,303	-	-
Intergovernmental revenue and grants	193,537	40,091	40,717
Contributions and donations from private sources	2,002	2,092	2,350
Payments in lieu of taxes	41,541	-	-
Investment earnings	8,634	14	86
Other revenue	136,668	-	-
	<u>9,101,221</u>	<u>146,496</u>	<u>180,393</u>
<b>EXPENDITURES</b>			
General government	2,779,354	-	-
Judicial and law enforcement	4,163,163	-	-
Highways and streets	-	501,594	588,488
Health and welfare	-	-	-
Culture and recreation	128,170	-	-
Pass-through expenditures	-	-	-
Capital outlay	129,553	8,725	53,727
Debt service			
Principal	19,287	43,209	55,170
Interest	456	1,354	2,607
Refunding bond issuance costs	-	-	-
	<u>7,219,983</u>	<u>554,882</u>	<u>699,992</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>1,881,238</u>	<u>(408,386)</u>	<u>(519,599)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of real and personal property	-	-	12,500
Proceeds from debt issuance	-	-	-
Premium on refunding bonds	-	-	-
Payment to refunded bond escrow agent	-	-	-
Transfers in	16,769	310,240	346,750
Transfers out	(1,780,121)	-	-
	<u>(1,763,352)</u>	<u>310,240</u>	<u>359,250</u>
<b>NET CHANGE IN FUND BALANCE</b>	117,886	(98,146)	(160,349)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>2,659,404</u>	<u>78,779</u>	<u>125,323</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 2,777,290</u>	<u>\$ (19,367)</u>	<u>\$ (35,026)</u>

Road and Bridge Fund Pct No. 3	Road and Bridge Fund Pct No. 4	FEMA Funds	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 945,226	\$ 7,475,738
-	-	-	-	1,169,995
-	-	-	39,601	59,834
159,149	148,016	-	214,275	972,552
-	-	-	86,126	706,349
-	-	-	138,018	306,321
25,877	80,457	176,438	1,388,998	1,946,115
12,978	13,910	-	6,901	40,233
-	-	-	-	41,541
81	130	-	2,372	11,317
-	-	-	7,355	144,023
<u>198,085</u>	<u>242,513</u>	<u>176,438</u>	<u>2,828,872</u>	<u>12,874,018</u>
-	-	-	195,056	2,974,410
-	-	-	1,094,477	5,257,640
624,735	603,636	176,438	171,265	2,666,156
-	-	-	370,011	370,011
-	-	-	39,150	167,320
-	-	-	215,290	215,290
418,783	38,250	-	207,594	856,632
36,626	21,097	-	630,000	805,389
379	914	-	332,606	338,316
-	-	-	205,946	205,946
<u>1,080,523</u>	<u>663,897</u>	<u>176,438</u>	<u>3,461,395</u>	<u>13,857,110</u>
<u>(882,438)</u>	<u>(421,384)</u>	<u>-</u>	<u>(632,523)</u>	<u>(983,092)</u>
80,750	-	-	-	93,250
341,783	18,250	-	8,995,000	9,355,033
-	-	-	789,204	789,204
-	-	-	(9,575,216)	(9,575,216)
434,230	374,490	-	694,511	2,176,990
-	-	-	(396,869)	(2,176,990)
<u>856,763</u>	<u>392,740</u>	<u>-</u>	<u>506,630</u>	<u>662,271</u>
(25,675)	(28,644)	-	(125,893)	(320,821)
<u>11,425</u>	<u>50,621</u>	<u>-</u>	<u>1,112,521</u>	<u>4,038,073</u>
<u>\$ (14,250)</u>	<u>\$ 21,977</u>	<u>\$ -</u>	<u>\$ 986,628</u>	<u>\$ 3,717,252</u>

See accompanying notes to the financial statements.

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**HOUSTON COUNTY, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Net change in fund balance - governmental funds	\$ (320,821)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are not reported as expenses in the statement of activities.	856,632
The depreciation of capital assets used in governmental activities is not reported in the governmental funds.	(1,102,173)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(1,301,630)
Repayment of long-term debt is an expenditure in the governmental funds, but is not an expense in the statement of activities.	805,389
The net effect of other miscellaneous transactions involving capital assets (i.e. sales, trade-ins, disposals) decreases net position.	(50,826)
Proceeds from the issuance of long-term debt (e.g. bonds, leases) do not provide revenue in the statement of activities, but are reported as current resources in the governmental funds.	(9,355,033)
Amount represents the change in accrued compensated absences from the beginning of the period to the end of the period.	(25,153)
Amount represents the change in accrued interest from the beginning of the period to the end of the period.	19,123
This amount represents the change in net pension assets and liabilities from the beginning of the period to the end of the period.	57,361
This amount represents the net change in the bond premium, prepaid bond insurance, and the deferred amount on refunding from the beginning of the period to the end of the period.	29,574
This amount represents the net of the the refunding bond premium and the amount paid to the refunded bond escrow agent	<u>8,786,015</u>
Change in net position of governmental activities	<u>\$ (1,601,542)</u>

See accompanying notes to the financial statements.

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

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,825,045
<b>TOTAL ASSETS</b>	<u>\$ 1,825,045</u>
<b>LIABILITIES</b>	
Amounts held for others	\$ 1,430,632
Due to other units	<u>394,413</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 1,825,045</u>

See accompanying notes to the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS**

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**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Introduction**

The financial statements of Houston County, Texas (the “County”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as applied to government units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies used by the County are discussed below.

**Reporting Entity**

Houston County, Texas (the “County”) is a public corporation and political subdivision of the State of Texas. The County is governed by an elected Commissioners Court, comprised of the County Judge and four Commissioners. The County provides the following services as authorized by the laws of the State of Texas: general government (e.g. tax collection), judicial (courts, juries, district attorney, etc.), law enforcement (sheriff, jail, etc.), highways and streets, and public welfare (e.g. juvenile services and assistance to indigents).

For financial reporting purposes, based on standards established by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, these financial statements should present the County (the primary government) and its component units. Component units generally are legally separate entities for which the primary government is financially accountable or for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading. The County does not have any blended or discretely presented component units.

**Government-wide and Fund Financial Statements**

The government-wide financial statements include the statement of net position and the statement of activities. These statements report information on all of the activities of the County as a whole. *Governmental activities* include programs normally supported by taxes, grants, and other intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other revenue sources not properly included with program revenues are reported as *general revenues*.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

**Implementation of New Standards**

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (“GASB 76”), establishes the hierarchy of GAAP for state and local governments and supersedes the previous guidance provided under GASB 55 and amends guidance provided under GASB 62. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015, with retroactive application required. Implementation of GASB 76 did not have an impact on the County’s financial disclosures.

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied. Grants and donations are recognized as revenue in the fiscal year in which grantor eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The County considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related liability is incurred, as under accrual accounting. Debt service expenditures, both principal and interest, are recorded only when payment is due.

Major governmental fund revenue sources susceptible to accrual include: sales and use taxes, property taxes, and investment income. In general, all other revenue items are considered to be measurable and available only when cash is received. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The County's funds are classified as either governmental or fiduciary and are described below.

*Governmental Funds.* Governmental funds are used to account for all or most of a government's general activity.

The *general fund* is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The principal sources of revenues include local property taxes, fines, fees, license and permits, and intergovernmental revenue and grants. Expenditures include general government; judicial; public safety; and health and welfare.

The *debt service fund* is used to account for the collection of interest and sinking funds collected and expenditures for the payment of the County's certificates of obligation.

*Special revenue funds* are used to account for resources restricted to, or designated for, specific purposes by the County or a grantor in a special revenue fund.

*Fiduciary funds* account for assets held by a government in a trustee or agency capacity on behalf of others.

*Agency funds* are used to account for assets received and held for the benefit of other funds, individuals, or organizations. Agency funds held by the county function as clearing accounts and are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs.

As of September 30, 2016, the general fund, and FEMA grants fund are reported as major governmental funds. Additionally, the County has elected to present the road and bridge funds for precincts 1, 2, 3, and 4 as major funds due to their significance within the County.

The County has no proprietary funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the County's policy to generally consider restricted amounts to have

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the County that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts. In both instances, when a proposed expenditure is made with specific balances identified as the source of the funding, that specific fund balance will be used.

**Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance**

**Deposits and Investments**

The County's cash and cash equivalents are considered to be cash on hand, demand deposits, money market accounts, certificates of deposit, and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents include investments with original maturities of three months or less. Cash equivalents are stated at fair value.

Certificates of deposit consist of deposits with original maturities greater than three months. Certificates of deposit are recorded at cost, which approximates market value at September 30, 2016.

The County is required by the Public Funds Collateral Act (Government Code, chapter 2257) to maintain security for all deposits of funds that exceed coverage provided by the Federal Deposit Insurance Corporation ("FDIC"). As of the balance sheet date, the County's cash deposits were fully collateralized by securities pledged by the depository banks. Based on audit procedures conducted in conjunction with the audit of the basic financial statements, the County appears to have complied with the requirements of the Public Funds Collateral Act.

The County is required by the Public Funds Investment Act (Government Code, chapter 2256) (the "Act") to adopt, implement, and publicize a written investment policy which primarily emphasizes safety of principal and liquidity, and addresses investment diversification, yield, and maturity. Additionally, the policy must address the quality and capability of investment management and include the types of investments in which the entity may invest its funds, as well as the maximum allowable stated maturity of any individual investment, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio of pooled fund groups, and bid requirements for certificates of deposit.

The County is authorized to invest in financial instruments, as authorized by the Act, including:

- U.S. Treasury securities which have a liquid market; direct obligations of the State of Texas, and other obligations that are guaranteed by the State of Texas or United States of America;
- obligations of states, agencies, counties, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent;
- fully insured or collateralized certificates of deposit at commercial banks;
- repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities in accordance with a master repurchase agreement;
- joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law (the pool must be continuously rated no lower than "AAA" or "AAA-m" by at least one nationally recognized rating service).

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

The Act also requires an annual audit of investment practices. Based on audit procedures conducted in conjunction with the audit of the basic financial statements, the County appears to have complied with the requirements of the Public Funds Investment Act.

**Fair Value of Financial Instruments**

The County evaluates the fair value of its non-investment financial instruments based on the current interest rate environment and current pricing of debt instruments with comparable terms. The carrying value of all non-investment financial instruments, including debt, is considered to approximate fair value.

**Receivables**

Property tax receivables reflect outstanding and delinquent property tax levies and are shown net of an allowance for uncollectibles. The property tax receivable allowance is calculated based on 5% of the tax year's assessment or the receivable balance for that tax year (whichever is less).

**Restricted Assets**

Certain assets are classified as restricted because they are maintained in separate accounts and their use is limited by applicable bond covenants, grant agreements, laws or regulations, and/or other contractual agreements.

**Prepaid Items**

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

**Capital Assets, Depreciation, and Amortization**

The County's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and reported in the applicable governmental type activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair market value at the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Infrastructure assets are a subset of capital assets and primarily consist of roads and bridges. GASB No. 34 encourages but does not require Phase 3 governments (counties with revenues of less than \$10 million) to retroactively report major general infrastructure assets. New roads and bridges acquired after October 1, 2003 are required to be reported. No capital expenditures for roads or bridges were made during the year.

Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.



**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

The estimated useful lives of the County's capital assets are as follows:

Buildings and improvements	5 to 40 years
Office furniture and equipment	3 to 10 years
Other equipment and rolling stock	3 to 10 years
Infrastructure	20 years

**Deferred Inflows/Outflows of Resources**

*Deferred Outflows of Resources.* In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The County has four types of items, which arise only under a full accrual basis of accounting, that qualify for reporting in this category: unamortized differences – pension plan projected and actual investment earnings and unamortized differences – pension plan assumption changes, are recognized as components of pension expense at an actuarially determined rate; pension contributions subsequent to the plan measurement date, is recognized as a component of pension expense in the following fiscal year; and deferred amount on bond refunding, which is an amount that arose due to the refunding of the County's Series 2008 certificates of obligation and is being amortized to interest expense over the life of the new Series 2015 bonds.

*Deferred Inflows of Resources.* In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has two items that qualify for reporting in this category: 1) unavailable revenue – property taxes, which arises only under a modified accrual basis of accounting, is reported only on the governmental funds balance sheet and recognized as an inflow of resources in the period that the amounts become available; and 2) unamortized differences – pension plan expected and actual economic experience, which arises only under a full accrual basis of accounting, is reported on the government-wide statement of net position and is recognized as a component of pension expense at an actuarially determined rate.

**Compensated Absences**

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

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

**Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the bond premiums or discounts. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the period such activity occurs. The face amount of debt issued is reported as other

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financial sources and as capital outlay in the acquiring fund. Lease payments representing both principal and interest are recorded as expenditures in the applicable fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

**Pensions**

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

**Net Position and Fund Balances**

In the government-wide financial statements, the difference between the County’s total assets and total liabilities represents net position. Net position is displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. At September 30, 2016, restricted net position represents monies that are legally restricted for payment of debt service, law enforcement costs, grant costs, or other activities for which special assessments or revenues have been received. Restricted net position also includes time deposits held as collateral by lenders. Unrestricted net position represents the net assets available for future operations.

In the governmental fund financial statements, fund balances are classified as follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form (such as inventories and prepaid amounts) or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes due to constraints imposed on resources either (a) externally by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Commissioners Court – the government’s highest level of decision making authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Commissioners Court.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

Unassigned – all other spendable amounts.

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**Estimates**

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

**STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgets and Budgetary Process**

The County Judge submits an annual budget to the Commissioners Court for review and approval prior to September of the upcoming fiscal year. Routinely, several budget workshops are held in which the original budget is reviewed and possibly revised. In September, the Commissioners Court and County Judge adopt the annual budget for the General Fund and selected Special Revenue funds.

A proposed annual operating budget is filed by the County Judge and Commissioners Court with the County Clerk's office and made available for public inspection at least 15 days prior to public budget hearing. Public hearings are conducted to obtain taxpayer comments. The budget is legally enacted by the Commissioners Court on or before October 1, as required by statute. Only the Commissioners Court may amend the budget. Under state statute, actual expenditures cannot exceed budgetary appropriations at any level for which the budget is formally approved. Budgets are adopted for all funds except the fiduciary funds.

Subsequent to approval, the Commissioners' Court and County Judge may amend the legally adopted budget when unexpected modifications are required in estimated revenues and expenditures. The County amended its budget several times during the year, with all budget amendments being approved by an act of the Commissioners Court.

**Deficit Fund Balances**

Accounting standards require disclosure of funds with deficit fund balances. At September 30, 2016, funds for Road and Bridge Pct No. 1, 2, and 3 reported deficit fund balances.

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**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**DETAILED NOTES ON ALL FUNDS**

**ASSETS**

**Deposits and Investments**

*Interest Rate Risk.* In accordance with its investment policy, the County manages its exposure to declines in fair value by limiting the maturity of any single investment to twelve months or less.

*Credit Risk.* State law and the County's investment policy limit investments to obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.

*Custodial Credit Risk – Deposits.* In the case of deposits, 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 investment policy requires funds on deposit at depository banks to be collateralized. As of September 30, 2016, the County's cash deposits with depository banks totaled \$4,365,958. Included in the balances are certificates of deposit totaling \$910,772 and agency funds in the amount of \$1,820,838. All deposits were fully collateralized by securities pledged by the depository banks with total collateral value of \$6,792,416, in addition to FDIC coverage.

**Receivables**

*Receivable and Uncollectible Accounts.* Receivables at year end for the County's individual major funds, including the related allowances for uncollectible accounts are as follows:

	Property Taxes	Sales Taxes	Grants	Other	Totals
Receivables by fund					
General fund	\$ 698,309	\$ 200,819	\$ 38,703	\$ 20,921	\$ 958,752
Road and bridge	-	-	122,521	-	122,521
FEMA fund	-	-	549,968	-	549,968
Nonmajor funds	<u>44,551</u>	<u>-</u>	<u>193,388</u>	<u>16,680</u>	<u>254,619</u>
Total receivables, gross	<u>742,860</u>	<u>200,819</u>	<u>904,580</u>	<u>37,601</u>	<u>1,885,860</u>
Allowance for for uncollectibles	<u>(742,860)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(742,860)</u>
Total receivables, net	<u>\$ -</u>	<u>\$ 200,819</u>	<u>\$ 904,580</u>	<u>\$ 37,601</u>	<u>\$ 1,143,000</u>

*Property Taxes.* Property taxes attach as an enforceable lien on property as of January 1. Property taxes are due October 1 and become delinquent January 31. The combined tax rate to finance general governmental services and principal and interest on general long term debt for the year ended September 30, 2016 (tax year 2015), was \$.504 per \$100 of assessed valuation. Of this rate, \$.06744 was allocated to debt service and \$.43656 was allocated to maintenance and operation.

Of the \$742,860 in gross property taxes receivable, \$492,309 represents the outstanding balances of assessments for tax years 2014 and prior.

The allowance for property taxes receivable was adjusted during the current year, reflecting a change in the methodology used to calculate the allowance.

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Capital Assets**

A summary of changes in capital assets for the year ended September 30, 2016, is as follows:

	<u>Balance</u> <u>09/30/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>09/30/2016</u>
Capital assets, not being depreciated				
Land	\$ 140,320	\$ 8,725	\$ -	\$ 149,045
Construction in progress	<u>5,050</u>	<u>-</u>	<u>(5,050)</u>	<u>-</u>
Total not being depreciated	<u>145,370</u>	<u>8,725</u>	<u>(5,050)</u>	<u>149,045</u>
Capital assets, being depreciated				
Buildings and improvements	18,195,482	211,339	-	18,406,821
Infrastructure	72,792	-	-	72,792
Rolling stock	6,877,333	575,465	(291,092)	7,161,706
Furniture and equipment	<u>1,518,777</u>	<u>66,154</u>	<u>-</u>	<u>1,584,931</u>
Total being depreciated	<u>26,664,384</u>	<u>852,958</u>	<u>(291,092)</u>	<u>27,226,250</u>
Less accumulated depreciation:				
Buildings and improvements	(5,288,825)	(568,471)	-	(5,857,296)
Infrastructure	(13,888)	(3,640)	-	(17,528)
Rolling stock	(5,289,628)	(476,622)	240,266	(5,525,984)
Furniture and equipment	<u>(1,320,355)</u>	<u>(53,440)</u>	<u>-</u>	<u>(1,373,795)</u>
Total accumulated depreciation	<u>(11,912,696)</u>	<u>(1,102,173)</u>	<u>240,266</u>	<u>(12,774,603)</u>
Total being depreciated, net	<u>14,751,688</u>	<u>(249,215)</u>	<u>(50,826)</u>	<u>14,451,647</u>
Total capital assets, net	<u>\$ 14,897,058</u>	<u>\$ (240,490)</u>	<u>\$ (55,876)</u>	<u>\$ 14,600,692</u>
				Less associated debt <u>(12,608,132)</u>
				Invested in capital assets, net of related debt <u>\$ 1,992,560</u>

Depreciation expense was charged to the following functions/programs of governmental activities as follows:

General government	\$ 48,518
Judicial and law enforcement	611,102
Highways and streets	368,185
Health and welfare	12,183
Culture and recreation	<u>62,184</u>
Total	<u>\$ 1,102,173</u>

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
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**LIABILITIES**

**Capital Leases**

The County has entered into lease agreements as lessee for financing the acquisition of machinery and equipment and vehicles. The agreements accrue interest at rates from 1.03% to 1.25% and are all for durations greater than one year. These lease agreements qualify as capital leases for accounting purposes, and therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>General Fund</u>	<u>Road and Bridge Funds</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
Asset:				
Rolling stock	\$ 73,117	\$ 708,593	\$ -	\$ 781,710
Less accumulated depreciation	<u>(28,939)</u>	<u>(178,365)</u>	<u>-</u>	<u>(207,305)</u>
Total	<u>\$ 44,177</u>	<u>\$ 530,227</u>	<u>\$ -</u>	<u>\$ 574,405</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2016, were as follows:

<u>Year ending September 30,</u>	<u>General Fund</u>	<u>Road and Bridge Funds</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
2017	\$ 22,068	\$ 202,591	\$ -	\$ 224,659
2018	5,343	177,729	-	183,072
2019	-	133,949	-	133,949
2020	-	134,706	-	134,706
2021	<u>-</u>	<u>70,721</u>	<u>-</u>	<u>70,721</u>
Total minimum lease payments	\$ 27,411	\$ 719,697	\$ -	\$ 747,108
Less amount representing interest	<u>(335)</u>	<u>(19,042)</u>	<u>-</u>	<u>(19,377)</u>
Present value of minimum lease payments	<u>\$ 27,076</u>	<u>\$ 700,655</u>	<u>\$ -</u>	<u>\$ 727,731</u>

**Long-term Liabilities**

Long-term liability activity for the year ended September 30, 2016, was as follows:

	<u>Balance 09/30/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 09/30/16</u>	<u>Due Within One Year</u>
2008 Certificates	\$ 11,365,000	\$ -	\$ (9,040,000)	\$ 2,325,000	\$ 425,000
2015 Bonds	-	8,995,000	(225,000)	8,770,000	50,000
Capital leases	<u>543,087</u>	<u>360,034</u>	<u>(175,390)</u>	<u>727,731</u>	<u>216,959</u>
	11,908,087	9,355,034	(9,440,390)	11,822,731	691,959
Unamortized premiums:					
2008 Certificates	162,237	-	(129,161)	33,076	-
2015 Bonds	<u>-</u>	<u>789,204</u>	<u>(36,879)</u>	<u>752,325</u>	<u>-</u>
	<u>162,237</u>	<u>789,204</u>	<u>(166,040)</u>	<u>785,401</u>	<u>-</u>
Totals	<u>\$ 12,070,324</u>	<u>\$ 10,144,238</u>	<u>\$ (9,606,430)</u>	<u>\$ 12,608,132</u>	<u>\$ 691,959</u>

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
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The annual debt service requirements to maturity for long-term debt (excluding the unamortized bond premium) are as follows:

Year Ending September 30,	Certificates and Bonds		Capital Leases		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 475,000	\$ 405,940	\$ 216,959	\$ 7,700	\$ 691,959	\$ 413,640
2018	495,000	386,984	177,711	5,361	672,712	392,345
2019	515,000	366,358	130,463	3,486	645,463	369,844
2020	540,000	343,013	132,597	2,109	672,597	345,122
2021	565,000	317,038	70,000	721	635,000	317,759
2022-2026	3,115,000	1,290,081	-	-	3,115,000	1,290,081
2027-2031	3,700,000	712,363	-	-	3,700,000	712,363
2032-2036	<u>1,690,000</u>	<u>68,200</u>	<u>-</u>	<u>-</u>	<u>1,690,000</u>	<u>68,200</u>
Totals	<u>\$11,095,000</u>	<u>\$ 3,889,975</u>	<u>\$ 727,731</u>	<u>\$ 19,377</u>	<u>\$11,822,731</u>	<u>\$ 3,909,352</u>

At year end, the County had cash totaling \$18,095 available in the debt service fund to service long-term debt.

Bonds and other debt payable at September 30, 2016, are comprised of the following:

*Certificates of Obligation, Series 2008.* On August 15, 2008, the County issued \$13,499,998 of certificates of obligation. The bonds were issued as follows: \$14,998 of capital appreciation certificates maturing in February, 2009 and a yield to maturity of 2.350%; \$8,580,000 of current interest serial certificates bearing interest at rates of 4.000% to 5.250% and maturing from 2010 to 2029; and \$4,905,000 of current interest term certificates bearing interest at rates of 5.125% to 5.250% with maturities of 2028 and 2033. The term bonds are subject to mandatory redemption in prescribed amounts before the maturity dates beginning in 2027 and 2030. The proceeds were used to construct and equip a new county jail. The certificates were issued with a reoffering premium of \$229,040. The premium is reported on the statement of net position and is being amortized over the life of the bonds as a component of interest expense. During fiscal year 2016, \$8,635,000 of principal was refunded, with the principal and pro-rata portion of the reoffering premium (\$122,057) being removed from the County's books.

*Houston County, Texas General Obligation Refunding Bonds, Series 2015.* In October, 2015, the County issued \$8,995,000 of general obligation refunding bonds carrying interest at rates of 2.00% to 4.00%. The County issued the bonds to advance refund a callable portion (\$8,635,000) of the outstanding *Certificates of Obligation, Series 2008* with interest at rates of 5.00% to 5.25% and original maturities of 2022-2033. The certificates were issued with an original issue premium of \$789,204. The premium is reported on the statement of net position and is being amortized over the life of the bonds as a component of interest expense. The County used the net proceeds to purchase U.S. Government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2008 series bonds. The advance refunding was calculated by the County's financial adviser to have reduced total debt service payments over the next 18 years by over \$1,457,000. The refunding resulted in a deferred amount on refunding totaling \$818,159, which is reported on the statement of net position and is being amortized over the life of the bonds as a component of interest expense.

The bonds are secured by the County's ad valorem taxes and require annual payments of principal and semi-annual payments of interest at varying amounts. The bond indenture allows the County to pay the bonds from the proceeds of an additional ad valorem tax that may be levied by the County, and the County has pledged any such proceeds to secure the payment. The bonds have been recorded in the debt service fund.



**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
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*Capital Leases.* The County has entered into various lease purchase agreements for the purpose of purchasing equipment. During the year, the County paid-off two existing leases and incurred two new leases. The agreements accrue interest at rates from 1.03% to 1.25% and are all for durations greater than one year. Each lease purchase is collateralized by the equipment that each respective agreement serves to finance as well as certificates of deposit totaling \$910,772 held at the County's financial institution.

**Bond Compliance Requirements**

The bond ordinances require that during the period in which the bonds are outstanding, the County must create and maintain certain accounts or funds to receive the proceeds from the sale of the bonds and to account for the revenues (as defined) and/or taxes, which are pledged for payment of the bonds. The assets can be used only in accordance with the terms of the bond ordinance and for the specific purpose(s) designated therein.

**Interfund Receivables, Payables, and Transfers**

*Interfund Balances.* Interfund receivable and payable balances are the result of cash needed by a special revenue fund until the fund is able to generate sufficient revenues to cover expenditures. These receivables and payables are netted and eliminated on the government-wide statement of net position. Interfund receivable and payable balances at September 30, 2016 are as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 66,843	\$ (188,111)
Road and Bridge Precinct No. 1	47,660	(35,434)
Road and Bridge Precinct No. 2	8,091	(35,232)
Road and Bridge Precinct No. 3	41,071	(15,240)
Road and Bridge Precinct No. 4	-	(75,659)
FEMA Grants	160,312	(6,929)
Nonmajor	<u>65,971</u>	<u>(33,343)</u>
Totals	<u>\$ 389,948</u>	<u>\$ (389,948)</u>

*Interfund Transfers.* Transfers between funds are indicative of funding for capital projects; lease payments or debt service; subsidies of various County operations; and re-allocations of special revenues. The following schedule summarizes the County's transfers at September 30, 2016:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 16,769	\$ (1,780,121)
Road and Bridge Precinct No. 1	310,240	-
Road and Bridge Precinct No. 2	346,750	-
Road and Bridge Precinct No. 3	434,230	-
Road and Bridge Precinct No. 4	374,490	-
Nonmajor	<u>694,511</u>	<u>(396,869)</u>
Totals	<u>\$ 2,176,990</u>	<u>\$ (2,176,990)</u>



**HOUSTON COUNTY, TEXAS**  
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**Defined Benefit Pension Plan**

**Plan Description.** Houston County participates as one of 677 plans in the non-traditional defined benefit 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. TCDRS in the aggregate issues a comprehensive annual financial report (“CAFR”) on a calendar year basis. The CAFR is available online at [www.tcdrs.org](http://www.tcdrs.org).

**Benefits Provided.** The County provides retirement benefits for all of its full-time employees. TCDRS is a savings-based plan. For the County’s plan, 7% of each employee’s pay is deposited into his or her TCDRS account. By law, employee accounts earn 7% interest on beginning of year balances annually. At retirement, the account is matched at an employer set percentage (current match is 150%) and is then converted to an annuity. There are no automatic cost of living adjustments. The plan provisions are adopted by the governing body of the County, within the options available in the Texas state statutes governing TCDRS.

Members can retire at ages 60 and above with 8 or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the County.

**Employees Covered by Benefit Terms.** At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	66
Inactive employees entitled to but not yet receiving benefits	107
Active employees	162
	335

**Contributions and Actuarial Information.** The plan is funded by monthly contributions from both employee members and the County based on the covered payroll of employee members. The contribution rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employee gross earnings. The employee contribution rate may be changed by the County, within the options available in the TCDRS Act. Under the TCDRS Act, the contribution rate of the County is actuarially determined annually, and the employer is required to contribute at that rate. The employer may increase its contribution rate and/or make additional contributions in excess of its annual required contribution.

The County has not elected the annually determined contribution rate (“ADCR”) plan provisions of the TCDRS Act. The County contributed using the actuarially determined rate of 7.00% for calendar years 2015 and 2016. The contribution rate payable by the employee members for fiscal year 2016 is the rate of 7.00% as adopted by the County. For fiscal year 2016, the County’s required contributions equaled actual contributions which totaled \$338,512.

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

**Actuarial Assumptions.** The required contribution was determined as part of the December 31, 2015, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2015, included (a) 8.0% investment rate of return (net of administrative expenses), and (b) projected salary increases of 4.9 percent. Both (a) and (b) included an inflation component of 3.0 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments

**HOUSTON COUNTY, TEXAS**  
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over a five-year period. The total pension liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at December 31, 2015, was 13.4 years.

Salary increases were based on a service-related table. Mortality rates for active members were based on the gender-distinct RP2000 Active Employee Mortality Table, with males calculated with a two-year set-forward, and with females calculated with a four-year setback, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that. Mortality rates for retirees, beneficiaries, and non-depositing members were based on the gender-distinct RP2000 Combined Mortality Table projected to 2014 with scale AA, and then projected with 110% of the MP-2014 Ultimate scale after that, with males calculated with a one-year set-forward, and with females calculated with no age adjustment. For disabled annuitants, the gender-distinct RP2000 Disabled Mortality Table is used, projected to 2014 with scale AA, and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and with a two-year set-forward for females.

Updated mortality assumptions were adopted in 2015. All other actuarial assumptions that determined the total pension liability as of December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TCDRS was for the period January 1, 2009 through December 31, 2012, except where required to be different by GASB 68. Assumptions are reviewed annually.

The long-term expected rate of return on pension plan investments is 8.10%. 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 to 10-year time horizon.

The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013 for the period January 1, 2009 - December 31, 2012. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class:</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return (Geometric)</u>
US equities	14.5%	5.45%
Private equity	14.0%	8.45%
Global equities	1.5%	5.75%
International equities - developed	10.0%	5.45%
International equities - emerging	8.0%	6.45%
Investment-grade bonds	3.0%	1.00%
High-yield bonds	3.0%	5.10%
Opportunistic credit	2.0%	5.09%
Direct lending	5.0%	6.40%
Distressed debt	3.0%	8.10%
REIT equities	3.0%	4.00%
Master limited partnerships	3.0%	6.80%
Private real estate partnerships	5.0%	6.90%
Hedge funds	25.0%	5.25%
Total	100.0%	

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**Discount Rate.** The discount rate used to measure the Total Pension Liability was 8.10%, which is net of investment expenses and increased by 0.10% to be gross of administrative expenses. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

**Changes in the Net Pension Liability/Asset.** A schedule of changes in net pension liability/asset is as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at 12/31/2014	\$ 12,413,393	\$ 12,664,964	\$ 251,571
Changes for the year:			
Service cost	480,944	-	480,944
Interest on total pension liability	1,009,813	-	1,009,813
Effect of economic/demographic (gains) or losses	(18,574)	-	(18,574)
Effect of assumption changes or inputs	160,468	-	160,468
Refund of contributions	(56,766)	(56,766)	-
Benefit payments	(401,615)	(401,615)	-
Administrative expenses	-	(9,219)	9,219
Employer contributions	-	338,512	(338,512)
Member contributions	-	342,983	(342,983)
Net investment income	-	13,409	(13,409)
Other	-	19,353	(19,353)
Net changes	<u>1,100,236</u>	<u>246,657</u>	<u>853,579</u>
Balance at 12/31/2015	<u>\$ 13,513,629</u>	<u>\$ 12,911,621</u>	<u>\$ 602,008</u>

**Sensitivity of the Net Pension Liability/Asset to Changes in the Discount Rate.** The following presents the net pension liability/asset of the County, calculated using the discount rate of 8.1%, as well as what the County's net pension liability/asset would be if it were calculated using a discount rate that is 1-percentage-point lower (7.1%) or 1-percentage-point higher (9.1%) than the current rate:

	1% Decrease in Discount Rate (7.1%)	Discount Rate (8.1%)	1% Increase in Discount Rate (9.1%)
Total pension liability	\$ 15,262,334	\$ 13,513,629	\$ 12,056,604
Fiduciary net position	<u>12,911,620</u>	<u>12,911,621</u>	<u>12,911,620</u>
Net pension liability (asset)	<u>\$ 2,350,714</u>	<u>\$ 602,008</u>	<u>\$ (855,016)</u>

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

***Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions.*** For the year ended September 30, 2016, the County recognized net pension (benefit) expense of \$284,587. Net pension (benefit) expense was charged to functions/programs as follows:

<u>Function/program</u>	<u>Governmental Activities</u>
General government	\$ 49,640
Judicial and law enforcement	173,610
Highways and streets	52,456
Health and welfare	6,461
Culture and recreation	<u>2,420</u>
Total	<u>\$ 284,587</u>

At September 30, 2016, the County reported deferred amounts related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ (32,913)
Difference between projected and actual investment earnings	924,213	-
Changes in actuarial assumptions	120,351	-
Contributions subsequent to the measurement date	<u>255,317</u>	<u>-</u>
Totals, governmental activities	<u>\$ 1,299,881</u>	<u>\$ (32,913)</u>

The amount reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date totaling \$255,317, will be recognized as a reduction of the net pension liability/asset for the plan year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Plan year ended December 31,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Net</u>
2016	\$ 534,776	\$ (14,135)	\$ 520,641
2017	279,459	(14,135)	265,324
2018	279,459	(4,643)	274,816
2019	<u>206,187</u>	<u>-</u>	<u>206,187</u>
Total	<u>\$ 1,299,881</u>	<u>\$ (32,913)</u>	<u>\$ 1,266,968</u>

**Post-Employment Health Insurance Benefits**

*Plan Description.* During fiscal year 2016, Houston County provided post-employment group medical insurance benefits for retired employees that have more than eight years of continuous service with the County. The County's premium contribution portions were as follows:

<u>Years of Service (continuous)</u>	<u>County Portion</u>
8 - 11	25%
12 - 15	50%
16 - 19	75%
20 or more	100%

**HOUSTON COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

When a retiree or their spouse reaches Medicare eligibility, Medicare becomes primary and the County plan becomes secondary. The County does not contribute toward the coverage for retirees who do not meet the eligibility requirements stated previously. The plan began during the year ended September 30, 2015 and is funded on a pay-as-you-go basis. A separate, audited GAAP-basis post-employment benefit plan report and actuarial data are not available for this plan.

*Funding Policy.* The County may contribute all, part, or none of the premium payment and the County's contribution, if any, is determined annually by Commissioners Court during the County budget process and is effective on a fiscal year basis. For the year ended September 30, 2016 the County contributed \$17,582 toward post-employment health insurance benefits.

**OTHER INFORMATION**

**Risk Management**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The County provides insurance coverage for each of these risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the County. Settled claims did not exceed this coverage during the current year.

**Contingent Liabilities**

All amounts received or receivable from grant agencies are subject to audit and adjustment by the granting agency. Any disallowed claims, including amounts already collected, may be required to be repaid to the granting agency. Amounts payable by the County in its capacity as a pass-through grantor have been accrued along with an offsetting grant receivable (i.e. should expenditures claimed by subrecipients be disallowed by the granting agency(ies), no liability to the County would exist). The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

**Subsequent Events**

Management has evaluated subsequent events through June 29, 2017, the date when the financial statements were available to be issued.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**HOUSTON COUNTY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Budgeted Amounts		Actual Amounts	Variances
	Original	Final	Fund Basis	Fav (Unfav)
	Adopted	Appropriated		Final to Actual
<b>REVENUES</b>				
Property taxes	\$ 5,845,845	\$ 5,845,845	\$ 6,530,512	\$ 684,667
General sales and use taxes	1,075,000	1,125,000	1,169,995	44,995
Selective sales and use taxes	7,500	7,500	20,233	12,733
Fees, licenses, and permits	242,050	242,050	209,573	(32,477)
Charges for services	596,418	596,418	620,223	23,805
Fines and forfeitures	103,000	103,000	168,303	65,303
Intergovernmental revenue and grants	187,000	188,180	193,537	5,357
Contributions and donations from private sources	500	1,500	2,002	502
Payments in lieu of taxes	33,000	33,000	41,541	8,541
Investment earnings	1,001	4,401	8,634	4,233
Other revenue	4,800	63,025	136,668	73,643
Total revenues	8,096,114	8,209,919	9,101,221	891,302
<b>EXPENDITURES</b>				
General government				
County judge	184,344	185,894	184,780	1,114
County commissioners	265,694	265,694	264,445	1,249
County clerk	138,012	138,012	122,199	15,813
Information technology	82,886	82,886	76,841	6,045
Non-departmental	736,707	659,997	629,711	30,286
Human resources	16,293	17,593	15,674	1,919
District clerk	199,245	199,245	186,819	12,426
County juvenile board	17,348	17,348	17,364	(16)
Elections	91,790	91,790	93,051	(1,261)
County auditor	188,042	190,942	186,834	4,108
County treasurer	140,294	140,294	136,725	3,569
County tax assessor-collector	333,671	333,671	318,632	15,039
Courthouse	178,895	189,181	203,659	(14,478)
Insurance	113,000	102,000	69,790	32,210
Utilities	245,000	245,000	210,665	34,335
Motor pool	7,369	7,369	7,195	174
Community service restitution	59,899	59,899	54,961	4,938
Unclaimed funds	-	-	9	(9)
Total general government	2,998,489	2,926,815	2,779,354	147,461
Judicial and law enforcement				
County court at law	303,068	303,068	301,670	1,398
District court	107,403	108,117	106,530	1,587
Justice of the peace, Pct No. 1	117,698	117,698	117,222	476
Justice of the peace, Pct No. 2	118,056	118,056	117,032	1,024
County attorney	319,857	321,037	299,048	21,989
District attorney	278,945	278,945	276,357	2,588
Environmental officer	58,230	58,230	34,673	23,557
County constable, Pct No. 1	43,069	43,069	40,557	2,512
County constable, Pct No. 2	39,001	39,001	28,897	10,104
Sheriff	1,467,136	1,489,532	1,476,557	12,975
Jail	1,225,576	1,321,851	1,321,080	771

**HOUSTON COUNTY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**  
**(CONTINUED)**

	Budgeted Amounts		Actual Amounts	Variances
	Original Adopted	Final Appropriated	Fund Basis	Fav (Unfav) Final to Actual
Judicial and law enforcement (continued)				
Department of public safety	39,871	39,871	40,015	(144)
Bail bond board	3,950	3,950	1,717	2,233
12th court of appeals	1,300	1,300	1,808	(508)
Total judicial and law enforcement	4,123,160	4,243,725	4,163,163	80,562
Culture and recreation				
Veteran services officer	33,674	33,674	31,386	2,288
County extension service	94,363	94,363	91,234	3,129
Texas parks and wildlife	700	700	766	(66)
Historical commission	22,636	22,636	4,784	17,852
Total culture and recreation	151,373	151,373	128,170	23,203
Capital outlay				
Non-departmental	-	-	64,848	(64,848)
Sheriff	98,000	66,554	64,705	1,849
Total capital outlay	98,000	66,554	129,553	(62,999)
Debt service				
Principal	13,998	19,287	19,287	-
Interest	297	458	456	2
Total expenditures	7,385,317	7,408,212	7,219,983	188,229
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	710,797	801,707	1,881,238	1,079,531
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of real and personal property	-	-	-	-
Proceeds from notes/capital leases	-	-	-	-
Transfers in	14,170	14,170	16,769	2,599
Transfers out	(1,555,066)	(1,795,776)	(1,780,121)	15,655
Net other financing sources (uses)	(1,540,896)	(1,781,606)	(1,763,352)	18,254
NET CHANGE IN FUND BALANCE	(830,099)	(979,899)	117,886	1,097,785
FUND BALANCE - BEGINNING OF YEAR	2,659,404	2,659,404	2,659,404	-
FUND BALANCE - END OF YEAR	\$ 1,829,305	\$ 1,679,505	\$ 2,777,290	\$ 1,097,785

See accompanying notes to the financial statements.

**HOUSTON COUNTY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**ROAD AND BRIDGE PRECINCT NO. 1**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Budgeted Amounts		Actual Amounts	Variances
	Original Adopted	Final Appropriated	Fund Basis	Fav (Unfav) Final to Actual
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
General sales and use taxes	-	-	-	-
Selective sales and use taxes	-	-	-	-
Fees, licenses, and permits	129,000	129,000	104,299	(24,701)
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Intergovernmental revenue and grants	6,600	6,600	40,091	33,491
Contributions and donations from private sources	-	-	2,092	2,092
Payments in lieu of taxes	-	-	-	-
Investment earnings	-	-	14	14
Other revenue	-	-	-	-
Total revenues	<u>135,600</u>	<u>135,600</u>	<u>146,496</u>	<u>10,896</u>
<b>EXPENDITURES</b>				
General government	-	-	-	-
Judicial and law enforcement	-	-	-	-
Highways and streets	354,561	451,271	501,594	(50,323)
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Pass-through expenditures	-	-	-	-
Capital outlay	-	-	8,725	(8,725)
Debt service				
Principal	43,209	43,209	43,209	-
Interest	1,360	1,360	1,354	6
Total expenditures	<u>399,130</u>	<u>495,840</u>	<u>554,882</u>	<u>(59,042)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	<u>(263,530)</u>	<u>(360,240)</u>	<u>(408,386)</u>	<u>(48,146)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of real and personal property	-	-	-	-
Proceeds from notes/capital leases	-	-	-	-
Transfers in	263,530	310,240	310,240	-
Transfers out	-	-	-	-
Net other financing sources (uses)	<u>263,530</u>	<u>310,240</u>	<u>310,240</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>				
	-	(50,000)	(98,146)	(48,146)
<b>FUND BALANCE - BEGINNING OF YEAR</b>				
	<u>78,779</u>	<u>78,779</u>	<u>78,779</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>				
	<u>\$ 78,779</u>	<u>\$ 28,779</u>	<u>\$ (19,367)</u>	<u>\$ (48,146)</u>

See accompanying notes to the financial statements.

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**HOUSTON COUNTY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**ROAD AND BRIDGE PRECINCT NO. 2**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Budgeted Amounts		Actual Amounts	Variances
	Original Adopted	Final Appropriated	Fund Basis	Fav (Unfav) Final to Actual
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
General sales and use taxes	-	-	-	-
Selective sales and use taxes	-	-	-	-
Fees, licenses, and permits	168,500	168,500	137,240	(31,260)
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Intergovernmental revenue and grants	8,600	8,600	40,717	32,117
Contributions and donations from private sources	-	2,350	2,350	-
Payments in lieu of taxes	-	-	-	-
Investment earnings	-	-	86	86
Other revenue	-	-	-	-
Total revenues	<u>177,100</u>	<u>179,450</u>	<u>180,393</u>	<u>943</u>
<b>EXPENDITURES</b>				
General government	-	-	-	-
Judicial and law enforcement	-	-	-	-
Highways and streets	460,491	585,341	588,488	(3,147)
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Pass-through expenditures	-	-	-	-
Capital outlay	-	-	53,727	(53,727)
Debt service				
Principal	60,459	60,459	55,170	5,289
Interest	2,900	2,900	2,607	293
Total expenditures	<u>523,850</u>	<u>648,700</u>	<u>699,992</u>	<u>(51,292)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	<u>(346,750)</u>	<u>(469,250)</u>	<u>(519,599)</u>	<u>(50,349)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of real and personal property	-	12,500	12,500	-
Proceeds from notes/capital leases	-	-	-	-
Transfers in	346,750	346,750	346,750	-
Transfers out	-	-	-	-
Net other financing sources (uses)	<u>346,750</u>	<u>359,250</u>	<u>359,250</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	(110,000)	(160,349)	(50,349)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>125,323</u>	<u>125,323</u>	<u>125,323</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 125,323</u>	<u>\$ 15,323</u>	<u>\$ (35,026)</u>	<u>\$ (50,349)</u>

See accompanying notes to the financial statements.

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**HOUSTON COUNTY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**ROAD AND BRIDGE PRECINCT NO. 3**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Budgeted Amounts		Actual Amounts	Variances
	Original Adopted	Final Appropriated	Fund Basis	Fav (Unfav) Final to Actual
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
General sales and use taxes	-	-	-	-
Selective sales and use taxes	-	-	-	-
Fees, licenses, and permits	179,400	179,400	159,149	(20,251)
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Intergovernmental revenue and grants	9,974	9,974	25,877	15,903
Contributions and donations from private sources	-	-	12,978	12,978
Payments in lieu of taxes	-	-	-	-
Investment earnings	-	-	81	81
Other revenue	-	-	-	-
Total revenues	<u>189,374</u>	<u>189,374</u>	<u>198,085</u>	<u>8,711</u>
<b>EXPENDITURES</b>				
General government	-	-	-	-
Judicial and law enforcement	-	-	-	-
Highways and streets	554,593	686,593	624,735	61,858
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Pass-through expenditures	-	-	-	-
Capital outlay	-	140,000	418,783	(278,783)
Debt service				
Principal	36,626	36,626	36,626	-
Interest	385	385	379	6
Total expenditures	<u>591,604</u>	<u>863,604</u>	<u>1,080,523</u>	<u>(216,919)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	<u>(402,230)</u>	<u>(674,230)</u>	<u>(882,438)</u>	<u>(208,208)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of real and personal property	-	80,000	80,750	750
Proceeds from notes/capital leases	-	140,000	341,783	201,783
Transfers in	402,230	434,230	434,230	-
Transfers out	-	-	-	-
Net other financing sources (uses)	<u>402,230</u>	<u>654,230</u>	<u>856,763</u>	<u>202,533</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	(20,000)	(25,675)	(5,675)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>11,425</u>	<u>11,425</u>	<u>11,425</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 11,425</u>	<u>\$ (8,575)</u>	<u>\$ (14,250)</u>	<u>\$ (5,675)</u>

See accompanying notes to the financial statements.

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**HOUSTON COUNTY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**ROAD AND BRIDGE PRECINCT NO. 4**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Budgeted Amounts		Actual Amounts	Variances
	Original Adopted	Final Appropriated	Fund Basis	Fav (Unfav) Final to Actual
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
General sales and use taxes	-	-	-	-
Selective sales and use taxes	-	-	-	-
Fees, licenses, and permits	179,300	179,300	148,016	(31,284)
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Intergovernmental revenue and grants	9,275	9,275	80,457	71,182
Contributions and donations from private sources	-	-	13,910	13,910
Payments in lieu of taxes	-	-	-	-
Investment earnings	-	-	130	130
Other revenue	-	-	-	-
Total revenues	<u>188,575</u>	<u>188,575</u>	<u>242,513</u>	<u>53,938</u>
<b>EXPENDITURES</b>				
General government	-	-	-	-
Judicial and law enforcement	-	-	-	-
Highways and streets	533,065	560,965	603,636	(42,671)
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Pass-through expenditures	-	-	-	-
Capital outlay	-	38,250	38,250	-
Debt service				
Principal	30,000	21,100	21,097	3
Interest	-	1,000	914	86
Total expenditures	<u>563,065</u>	<u>621,315</u>	<u>663,897</u>	<u>(42,582)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	<u>(374,490)</u>	<u>(432,740)</u>	<u>(421,384)</u>	<u>11,356</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of real and personal property	-	-	-	-
Proceeds from notes/capital leases	-	18,250	18,250	-
Transfers in	374,490	374,490	374,490	-
Transfers out	-	-	-	-
Net other financing sources (uses)	<u>374,490</u>	<u>392,740</u>	<u>392,740</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	(40,000)	(28,644)	11,356
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>50,621</u>	<u>50,621</u>	<u>50,621</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 50,621</u>	<u>\$ 10,621</u>	<u>\$ 21,977</u>	<u>\$ 11,356</u>

See accompanying notes to the financial statements.

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**HOUSTON COUNTY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**FEMA GRANT FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Budgeted Amounts		Actual Amounts	Variances
	Original Adopted	Final Appropriated	Fund Basis	Fav (Unfav) Final to Actual
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
General sales and use taxes	-	-	-	-
Selective sales and use taxes	-	-	-	-
Fees, licenses, and permits	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Intergovernmental revenue and grants	-	70,191	176,438	106,247
Contributions and donations from private sources	-	-	-	-
Payments in lieu of taxes	-	-	-	-
Investment earnings	-	-	-	-
Other revenue	-	-	-	-
Total revenues	-	70,191	176,438	106,247
<b>EXPENDITURES</b>				
General government	-	-	-	-
Judicial and law enforcement	-	-	-	-
Highways and streets	-	70,191	176,438	(106,247)
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Pass-through expenditures	-	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	-	70,191	176,438	(106,247)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	-	-	-	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of real and personal property	-	-	-	-
Proceeds from notes/capital leases	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Net other financing sources (uses)	-	-	-	-
<b>NET CHANGE IN FUND BALANCE</b>				
	-	-	-	-
<b>FUND BALANCE - BEGINNING OF YEAR</b>				
	-	-	-	-
<b>FUND BALANCE - END OF YEAR</b>				
	\$ -	\$ -	\$ -	\$ -

See accompanying notes to the financial statements.

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**HOUSTON COUNTY, TEXAS**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)**  
**AND RELATED RATIOS - LAST TEN YEARS \***  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>2015**</u>	<u>2014**</u>
<b>TOTAL PENSION LIABILITY</b>		
Service cost	\$ 480,944	\$ 478,176
Interest on total pension liability	1,009,813	930,594
Effect of plan changes	(74,034)	-
Effect of assumption changes or inputs	160,468	-
Effect of economic/demographic (gains) or losses	(18,574)	(37,965)
Benefit payments/refunds of contributions	<u>(458,381)</u>	<u>(415,502)</u>
<b>NET CHANGE IN TOTAL PENSION LIABILITY</b>	<b>1,100,236</b>	<b>955,303</b>
<b>TOTAL PENSION LIABILITY - BEGINNING</b>	<u><b>12,413,392</b></u>	<u><b>11,458,089</b></u>
<b>TOTAL PENSION LIABILITY - ENDING</b>	<b>(a) \$ <u>13,513,628</u></b>	<b>\$ <u>12,413,392</u></b>
<b>PLAN FIDUCIARY NET POSITION</b>		
Employer contributions	\$ 338,512	\$ 297,141
Member contributions	342,983	298,850
Investment income, net of investment expenses	13,409	797,258
Benefit payments/refunds of contributions	(458,381)	(415,502)
Administrative expenses	(9,219)	(9,385)
Other	<u>19,353</u>	<u>13,836</u>
<b>NET CHANGE IN PLAN FIDUCIARY NET POSITION</b>	<b>246,657</b>	<b>982,198</b>
<b>PLAN FIDUCIARY NET POSITION - BEGINNING</b>	<u><b>12,664,963</b></u>	<u><b>11,682,765</b></u>
<b>PLAN FIDUCIARY NET POSITION - ENDING</b>	<b>(b) \$ <u>12,911,620</u></b>	<b>\$ <u>12,664,963</u></b>
<b>NET PENSION LIABILITY (ASSET) - ENDING</b>	<b>(a - b) \$ <u>602,008</u></b>	<b>\$ <u>(251,571)</u></b>
<b>RELATED RATIOS</b>		
Plan Fiduciary Net Position as a percentage of Total Pension Liability	95.55%	102.03%
Pensionable Covered Payroll	\$ 4,835,892	\$ 4,269,280
Net Pension Liability (Asset) as a percentage of Covered Payroll	12.45%	-5.89%

\* - GASB 68 requires ten years of data to be presented. Data for only two years are available.

\*\* - In accordance with GASB standards, the County has elected to present data calculated at the actuarial valuation/ measurement date, which occurs on December 31 of the year preceding each fiscal year.

See Independent Auditors' Report.

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**HOUSTON COUNTY, TEXAS**  
**SCHEDULE OF PENSION CONTRIBUTIONS**  
**LAST TEN FISCAL YEARS\***  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Fiscal Year Ending September 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2015	\$ 318,721	\$ 318,721	\$ -	\$ 4,559,555	7.0%
2016	338,512	338,512	-	4,835,981	7.0%

\* - GASB 68 requires ten years of data to be presented. Data for only two years are available.

See Independent Auditors' Report and Notes to the Schedule of Pension Contributions.

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**HOUSTON COUNTY, TEXAS**  
**NOTES TO THE SCHEDULE OF PENSION CONTRIBUTIONS**  
**SEPTEMBER 30, 2016**

**Valuation Date**

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.

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

<i>Actuarial Cost Method</i>	Entry Age
<i>Amortization Method</i>	Level percentage of payroll, Closed
<i>Amortization Period</i>	6.9 years (based on contribution rate calculate in 12/31/15 valuation)
<i>Asset Valuation Method</i>	5-year smoothed market
<i>Inflation</i>	3.0%
<i>Salary Increases</i>	4.9% average over career including inflation, varies by age and service.
<i>Investment Rate of Return</i>	8.0%, net of investment expenses, including inflation
<i>Cost-of-Living Adjustments</i>	0.0%
<i>Retirement Age</i>	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
<i>Mortality</i>	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously, Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.

**Other Information**

No changes in plan provisions are reflected in the Schedule of Pension Contributions.

**Presentation of Schedule**

In accordance with GASB standards, the District reports contribution activity included in the Schedule of Pension Contributions based on the County's fiscal year end of September 30.

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**SUPPLEMENTARY INFORMATION**

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**COMBINING FUND STATEMENTS**

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

	<u>Debt Service Fund</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 18,095	\$ 921,401	\$ 939,496
Receivables			
Property taxes	44,551	-	44,551
Grants	-	193,388	193,388
Other - miscellaneous	-	16,680	16,680
Due from other funds	19,342	46,629	65,971
Prepaid items	-	61,677	61,677
<b>TOTAL ASSETS</b>	<u>\$ 81,988</u>	<u>\$ 1,239,775</u>	<u>\$ 1,321,763</u>
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
Liabilities			
Deficit in pooled cash	\$ -	\$ 177,298	\$ 177,298
Accounts payable and accrued expenses	-	117,251	117,251
Due to other funds	-	33,343	33,343
Unearned revenues	-	7,243	7,243
Total liabilities	<u>-</u>	<u>335,135</u>	<u>335,135</u>
Fund balances			
Nonspendable	-	61,677	61,677
Restricted	81,988	782,809	864,797
Assigned	-	106,441	106,441
Unassigned	-	(46,287)	(46,287)
Total fund balances	<u>81,988</u>	<u>904,640</u>	<u>986,628</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 81,988</u>	<u>\$ 1,239,775</u>	<u>\$ 1,321,763</u>

See Independent Auditors' Report.

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

	Debt Service Fund	Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Property taxes	\$ 945,226	\$ -	\$ 945,226
Selective sales and use taxes	-	39,601	39,601
Fees, licenses, and permits	-	214,275	214,275
Charges for services	-	86,126	86,126
Fines and forfeitures	-	138,018	138,018
Intergovernmental revenue and grants	-	1,388,998	1,388,998
Contributions and donations from private sources	-	6,901	6,901
Investment earnings	643	1,729	2,372
Other revenue	-	7,355	7,355
Total revenues	<u>945,869</u>	<u>1,883,003</u>	<u>2,828,872</u>
<b>EXPENDITURES</b>			
General government	-	195,056	195,056
Judicial and law enforcement	-	1,094,477	1,094,477
Highways and streets	-	171,265	171,265
Health and welfare	-	370,011	370,011
Culture and recreation	-	39,150	39,150
Pass-through expenditures	-	215,290	215,290
Capital outlay	-	207,594	207,594
Debt service			
Principal	630,000	-	630,000
Interest	332,606	-	332,606
Refunding bond issuance costs	205,946	-	205,946
Total expenditures	<u>1,168,552</u>	<u>2,292,843</u>	<u>3,461,395</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(222,683)</u>	<u>(409,840)</u>	<u>(632,523)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from debt issuance	8,995,000	-	8,995,000
Premium on refunding bonds	789,204	-	789,204
Payment to refunded bond escrow agent	(9,575,216)	-	(9,575,216)
Transfers in	46,072	648,439	694,511
Transfers out	-	(396,869)	(396,869)
Net other financing sources (uses)	<u>255,060</u>	<u>251,570</u>	<u>506,630</u>
<b>NET CHANGE IN FUND BALANCE</b>	32,377	(158,270)	(125,893)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>49,611</u>	<u>1,062,910</u>	<u>1,112,521</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 81,988</u>	<u>\$ 904,640</u>	<u>\$ 986,628</u>

See Independent Auditors' Report.

**HOUSTON COUNTY, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
SEPTEMBER 30, 2016**

	Jury Fund	Airport Fund	Courthouse Security Fund
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 5,737	\$ 17,948	\$ 86
Receivables			
Grants	-	-	-
Other - miscellaneous	-	-	-
Due from other funds	2,631	-	3,318
Prepaid items	-	789	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<u>\$ 8,368</u>	<u>\$ 18,737</u>	<u>\$ 3,404</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
Liabilities			
Deficit in pooled cash	\$ -	\$ 1,052	\$ -
Accounts payable and accrued expenses	13,869	511	2,303
Due to other funds	-	-	-
Unearned revenues	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total liabilities</b>	<u>13,869</u>	<u>1,563</u>	<u>2,303</u>
Fund balances			
Nonspendable	-	789	-
Restricted	-	-	1,101
Assigned	-	16,385	-
Unassigned	(5,501)	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total fund balances</b>	<u>(5,501)</u>	<u>17,174</u>	<u>1,101</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 8,368</u>	<u>\$ 18,737</u>	<u>\$ 3,404</u>

<u>Law Library Fund</u>	<u>Hotel Occupancy Tax</u>	<u>Community Development</u>	<u>Justice Court Security</u>	<u>Justice Court Technology</u>	<u>County &amp; District Court Technology</u>
\$ 4,569	\$ 60,267	\$ 26,483	\$ 11,845	\$ 6,897	\$ 8,266
-	-	-	-	-	-
-	10,672	-	-	-	-
857	-	-	82	326	75
-	6,000	-	-	7,000	-
<u>\$ 5,426</u>	<u>\$ 76,939</u>	<u>\$ 26,483</u>	<u>\$ 11,927</u>	<u>\$ 14,223</u>	<u>\$ 8,341</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,579	1,800	50	489	-	-
-	-	-	-	-	8,181
-	-	-	-	-	-
<u>1,579</u>	<u>1,800</u>	<u>50</u>	<u>489</u>	<u>-</u>	<u>8,181</u>
-	6,000	-	-	7,000	-
3,847	69,139	-	11,438	7,223	160
-	-	26,433	-	-	-
-	-	-	-	-	-
<u>3,847</u>	<u>75,139</u>	<u>26,433</u>	<u>11,438</u>	<u>14,223</u>	<u>160</u>
<u>\$ 5,426</u>	<u>\$ 76,939</u>	<u>\$ 26,483</u>	<u>\$ 11,927</u>	<u>\$ 14,223</u>	<u>\$ 8,341</u>

See Independent Auditors' Report.

**HOUSTON COUNTY, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
SEPTEMBER 30, 2016**

	<u>Family Protection</u>	<u>Child Abuse Prevention</u>	<u>Right of Way</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 5,639	\$ 561	\$ 25,446
Receivables			
Grants	-	-	-
Other - miscellaneous	-	-	-
Due from other funds	90	5	-
Prepaid items	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 5,729</u>	<u>\$ 566</u>	<u>\$ 25,446</u>
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
Liabilities			
Deficit in pooled cash	\$ -	\$ -	\$ -
Accounts payable	-	-	-
Due to other funds	-	-	-
Unearned revenues	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances			
Nonspendable	-	-	-
Restricted	5,729	-	-
Assigned	-	566	25,446
Unassigned	-	-	-
Total fund balances	<u>5,729</u>	<u>566</u>	<u>25,446</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 5,729</u>	<u>\$ 566</u>	<u>\$ 25,446</u>

<u>Road &amp; Bridge Fines</u>	<u>Records Management &amp; Preservation</u>	<u>Co Clerk Records Preservation</u>	<u>District Clerk Records Preservation</u>	<u>County Clerk Vital Records</u>	<u>County Clerk Archives</u>
\$ 43,329	\$ -	\$ -	\$ 1,455	\$ 1,563	\$ 197,068
-	-	-	-	-	-
-	-	-	-	-	-
8,501	880	8,854	172	113	-
-	20,240	26,262	-	250	-
<u>\$ 51,830</u>	<u>\$ 21,120</u>	<u>\$ 35,116</u>	<u>\$ 1,627</u>	<u>\$ 1,926</u>	<u>\$ 197,068</u>

\$ -	\$ 20,159	\$ 31,577	\$ -	\$ -	\$ -
941	-	1,270	-	280	-
5,000	4,701	-	-	-	-
-	-	-	-	-	-
<u>5,941</u>	<u>24,860</u>	<u>32,847</u>	<u>-</u>	<u>280</u>	<u>-</u>
-	20,240	26,262	-	250	-
45,889	-	-	1,627	1,396	197,068
-	-	-	-	-	-
-	(23,980)	(23,993)	-	-	-
<u>45,889</u>	<u>(3,740)</u>	<u>2,269</u>	<u>1,627</u>	<u>1,646</u>	<u>197,068</u>
<u>\$ 51,830</u>	<u>\$ 21,120</u>	<u>\$ 35,116</u>	<u>\$ 1,627</u>	<u>\$ 1,926</u>	<u>\$ 197,068</u>

See Independent Auditors' Report.

**HOUSTON COUNTY, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
SEPTEMBER 30, 2016**

	District Clerk Archives	Co Attorney Pre-trial Intervention	Hot Check Fees
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 11,207	\$ 22,676	\$ 25,320
Receivables			
Grants	-	-	-
Other - miscellaneous	-	-	240
Due from other funds	301	-	1,267
Prepaid items	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<u>\$ 11,508</u>	<u>\$ 22,676</u>	<u>\$ 26,827</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
Liabilities			
Deficit in pooled cash	\$ -	\$ -	\$ 1,328
Accounts payable	-	307	431
Due to other funds	-	-	-
Unearned revenues	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>-</u>	<u>307</u>	<u>1,759</u>
Fund balances			
Nonspendable	-	-	-
Restricted	11,508	22,369	-
Assigned	-	-	25,068
Unassigned	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>11,508</u>	<u>22,369</u>	<u>25,068</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 11,508</u>	<u>\$ 22,676</u>	<u>\$ 26,827</u>

<u>District Attorney Hot Checks</u>	<u>County Attorney Forfeiture</u>	<u>District Attorney Forfeiture</u>	<u>Sheriff Forfeiture</u>	<u>Permanent Improvement</u>	<u>LEOSE Education Funds</u>
\$ 1,235	\$ 1,832	\$ 6,465	\$ 23,017	\$ 10,152	\$ 4,624
-	-	-	-	-	-
-	-	700	-	-	99
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 1,235</u>	<u>\$ 1,832</u>	<u>\$ 7,165</u>	<u>\$ 23,017</u>	<u>\$ 10,152</u>	<u>\$ 4,723</u>
\$ 44	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	1,993	776	-	-
-	-	-	-	-	87
-	-	-	-	-	-
<u>44</u>	<u>-</u>	<u>1,993</u>	<u>776</u>	<u>-</u>	<u>87</u>
-	-	-	-	-	-
-	1,832	5,172	22,241	-	4,636
1,191	-	-	-	10,152	-
-	-	-	-	-	-
<u>1,191</u>	<u>1,832</u>	<u>5,172</u>	<u>22,241</u>	<u>10,152</u>	<u>4,636</u>
<u>\$ 1,235</u>	<u>\$ 1,832</u>	<u>\$ 7,165</u>	<u>\$ 23,017</u>	<u>\$ 10,152</u>	<u>\$ 4,723</u>

See Independent Auditors' Report.

**HOUSTON COUNTY, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
SEPTEMBER 30, 2016**

	District Attorney <u>Apportionment</u>	Vehicle Inventory Tax <u>Interest</u>	Miscellaneous <u>Grants</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 9,530	\$ 251	\$ 2,433
Receivables			
Grants	-	-	11,288
Other - miscellaneous	-	-	-
Due from other funds	486	-	-
Prepaid items	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 10,016</u>	<u>\$ 251</u>	<u>\$ 13,721</u>
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
Liabilities			
Deficit in pooled cash	\$ 2,528	\$ 50	\$ 9,306
Accounts payable	102	-	1,431
Due to other funds	-	-	-
Unearned revenues	7,243	-	-
Total liabilities	<u>9,873</u>	<u>50</u>	<u>10,737</u>
Fund balances			
Nonspendable	-	-	-
Restricted	143	201	2,984
Assigned	-	-	-
Unassigned	-	-	-
Total fund balances	<u>143</u>	<u>201</u>	<u>2,984</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 10,016</u>	<u>\$ 251</u>	<u>\$ 13,721</u>



Senior Fund	Emergency Management Grant	Victims Assistance Grant	Juvenile Probation	911 Addressing Grant	Ike Grant
\$ 1,845	\$ -	\$ -	\$ 7,155	\$ -	\$ 5
16,110	30,885	4,007	9,104	6,047	-
4,969	-	-	-	-	-
8,867	-	1,542	3,561	1,003	1,095
897	-	-	239	-	-
<u>\$ 32,688</u>	<u>\$ 30,885</u>	<u>\$ 5,549</u>	<u>\$ 20,059</u>	<u>\$ 7,050</u>	<u>\$ 1,100</u>

\$ -	\$ 29,465	\$ 2,739	\$ 11,069	\$ 4,981	\$ 1,092
11,294	3,247	1,617	15,042	1,277	-
5,100	-	1,267	18	-	-
-	-	-	-	-	-
<u>16,394</u>	<u>32,712</u>	<u>5,623</u>	<u>26,129</u>	<u>6,258</u>	<u>1,092</u>

897	-	-	239	-	-
-	-	-	-	792	8
-	-	-	-	-	-
<u>15,397</u>	<u>(1,827)</u>	<u>(74)</u>	<u>(6,309)</u>	<u>-</u>	<u>-</u>
<u>16,294</u>	<u>(1,827)</u>	<u>(74)</u>	<u>(6,070)</u>	<u>792</u>	<u>8</u>

<u>\$ 32,688</u>	<u>\$ 30,885</u>	<u>\$ 5,549</u>	<u>\$ 20,059</u>	<u>\$ 7,050</u>	<u>\$ 1,100</u>
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See Independent Auditors' Report.

**HOUSTON COUNTY, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
SEPTEMBER 30, 2016**

	Timber & Mineral Funds	Title II Timber Funds	THC Courthouse Renovation
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 366,306	\$ -	\$ 1,200
Receivables			
Grants	-	115,947	-
Other - miscellaneous	-	-	-
Due from other funds	-	2,603	-
Prepaid items	-	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL ASSETS</b>	<u><u>\$ 366,306</u></u>	<u><u>\$ 118,550</u></u>	<u><u>\$ 1,200</u></u>
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
Liabilities			
Deficit in pooled cash	\$ -	\$ 61,908	\$ -
Accounts payable	-	56,642	-
Due to other funds	-	-	-
Unearned revenues	-	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>                    </u>	<u>                    </u>	<u>                    </u>
Fund balances			
Nonspendable	-	-	-
Restricted	366,306	-	-
Assigned	-	-	1,200
Unassigned	-	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u><u>\$ 366,306</u></u>	<u><u>\$ 118,550</u></u>	<u><u>\$ 1,200</u></u>

<u>CETRZ Grant</u>	<u>Total Nonmajor Special Revenue Funds</u>
\$ 8,989	\$ 921,401
-	193,388
-	16,680
-	46,629
<u>-</u>	<u>61,677</u>
<u>\$ 8,989</u>	<u>\$ 1,239,775</u>

\$ -	\$ 177,298
-	117,251
8,989	33,343
<u>-</u>	<u>7,243</u>
<u>8,989</u>	<u>335,135</u>

-	61,677
-	782,809
-	106,441
<u>-</u>	<u>(46,287)</u>
<u>-</u>	<u>904,640</u>
<u>\$ 8,989</u>	<u>\$ 1,239,775</u>

See Independent Auditors' Report.

**HOUSTON COUNTY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Jury Fund	Airport Fund	Courthouse Security Fund
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Selective sales and use taxes	\$ -	\$ -	\$ -
Fees, licenses, and permits	6,833	-	7,071
Charges for services	-	35,970	-
Fines and forfeitures	-	-	4,545
Intergovernmental revenue and grants	60,768	5,483	-
Contributions and donations from private sources	-	-	-
Investment earnings	221	-	-
Other revenue	300	4,235	-
Total revenues	<u>68,122</u>	<u>45,688</u>	<u>11,616</u>
<b>EXPENDITURES</b>			
General government	-	-	-
Judicial and law enforcement	463,656	-	81,617
Highways and streets	-	-	-
Health and welfare	-	-	-
Culture and recreation	-	39,100	-
Pass-through expenditures	-	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>463,656</u>	<u>39,100</u>	<u>81,617</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(395,534)</u>	<u>6,588</u>	<u>(70,001)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	380,000	1,500	60,500
Transfers out	-	-	-
Net other financing sources (uses)	<u>380,000</u>	<u>1,500</u>	<u>60,500</u>
<b>NET CHANGE IN FUND BALANCE</b>	(15,534)	8,088	(9,501)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>10,033</u>	<u>9,086</u>	<u>10,602</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ (5,501)</u>	<u>\$ 17,174</u>	<u>\$ 1,101</u>

<u>Law Library Fund</u>	<u>Hotel Occupancy Tax</u>	<u>Community Development</u>	<u>Justice Court Security</u>	<u>Justice Court Technology</u>	<u>County &amp; District Court Technology</u>
\$ -	\$ 39,601	\$ -	\$ -	\$ -	\$ -
9,597	-	-	-	-	890
-	-	-	-	-	-
-	-	-	1,459	5,983	-
-	-	26,106	-	-	-
-	-	-	-	-	-
4	95	-	16	15	-
-	-	-	-	-	-
<u>9,601</u>	<u>39,696</u>	<u>26,106</u>	<u>1,475</u>	<u>5,998</u>	<u>890</u>
9,475	106,353	-	-	-	-
-	-	-	489	7,375	3,830
-	-	-	-	-	-
-	-	-	-	-	-
-	-	50	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>9,475</u>	<u>106,353</u>	<u>50</u>	<u>489</u>	<u>7,375</u>	<u>3,830</u>
126	(66,657)	26,056	986	(1,377)	(2,940)
-	-	-	-	-	3,100
-	-	(1,500)	-	-	-
-	-	(1,500)	-	-	3,100
126	(66,657)	24,556	986	(1,377)	160
<u>3,721</u>	<u>141,796</u>	<u>1,877</u>	<u>10,452</u>	<u>15,600</u>	<u>-</u>
<u>\$ 3,847</u>	<u>\$ 75,139</u>	<u>\$ 26,433</u>	<u>\$ 11,438</u>	<u>\$ 14,223</u>	<u>\$ 160</u>

See Independent Auditors' Report.

**HOUSTON COUNTY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>Family Protection</u>	<u>Child Abuse Prevention</u>	<u>Right of Way</u>
<b>REVENUES</b>			
Selective sales and use taxes	\$ -	\$ -	\$ -
Fees, licenses, and permits	1,065	13	95,823
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Intergovernmental revenue and grants	-	-	-
Contributions and donations from private sources	-	-	-
Investment earnings	7	-	21
Other revenue	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>1,072</u>	<u>13</u>	<u>95,844</u>
<b>EXPENDITURES</b>			
General government	-	-	-
Judicial and law enforcement	-	-	-
Highways and streets	-	-	3,940
Health and welfare	-	-	-
Culture and recreation	-	-	-
Pass-through expenditures	-	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	-	-
Interest	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>3,940</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>			
	<u>1,072</u>	<u>13</u>	<u>91,904</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>(85,000)</u>
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(85,000)</u>
<b>NET CHANGE IN FUND BALANCE</b>			
	1,072	13	6,904
<b>FUND BALANCE - BEGINNING OF YEAR</b>			
	<u>4,657</u>	<u>553</u>	<u>18,542</u>
<b>FUND BALANCE - END OF YEAR</b>			
	<u>\$ 5,729</u>	<u>\$ 566</u>	<u>\$ 25,446</u>

<u>Road &amp; Bridge Fines</u>	<u>Records Management &amp; Preservation</u>	<u>Co Clerk Records Preservation</u>	<u>District Clerk Records Preservation</u>	<u>County Clerk Vital Records</u>	<u>County Clerk Archives</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	13,118	37,098	1,496	1,393	37,255
-	-	-	-	-	-
104,233	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
34	-	-	-	-	251
-	-	-	-	-	-
<u>104,267</u>	<u>13,118</u>	<u>37,098</u>	<u>1,496</u>	<u>1,393</u>	<u>37,506</u>
-	16,236	58,894	-	1,504	-
-	-	-	-	-	-
14,068	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	6,505
-	-	-	-	-	-
-	-	-	-	-	-
<u>14,068</u>	<u>16,236</u>	<u>58,894</u>	<u>-</u>	<u>1,504</u>	<u>6,505</u>
<u>90,199</u>	<u>(3,118)</u>	<u>(21,796)</u>	<u>1,496</u>	<u>(111)</u>	<u>31,001</u>
-	-	-	-	-	-
<u>(57,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(57,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
33,199	(3,118)	(21,796)	1,496	(111)	31,001
<u>12,690</u>	<u>(622)</u>	<u>24,065</u>	<u>131</u>	<u>1,757</u>	<u>166,067</u>
<u>\$ 45,889</u>	<u>\$ (3,740)</u>	<u>\$ 2,269</u>	<u>\$ 1,627</u>	<u>\$ 1,646</u>	<u>\$ 197,068</u>

See Independent Auditors' Report.

**HOUSTON COUNTY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	District Clerk Archives	Co Attorney Pre-trial Intervention	Hot Check Fees
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Selective sales and use taxes	\$ -	\$ -	\$ -
Fees, licenses, and permits	2,623	-	-
Charges for services	-	-	-
Fines and forfeitures	-	5,195	4,805
Intergovernmental revenue and grants	-	-	-
Contributions and donations from private sources	-	-	-
Investment earnings	16	29	98
Other revenue	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>2,639</u>	<u>5,224</u>	<u>4,903</u>
<b>EXPENDITURES</b>			
General government	643	-	-
Judicial and law enforcement	-	8,136	11,323
Highways and streets	-	-	-
Health and welfare	-	-	-
Culture and recreation	-	-	-
Pass-through expenditures	-	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	-	-
Interest	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>643</u>	<u>8,136</u>	<u>11,323</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>1,996</u>	<u>(2,912)</u>	<u>(6,420)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>(12,684)</u>
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(12,684)</u>
<b>NET CHANGE IN FUND BALANCE</b>	1,996	(2,912)	(19,104)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>9,512</u>	<u>25,281</u>	<u>44,172</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 11,508</u>	<u>\$ 22,369</u>	<u>\$ 25,068</u>



<u>District Attorney Hot Checks</u>	<u>County Attorney Forfeiture</u>	<u>District Attorney Forfeiture</u>	<u>Sheriff Forfeiture</u>	<u>Permanent Improvement</u>	<u>LEOSE Education Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
548	-	8,082	1,540	-	-
-	-	-	-	-	5,652
-	-	-	-	134	-
1	4	21	59	3	-
-	-	-	-	-	-
<u>549</u>	<u>4</u>	<u>8,103</u>	<u>1,599</u>	<u>137</u>	<u>5,652</u>
-	-	-	-	-	-
150	235	7,182	2,178	-	5,511
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>150</u>	<u>235</u>	<u>7,182</u>	<u>2,178</u>	<u>-</u>	<u>5,511</u>
<u>399</u>	<u>(231)</u>	<u>921</u>	<u>(579)</u>	<u>137</u>	<u>141</u>
-	-	-	-	10,000	-
-	-	(2,536)	-	-	-
-	-	(2,536)	-	10,000	-
399	(231)	(1,615)	(579)	10,137	141
<u>792</u>	<u>2,063</u>	<u>6,787</u>	<u>22,820</u>	<u>15</u>	<u>4,495</u>
<u>\$ 1,191</u>	<u>\$ 1,832</u>	<u>\$ 5,172</u>	<u>\$ 22,241</u>	<u>\$ 10,152</u>	<u>\$ 4,636</u>

See Independent Auditors' Report.

**HOUSTON COUNTY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	District Attorney <u>Apportionment</u>	Vehicle Inventory Tax <u>Interest</u>	Miscellaneous <u>Grants</u>
<b>REVENUES</b>			
Selective sales and use taxes	\$ -	\$ -	\$ -
Fees, licenses, and permits	-	-	-
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Intergovernmental revenue and grants	27,500	-	59,260
Contributions and donations from private sources	-	-	2,400
Investment earnings	-	47	116
Other revenue	-	-	-
Total revenues	<u>27,500</u>	<u>47</u>	<u>61,776</u>
<b>EXPENDITURES</b>			
General government	-	10	1,750
Judicial and law enforcement	15,808	-	74,620
Highways and streets	-	-	-
Health and welfare	-	-	-
Culture and recreation	-	-	-
Pass-through expenditures	-	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>15,808</u>	<u>10</u>	<u>76,370</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>11,692</u>	<u>37</u>	<u>(14,594)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	12,444
Transfers out	(11,297)	-	-
Net other financing sources (uses)	<u>(11,297)</u>	<u>-</u>	<u>12,444</u>
<b>NET CHANGE IN FUND BALANCE</b>	395	37	(2,150)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>(252)</u>	<u>164</u>	<u>5,134</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 143</u>	<u>\$ 201</u>	<u>\$ 2,984</u>

Senior Fund	Emergency Management Grant	Victims Assistance Grant	Juvenile Probation	911 Addressing Grant	Ike Grant
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
50,156	-	-	-	-	-
-	-	-	1,628	-	-
263,190	54,120	41,595	150,277	30,447	-
1,867	2,500	-	-	-	-
4	-	-	185	-	8
2,820	-	-	-	-	-
<u>318,037</u>	<u>56,620</u>	<u>41,595</u>	<u>152,090</u>	<u>30,447</u>	<u>8</u>
-	-	-	-	-	-
-	109,414	54,353	248,600	-	-
-	-	-	-	33,715	-
370,011	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>370,011</u>	<u>109,414</u>	<u>54,353</u>	<u>248,600</u>	<u>33,715</u>	<u>-</u>
(51,974)	(52,794)	(12,758)	(96,510)	(3,268)	8
75,800	42,551	12,684	45,800	4,060	-
-	(4,060)	-	-	-	-
<u>75,800</u>	<u>38,491</u>	<u>12,684</u>	<u>45,800</u>	<u>4,060</u>	<u>-</u>
23,826	(14,303)	(74)	(50,710)	792	8
(7,532)	12,476	-	44,640	-	-
<u>\$ 16,294</u>	<u>\$ (1,827)</u>	<u>\$ (74)</u>	<u>\$ (6,070)</u>	<u>\$ 792</u>	<u>\$ 8</u>

See Independent Auditors' Report.

**HOUSTON COUNTY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Timber & Mineral Funds	Title II Timber Funds	THC Courthouse Renovation
	<u>          </u>	<u>          </u>	<u>          </u>
REVENUES			
Selective sales and use taxes	\$ -	\$ -	\$ -
Fees, licenses, and permits	-	-	-
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Intergovernmental revenue and grants	458,319	115,947	86,739
Contributions and donations from private sources	-	-	-
Investment earnings	474	-	-
Other revenue	-	-	-
Total revenues	<u>458,793</u>	<u>115,947</u>	<u>86,739</u>
EXPENDITURES			
General government	-	-	191
Judicial and law enforcement	-	-	-
Highways and streets	-	115,947	-
Health and welfare	-	-	-
Culture and recreation	-	-	-
Pass-through expenditures	215,290	-	-
Capital outlay	-	-	201,089
Debt service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>215,290</u>	<u>115,947</u>	<u>201,280</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>243,503</u>	<u>-</u>	<u>(114,541)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	(222,792)	-	-
Net other financing sources (uses)	<u>(222,792)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	20,711	-	(114,541)
FUND BALANCE - BEGINNING OF YEAR	<u>345,595</u>	<u>-</u>	<u>115,741</u>
FUND BALANCE - END OF YEAR	<u>\$ 366,306</u>	<u>\$ -</u>	<u>\$ 1,200</u>

CETRZ Grant	Total Nonmajor Special Revenue Funds
\$ -	\$ 39,601
-	214,275
-	86,126
-	138,018
3,595	1,388,998
-	6,901
-	1,729
-	7,355
<u>3,595</u>	<u>1,883,003</u>
-	195,056
-	1,094,477
3,595	171,265
-	370,011
-	39,150
-	215,290
-	207,594
-	-
-	-
<u>3,595</u>	<u>2,292,843</u>
<u>-</u>	<u>(409,840)</u>
-	648,439
-	(396,869)
<u>-</u>	<u>251,570</u>
-	(158,270)
<u>-</u>	<u>1,062,910</u>
<u>\$ -</u>	<u>\$ 904,640</u>

See Independent Auditors' Report.

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

	<u>County Attorney Hot Check</u>	<u>DA Forfeiture Trust Fund</u>	<u>Sheriff's Inmate Trust Fund</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,651	\$ 17,206	\$ 14,777
TOTAL ASSETS	<u>\$ 3,651</u>	<u>\$ 17,206</u>	<u>\$ 14,777</u>
<b>LIABILITIES</b>			
Amounts held for others	\$ -	\$ -	\$ 14,777
Due to other units	<u>3,651</u>	<u>17,206</u>	<u>-</u>
TOTAL LIABILITIES	<u>\$ 3,651</u>	<u>\$ 17,206</u>	<u>\$ 14,777</u>

<u>Sheriff's Commissary Funds</u>	<u>Tax Assessor's Ad Valorem</u>	<u>Tax Assessor's VIT Escrow</u>	<u>Tax Assessor's Boat Registration</u>	<u>Tax Assessor's Mobile Home Mvmt Escrow</u>	<u>Tax Assessor's Farm Fee</u>
\$ 10,944	\$ 81,531	\$ 26,820	\$ 557	\$ 5,797	\$ 330
<u>\$ 10,944</u>	<u>\$ 81,531</u>	<u>\$ 26,820</u>	<u>\$ 557</u>	<u>\$ 5,797</u>	<u>\$ 330</u>
\$ 9,663	\$ -	\$ -	\$ -	\$ -	\$ -
1,281	81,531	26,820	557	5,797	330
<u>\$ 10,944</u>	<u>\$ 81,531</u>	<u>\$ 26,820</u>	<u>\$ 557</u>	<u>\$ 5,797</u>	<u>\$ 330</u>

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

	Tax Assessor's Highway Department	Tax Assessor's Hwy Emission Reg Fee	Tax Assessor's IVTRS Account
<b>ASSETS</b>			
Cash and cash equivalents	\$ 248,572	\$ 5,774	\$ 2,894
TOTAL ASSETS	\$ 248,572	\$ 5,774	\$ 2,894
<b>LIABILITIES</b>			
Amounts held for others	\$ -	\$ -	\$ -
Due to other units	248,572	5,774	2,894
TOTAL LIABILITIES	\$ 248,572	\$ 5,774	\$ 2,894



<u>County Clerk Trust Fund</u>	<u>District Clerk Trust Fund</u>	<u>Total Agency Funds</u>
\$ 944,412	\$ 461,780	\$ 1,825,045
<u>\$ 944,412</u>	<u>\$ 461,780</u>	<u>\$ 1,825,045</u>
\$ 944,412	\$ 461,780	\$ 1,430,632
-	-	394,413
<u>\$ 944,412</u>	<u>\$ 461,780</u>	<u>\$ 1,825,045</u>

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**COMPLIANCE SECTION**

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# Todd, Hamaker & Johnson, LLP

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CERTIFIED PUBLIC ACCOUNTANTS

420 S 1<sup>st</sup> Street • PO Box 468 • Lufkin, TX 75902-0468 • (936) 632-8181  
301 N 6<sup>th</sup> Street • PO Box 1249 • Crockett, TX 75835-1249 • (936) 544-2143

Melvin R. Todd, CPA  
Daren Hamaker, CPA  
Kim Johnson, CPA  
Rachel Kennerly, CPA

## **INDEPENDENT AUDITORS' 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 the Honorable County Judge and  
Members of the Commissioners Court  
Houston County, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County, Texas (the "County"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Houston County, Texas' basic financial statements and have issued our report thereon dated June 29, 2017.

### **Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs (items 2016-001 and 2016-002) that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Houston County, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws,

**INDEPENDENT AUDITORS' 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* – CONTINUED**

regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Houston County, Texas' Response to Findings**

Houston County, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

*Todd, Hamaker & Johnson, LLP*

Todd, Hamaker & Johnson, LLP  
Lufkin, Texas

June 29, 2017

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# Todd, Hamaker & Johnson, LLP

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CERTIFIED PUBLIC ACCOUNTANTS

420 S 1<sup>st</sup> Street • PO Box 468 • Lufkin, TX 75902-0468 • (936) 632-8181  
301 N 6<sup>th</sup> Street • PO Box 1249 • Crockett, TX 75835-1249 • (936) 544-2143

Melvin R. Todd, CPA  
Daren Hamaker, CPA  
Kim Johnson, CPA  
Rachel Kennerly, CPA

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

### **Report on Compliance for Each Major Federal Program**

We have audited Houston County, Texas' (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended September 30, 2016. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Houston County, Texas's major federal 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Houston County, Texas' 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 federal program. However, our audit does not provide a legal determination of Houston County, Texas' compliance.

### ***Basis for Qualified Opinion on CFDA 97.036***

As described in the accompanying schedule of findings and questioned costs, Houston County, Texas did not comply with requirements regarding allowable costs/cost principles as described in item 2016-003. Compliance with such requirements is necessary, in our opinion, for Houston County, Texas to comply with the requirements applicable to that program.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY THE UNIFORM GUIDANCE – CONTINUED**

***Opinion on Each Major Federal Program***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph above, Houston County, 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 federal programs for the year ended September 30, 2016.

***Other Matters***

Houston County, Texas' response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs.

**Report on Internal Control over Compliance**

Management of Houston County, Texas 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 of compliance, we considered Houston County, Texas's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 of Houston County, Texas' 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 federal 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 material noncompliance with a type of compliance requirement of a federal 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 federal 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.

Our consideration of internal control over compliance 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Todd, Hamaker & Johnson, LLP*

Todd, Hamaker & Johnson, LLP  
Lufkin, Texas

June 29, 2017



**HOUSTON COUNTY, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Federal Grantor/ Pass-through Grantor/Other Grantor Program Title/Grant Title	Federal CFDA Number	Grant Number	Total Federal Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of Agriculture</u>				
<i>Passed through Texas Comptroller</i>				
Schools and Roads - Grants to States – Title I	10.665	-	\$ 391,212	\$ 168,420
Schools and Roads - Grants to States – Title II	10.665	-	<u>115,947</u>	<u>-</u>
Total for CFDA 10.665			<u>507,159</u>	<u>168,420</u>
Total U.S. Department of Agriculture:			<u>507,159</u>	<u>168,420</u>
<u>U.S. Department of the Interior</u>				
<i>Passed through Texas Comptroller</i>				
National Forest Acquired Lands	15.438	-	<u>46,870</u>	<u>46,870</u>
Total for CFDA 15.438			<u>46,870</u>	<u>46,870</u>
Total U.S. Department of the Interior:			<u>46,870</u>	<u>46,870</u>
<u>U.S. Department of Justice</u>				
<i>Passed through Texas Office of the Governor</i>				
Violence Against Women Formula Grants	16.588	SF-16V-302830602	33,508	-
Violence Against Women Formula Grants	16.588	SF-16J-202879101	<u>16,565</u>	<u>-</u>
Total for CFDA 16.588			<u>50,073</u>	<u>-</u>
<i>Direct Funding</i>				
Bulletproof Vest Partnership Program	16.607	-	<u>2,640</u>	<u>-</u>
Total for CFDA 16.607			<u>2,640</u>	<u>-</u>
Total U.S. Department of Justice:			<u>52,713</u>	<u>-</u>
<u>U.S. Department of Health and Human Services</u>				
<i>Passed through Texas Department of Family and Protective Services</i>				
Foster Care – Title IV-E	93.658	24095781	<u>7,670</u>	<u>-</u>
Total for CFDA 93.658			<u>7,670</u>	<u>-</u>
Total U.S. Department of Health and Human Services:			<u>7,670</u>	<u>-</u>
<u>U.S. Department of Homeland Security</u>				
<i>Passed through Texas Department of Public Safety Division of Emergency Management</i>				
Disaster Grants – Public Assistance	97.036	DR 4223	<u>598,389</u> <sup>4</sup>	<u>-</u>
Total for CFDA 97.036			<u>598,389</u>	<u>-</u>

**HOUSTON COUNTY, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**  
**(CONTINUED)**

Federal Grantor/ Pass-through Grantor/Other Grantor Program Title/Grant Title	Federal CFDA Number	Grant Number	Total Federal Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of Homeland Security – continued</u>				
<i>Passed through Texas Department of Public Safety Division of Emergency Management</i>				
Emergency Management Performance Grants	97.042	2015-EP-00011 15TX-EMPG-1242	31,569	-
Total for CFDA 97.042			<u>31,569</u>	<u>-</u>
Total U.S. Department of Homeland Security:			<u>629,958</u>	<u>-</u>
<b>Total Expenditures of Federal Awards:</b>			<b><u>\$ 1,244,370</u></b>	<b><u>\$ 215,290</u></b>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**HOUSTON COUNTY, TEXAS**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**NOTE 1 – Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (“Schedule”) includes the federal grant activity of Houston County, Texas under programs of the federal government for the year ended September 30, 2016. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”), as applicable. Because the Schedule presents only a selected portion of the operations of Houston County, Texas, it is not intended to and does not present the financial position, changes in net position, or cash flows of Houston County, Texas.

**NOTE 2 – Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting and accordingly, all significant receivables, payables, and other liabilities are included, except as noted (see also, Note 4, that follows). Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* and the *Uniform Guidance*, as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 – Presentation of Expenditures**

Expenditures included in the Schedule are reported exclusive of non-federal matching funds.

**NOTE 4 – Expenditures of FEMA Disaster Funds**

Consistent with FEMA guidelines providing for the reporting of Federal expenditures based on the year of award, expenditures reported in the Schedule include amounts expended in the County’s fiscal years ending September 30, 2015 and 2016 for FEMA Disaster funds awarded in the County’s fiscal year ending September 30, 2016. The expenditures are summarized by year as follows:

	<u>09/30/15</u>	<u>09/30/16</u>	<u>Totals</u>
PA 4223			
PW 01218	\$ 39,619	\$ 13,369	\$ 52,988
PW 00984	100,825	35,842	136,667
PW 01065	99,087	30,508	129,595
PW 01071	29,500	35,480	64,980
PW 01130	<u>44,861</u>	<u>169,298</u>	<u>214,159</u>
Totals	<u>\$ 313,892</u>	<u>\$ 284,497</u>	<u>\$ 598,389</u>

**NOTE 5 – Other**

Pass-through entity identifying numbers are presented where available.

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**HOUSTON COUNTY, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Section I – Summary of Auditors’ Results

***Financial Statements***

Type of auditors’ report issued: unmodified

- Material weakness(es) identified? \_\_\_\_\_ yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes \_\_\_\_\_

Non-compliance material to financial statements noted? \_\_\_\_\_ yes  no

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes  none reported

Type of auditors’ report issued on compliance for major programs: qualified

Any audit findings disclosed that are required to be reported in accordance with § 516(a) of the *Uniform Guidance*?  yes \_\_\_\_\_ no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
97.036	Disaster Grants – Public Assistance

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

Auditee qualified as a low-risk auditee?  yes \_\_\_\_\_ no

**HOUSTON COUNTY, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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Section II – Financial Statements Audit Findings

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**2016-001 Significant Deficiency: Accounting for Capital Assets**  
*(See also prior audit finding 2015-001; page 125)*

**Condition.** Historically, the County has maintained an excel spreadsheet that details the County’s capital assets, largely for insurance and other tracking purposes. The external auditors maintained a detailed listing of assets, recorded additions and disposals, and calculated depreciation annually. The two lists have not been reconciled with each other.

In fiscal year 2012, the County began using the capital asset module in the County’s accounting software system (“Hill Country”). Because the implementation was incomplete, the software-generated reports could not be used to track capital asset additions and disposals. Additionally, software totals could not be reconciled to prior year audit reports.

**Criteria or specific requirements.** Proper accounting for capital assets requires the maintenance of an accurate, detailed listing of all capital assets that meet the County’s criteria for capitalization and/or tracking.

**Context.** Capital assets represent the County’s single largest asset.

**Effect.** The inability to rely on this listing could lead to improper tracking and control of fixed asset additions and disposals, as well as potential errors in computing depreciation expense.

**Recommendation.** The following recommendations should be considered:

1. Reconcile the software-generated listing of assets to the detailed listing provided by the external auditor, making note of differences.
2. Conduct a physical inventory of all County assets (by department/location) to ensure that the data in the system is accurate. After the initial inventory is performed, implement a policy regarding on-going plans to count assets in each department/location on a rotating basis, not less than biannually.

**Views of Responsible Officials and Corrective Action.** Houston County has worked diligently to correct this condition. A firm was hired to perform a county wide inventory in February, 2016 and again in February, 2017. The firm accounted for our assets, prepared detailed reports, bar boded items, gathered current value information on assets, etc. These are now tracked within a database and can be easily retrieved and audited.

The item still pending in this action is to reconcile our listing of assets with the external auditor’s listing of assets. Due to lack of data on items 15+ years old, this has been a hardship and has not been completed. During fiscal year 2017, a decision will be made by the Commissioners Court on how to account for and adjust our current assets to actuals, while taking into account previous listing of assets.

**HOUSTON COUNTY, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**2016-002 Significant Deficiency: Reconciliation of Cash Accounts**  
*(See also prior audit finding 2015-002; page 125)*

**Condition.** At year end, the combined funds cash account per the general ledger was not reconciled with the bank balance. The difference, though immaterial to the financial statements as a whole, has not been fully identified to date.

**Criteria or specific requirements.** The majority of the County's funds are deposited, expended and accounted for through this bank account. Review of bank statements and reconciliations to the general ledgers is possibly the single most important internal control within any organization.

**Effect.** Possible fraud, theft, or misappropriation of funds; inaccurate reporting; improper cash management.

**Recommendation.** This account should be reconciled with the general ledger on a monthly basis by the County Treasurer. The reconciliation should be signed and dated. The reconciliation should be reviewed for accuracy by the County Auditor, also signing and dating to document the process.

We further recommend that County personnel develop procedures to account for the majority of cash related activity through the cash receipts and disbursements processes, rather than through manual journal entries. The accounts payable and payroll check registers, as well as the cash receipts listing produced each month should be easily reconciled to the bank statement.

**Views of Responsible Officials and Corrective Action.** Houston County implemented procedures in June, 2016 whereby the County Auditor would perform this bank reconciliation, then submit documents to the County Treasurer for review and approval. The County Treasurer would then submit the documents to the County Judge for internal controls and approval. Prior year discrepancies were not posted to the general ledger to allow for additional review to authenticate the deposits posted. The discrepancies from fiscal year 2015 were not found; therefore, they continued to be out of balance through fiscal year 2016. An adjustment will be included in fiscal year 2017 to correct the small differences.

**HOUSTON COUNTY, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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Section III – Major Federal Award Programs Audit Findings and Questioned Costs

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**2016-003 Noncompliance – Allowable Costs/Cost Principles**

**CFDA 97.036 – Disaster Grants – Public Assistance**

**Federal Agency: U.S. Department of Homeland Security**

**Passed Through: Texas Department of Public Safety – Division of Emergency Management**

**Criteria or specific requirements.** Guidelines set forth by the Federal Emergency Management Agency (“FEMA”) and the Texas Department of Public Safety (“DPS”), require recipients of grant awards to include expenditures on its Schedule of Expenditures of Federal Awards (“SEFA”) when: (1) the entity’s project worksheet (“PW”) has been approved, and (2) the recipient has incurred the eligible expenditures.

**Condition.** During the year, approval was received for disaster relief funds from FEMA’s Public Assistance program for four “large” projects and one “small” project. These funds were to provide assistance to the County for costs incurred during the 2015 flooding and its immediate aftermath, as well as subsequent repairs needed as a result of road and culvert washouts.

Audit testing revealed that expenditures included on the SEFA for labor and equipment usage related to three of the County’s projects covered under the disaster grants were based on estimates.

**Context.** Several of the “large” projects have not been fully completed. The County has maintained logs of hours worked on all projects, as well as equipment usage hours. However, the logs have not been fully summarized and extended to determine specific costs to be reimbursed, nor have reimbursement requests or final accounting been submitted to the State.

At this writing, the County has only received approximately \$53,000 (for the “small” project). Approximately \$1,250,000 for the “large” projects is still pending.

**Questioned costs.** \$89,720

**Effect.** Failure to provide adequate documentation of costs could result in failure to receive reimbursement for costs incurred.

**Recommendation.** Labor and equipment usage logs should be summarized and extended as costs are being incurred. These costs should be sufficiently segregated within the County’s general ledger to easily identify and document the eligible costs for reimbursement from FEMA.

**Views of Responsible Officials and Corrective Action.** Houston County declared an emergency due to the 2015 flooding and its immediate aftermath. We were awarded four projects for reimbursement at 75%. The projects included materials such as limestone road base, culverts, clay, iron ore, hauling of materials, contract labor to install culverts, as well as employee hours and equipment usage. The Project Specialist with FEMA prepared the PW for all roads within each precinct under the heading of work completed and work-to-be-completed. Each PW contains approximately 30 roads per precinct. The work-to-be-completed was based on estimates. The PW’s completion dates were extended and as each road is completed, all direct costs for materials, contract labor and hauling have been reconciled.

The employee hours and equipment usage is being tracked per road within each PW but because all roads were combined, the reconciliation for costs contained within the precinct budget has not been completed, only estimated. We feel the estimated costs are within the allowable range and are for purposes of the Single Audit only, not for actual allocation within the financial statements. Houston County has not received any funds for these four project worksheets as of June 29, 2017.



**HOUSTON COUNTY, TEXAS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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Financial Statements Audit Findings

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**2015-001 Significant Deficiency: Accounting for Capital Assets**  
**Previously Outstanding: 2014-001**

**Condition.** Historically, the County has maintained an excel spreadsheet that details the County's capital assets, largely for insurance and other tracking purposes. The external auditors maintained a detailed listing of assets, recorded additions and disposals, and calculated depreciation annually. The two lists have not been reconciled with each other.

**Status.** This prior year finding remains outstanding. See also section II on pages 122 - 123.

**2015-002 Significant Deficiency: Reconciliation of Cash Accounts**

**Condition.** At year end, the combined funds cash account per the general ledger was not reconciled with the bank balance. The difference, though immaterial to the financial statements as a whole, has not been fully identified to date.

**Status.** This prior year finding remains outstanding. See also section II on pages 122 - 123.

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Major Federal Award Programs Audit Findings and Questioned Costs

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*None.*