

Titus County Appraisal District

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

As of December 31, 2016



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UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS

Independent Auditor's Report

**Board of Directors
Titus County Appraisal District
Mount Pleasant, Texas**

We have audited the accompanying financial statements of the governmental activities and the major fund of Titus County Appraisal District as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of December 31, 2016, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund 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 and net pension liability information on pages 3 through 8, 13 and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 17, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

Arnold, Walker, Arnold & Co., P.C.

March 17, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Titus County Appraisal District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities and performance for the year ended December 31, 2016. The information presented here should be read in conjunction with the independent auditor's report and the District's financial statements.

FINANCIAL HIGHLIGHTS

The District's total net position was \$756 thousand at December 31, 2016. During the year, the District's revenues exceeded expenses.

The total cost of all the District's activities was \$822 thousand.

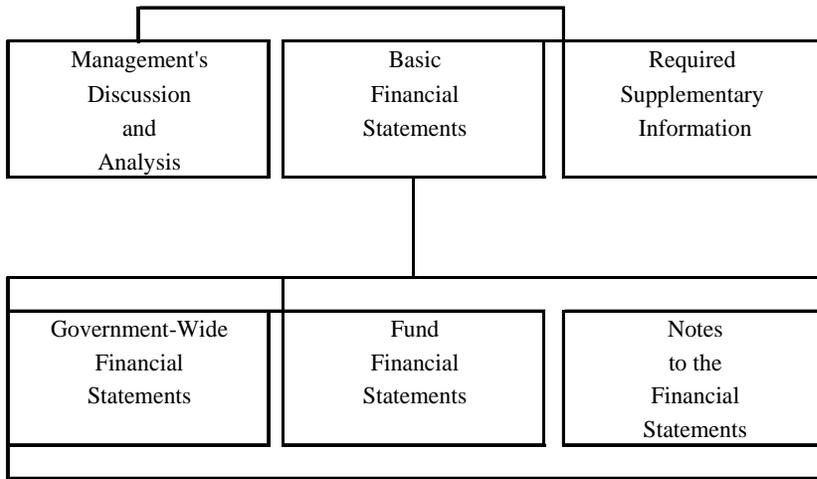
The fund balance was \$87 thousand at December 31, 2016. This balance has been designated for contingent expenditures in future periods.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts--*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide information about the District's activities as a whole and present a longer-term view of the District's property and debt obligations. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

Figure A-1. Required Components of the District's Annual Financial Report



Summary ⇄ Detail

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

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

Figure A-2. Major Features of the District's Government-wide Fund Financial Statements		
<i>Type of Statements</i>	Government-wide	Governmental Funds
<i>Scope</i>	Entire District's government (except fiduciary funds) and the District's component units	The activities of the District that are not proprietary or fiduciary
<i>Required financial statements</i>	Statement of net position	Balance sheet
	Statement of activities	Statement of revenues, Expenditures & changes in fund balances
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon after

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's *net position* and how it has changed. Net position-the difference between the District's assets and liabilities-is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include the *Governmental activities*. Assessing and collecting fees for services finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds*-not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.

The District has one fund:

- *Governmental funds*-Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position was approximately \$756 thousand at December 31, 2016.

Table A-1
The District's Net Position
(in thousands of dollars)

	Governmental Activities	
	2016	2015
Current and other assets	191	264
Capital and non-current assets	578	560
TOTAL ASSETS	769	824
DEFERRED OUTFLOWS OF RESOURCES	91	91
Long-term liabilities	-	-
Other liabilities	23	176
TOTAL LIABILITIES	23	176
Invested in capital assets	578	560
Restricted	-	-
Unrestricted	178	179
TOTAL NET POSITION	756	739

Net position invested in capital assets reflects the book value of the District's capital assets in excess of the debt which financed those assets.

Total net position increased \$17 thousand.

Changes in net position.

The District's total revenues were \$839 thousand. \$836 thousand of this was from appraisal and collection fees.

The total cost of all programs was \$822 thousand. Approximately 57% of this was for salaries and benefits.

Table A-2
The District's Changes in Net Position
(in thousands of dollars)

	Governmental Activities	
	2016	2015
Revenues		
<u>Program Revenues</u>		
Charges for Services	836	838
Operating Grants and Contributions	-	-
<u>General Revenues</u>		
Investment earnings	1	1
Other	2	3
Total Revenues	839	842
Expenses		
Tax appraisal and collection	822	788
Debt service-interest	-	-
Total Expenses	822	788
Increase in Net Position	17	54
Beginning Net Position	739	764
Refund to entities prior year budget surplus	-	(170)
Prior Period Adjustment	-	91
Ending Net Position	756	739

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District reported fund balance in its governmental funds of approximately \$87 thousand at December 31, 2016.

General Fund Budgetary Highlights

The budget was not amended in total. Expenditures were less than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table A-4
District's Capital Assets
(in thousands of dollars)

	Governmental Activities	
	2016	2015
Office and computer equipment	198	192
Land	154	154
Building	488	488
Totals at historical cost	<u>840</u>	<u>834</u>
Total accumulated depreciation	<u>(262)</u>	<u>(273)</u>
Net capital assets	<u><u>578</u></u>	<u><u>561</u></u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's Board and management considered many factors when setting the 2017 budget. Growth and economic conditions were considered. Both continue to be good with some continued growth in population and some continued business expansion. No significant increases were budgeted. It is anticipated that the equity position will continue to remain about the same.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Chief Appraiser's office.

BASIC FINANCIAL STATEMENTS

Titus County Appraisal District
STATEMENT OF NET POSITION
As of December 31, 2016

	Governmental Activities
ASSETS	
Current assets	
Cash	109,617
Accounts receivable	-
Prepaid expense	-
Total current assets	<u>109,617</u>
Capital assets	
Land	154,000
Building, net of accumulated depreciation	380,858
Office and computer equipment, net of accumulated depreciation	42,708
Total capital assets	<u>577,566</u>
Total Assets	<u><u>687,183</u></u>
 DEFERRED OUTFLOW OF RESOURCES	
Deferred resource outflow TCDRS	<u>91,214</u>
 LIABILITIES	
Current liabilities	
Current maturities of long-term debt	-
Accounts payable and accrued expenses	-
Advance payments by entities	23,061
Total current liabilities	<u>23,061</u>
Long-term liabilities	
Long-term debt, net of current maturities	-
Total Liabilities	<u><u>23,061</u></u>
 NET POSITION	
Invested in capital assets	577,566
Unrestricted	177,770
Total Net Position	<u><u><u>755,336</u></u></u>

The accompanying notes are an integral part of this statement.

Titus County Appraisal District
 STATEMENT OF ACTIVITIES
 For the year ended December 31, 2016

	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Position
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Primary Government:				
GOVERNMENTAL ACTIVITIES				
Tax appraisal and collection	822,298	836,310	-	14,012
Total governmental activities	<u>822,298</u>	<u>836,310</u>	<u>-</u>	<u>14,012</u>
General Revenues				
Miscellaneous				2,555
Total General Revenues				<u>2,555</u>
Other Sources (Uses)				<u>-</u>
Changes in Net Position				16,567
Net Position -- Beginning				738,769
Refund to entities prior years budget surplus				-
Net Position -- Ending				<u><u>755,336</u></u>

The accompanying notes are an integral part of this statement.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Titus County Appraisal District
 BALANCE SHEET
 GENERAL FUND
 As of December 31, 2016

	<u>General Fund</u>
ASSETS	
Cash	109,617
Accounts receivable	-
Prepaid expense	-
Total assets	<u>109,617</u>
LIABILITIES	
Accounts payable	-
Payroll taxes and benefits payable	-
Advance payments by entities	23,061
Total liabilities	<u>23,061</u>
FUND BALANCE	
Fund balance-reserved for contingent expenditures	86,556
Total fund balance	<u>86,556</u>
Total liabilities and fund balance	<u>109,617</u>

The accompanying notes are an integral part of this statement.

Titus County Appraisal District
 RECONCILIATION OF THE GOVERNMENTAL FUNDS
 BALANCE SHEET TO THE STATEMENT OF NET POSITION
 As of December 31, 2016

Total Fund Balances - Governmental Funds	86,556
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$833,692 and the accumulated depreciation was \$273,248. In addition, long-term liabilities are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	560,444
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide statements. The net effect of including the 2016 capital outlays and debt principal payments is to increase net position.	36,100
The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(18,978)
Effect of net pension obligation required by GASB 68 and 71.	<u>91,214</u>
Net Position, of Governmental Activities	<u><u>755,336</u></u>

The accompanying notes are an integral part of this statement.

Titus County Appraisal District
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE--BUDGET AND ACTUAL
 GENERAL FUND
 For the year ended December 31, 2016

	Budget*	Actual	Variance Favorable (Unfavorable)
REVENUE			
Appraisal and collection fees	836,310	836,310	-
Interest income and other	-	2,555	2,555
Total revenue	<u>836,310</u>	<u>838,865</u>	<u>2,555</u>
EXPENDITURES			
Current			
Payroll cost & employee benefits	488,686	473,001	15,685
Purchased & contracted services	334,085	273,749	60,336
Supplies & materials	38,500	36,779	1,721
Other operating expenses	43,450	37,826	5,624
Capital Outlay	18,700	18,065	635
Total expenditures	<u>923,421</u>	<u>839,420</u>	<u>84,001</u>
Excess (deficiency) of revenues over expenditures	<u>(87,111)</u>	<u>(555)</u>	<u>86,556</u>
Other Sources/(Uses)			
Other	-	-	-
Total other sources/(uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	(87,111)	(555)	86,556
Fund balance at beginning of year	87,111	87,111	-
Refund to entities	-	-	-
Fund balance at end of year	<u>-</u>	<u>86,556</u>	<u>86,556</u>

*The original budget was not amended in total.

The accompanying notes are an integral part of this statement.

Titus County Appraisal District
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 for the year ended December 31, 2016

Total Net Change in Fund Balances - Governmental Funds	(555)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements but should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2016 capital outlays and debt principal payments is to increase net position.	36,100
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	<u>(18,978)</u>
Change in Net Position of Governmental Activities	<u><u>16,567</u></u>

The accompanying notes are an integral part of this statement.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Titus County Appraisal District is a governmental unit under the applicable laws and regulations of the State of Texas. It is governed by a Board of Directors appointed by the entities for which the District appraises and collects taxes. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Institute of Certified Public Accountants.

A. REPORTING ENTITY

The District has the authority to make decisions and significantly influence operations. It has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board (“GASB”) in its Statement No. 14, “The Financial Reporting Entity.” There are no component units included within the reporting entity.

At December 31, 2016, the District has appraisal agreements with thirteen entities and collection agreements with nine entities. The collection activity is transacted through a separate escrow collection account which is not included in these financial statements. This account is used as a clearing account only and is audited and reported on separately from this audit.

B. FORMATION

Titus County Appraisal District was formed under a Senate Bill for the purpose of reappraisal of all property in Titus County. The assessed valuation determined by the Appraisal District will be used by all taxing entities in the District. Funding for the District comes from each taxing entity each year based on an approved budget.

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District’s activities. *Governmental activities* include programs supported primarily by taxes, charges for services, grants and other intergovernmental revenues. Business type activities include operations that rely to a significant extent on fees and charges for support. The District has no business type activities. All of the District’s support comes from the entities that the District appraises and collects taxes for except for a small amount of interest income and miscellaneous other income. A budget is adopted each year by the Board and is also approved by the entities.

The Statement of Activities demonstrates how other people or entities that participate in the programs the District operates have shared in the payment of those costs. The “charges for services” column includes payments made by the entities for appraising and collecting taxes and miscellaneous charges to customers such as copying documents. The “grants and contributions” column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. The District had no grants and contributions this year. If a revenue is not a program revenue, it is a general revenue used to support all of the District’s functions.

The fund financial statements provide reports on the financial condition and results of operations of the District’s one fund category. The District has only one fund, the general fund, and it is a major fund, there are no proprietary funds.

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows, appraisal and collection fees are recognized in the year for which they are budgeted.

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due.

E. FUND ACCOUNTING

The District reports the following major governmental fund:

1. **The General Fund** – The general fund is the District’s operating fund. It accounts for all financial resources of the District.

F. OTHER ACCOUNTING POLICIES

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

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

Building, office equipment, and furniture and fixtures are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building	40
Office and computer equipment	5-7
Furniture and fixtures	7

- For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas County & District Retirement System (TCDRS) and additions to/deductions from TCDRS's Fiduciary Net Position have been determined on the same basis as they are reported by TCDRS. For this purpose, plan contributions are recognized in the period the 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.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including notes payable, are not due and payable in the current period and are not reported as liabilities in the funds.

<u>Capital Assets at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Position</u>
Land	154,000	-	154,000	
Buildings	487,502	(94,456)	393,046	
Office and computer equipment, furniture and fixtures	192,190	(178,792)	13,398	
Change in Net Position	<u>833,692</u>	<u>(273,248)</u>	<u>560,444</u>	<u>560,444</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Formal budgetary integration is employed as a management control device during the year for the general fund. This budget is adopted on a basis consistent with generally accepted accounting principles. The budget was not amended during the year.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. COLLATERALIZATION OF DEPOSITS

At December 31, 2016, all deposits were properly collateralized by a federally insured depository. The bank balance totaled \$147,000. FDIC coverage of \$250,000 is available to cover deposits. There are approximately \$0 of securities pledged to cover deposits at December 31, 2016. The District has no investments.

The Cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

Category 1 -Deposits which are insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 -Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 -Deposits which are not collateralized.

Based on these three levels of risk, all of the District's cash deposits are classified as category 2.

B. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at December 31, 2016, were as follows:

	Charges for Services	Other	Total Receivables
Governmental Activities:			
General Fund	-	-	-
Amounts not scheduled for collection during the subsequent year	-	-	-

Payables at December 31, 2016, were as follows:

	Accounts Payable	Accrued Payroll Benefits	Total Payables
Governmental Activities:			
General Fund	-	-	-
Amounts not scheduled for collection during the subsequent year	-	-	-

C. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended December 31, 2016, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	154,000	-	-	154,000
Building	487,502	-	-	487,502
Office and computer equipment, furniture and fixtures	192,190	36,100	(30,500)	197,790
Less Accumulated Depreciation	(273,248)	(18,978)	30,500	(261,726)
Governmental Activities Capital Assets, Net	560,444	17,122	-	577,566

D. ADVANCE PAYMENTS BY ENTITIES

Appraisal and collection fees are billed quarterly to the entities. The first quarter of 2017 fees are due by December 31, 2016. This is then recognized in 2017 for the 2017 budget.

E. RETIREMENT PLAN

Plan Description

The District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined contribution plan in the state-wide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the state-wide agent multiple-employer public employee retirement system consisting of over 600 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the District, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service or with 30 years of service regardless of age or when the sum of their age and years of service equals 80 or more. A member is vested after 8 years of service but must leave his accumulated contributions in the plan to receive any employer-financed benefit. If a member withdraws his personal contributions in a lump-sum, he is not entitled to any amounts contributed by the employer.

All eligible employees of the District are required to participate in the TCDRS.

Benefits Provided

TCDRS provides retirement, disability and death benefits. Benefit provisions are adopted by the governing body of the District, within the options available in the state statutes governing TCDRS.

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

Employees covered by benefit terms.

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

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	5
Active employees	<u>9</u>
	16

Contributions

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

Employees for the District were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the District was 3.77% in the calendar year 2016. The District's contributions to TCDRS for the year ended December 31, 2016, were \$13,236, and were equal to the required contributions.

Net Pension Liability

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

Actuarial assumptions:

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

Inflation	3.0% per year
Overall payroll growth	4.9% per year
Investment Rate of Return	8.0% net of pension plan investment expenses, including inflation

Demographic and economic assumptions are used to estimate employer liabilities and to determine the amount of funding required from employer contributions as opposed to investment earnings. These assumptions reflect a long-term perspective of 30 years or more. Examples of key economic assumptions include long-term investment return, long-term inflation and annual payroll increase.

Demographic assumptions are the actuary's best estimate of what will happen to TCDRS members and retirees. Examples of demographic assumptions are employment termination rates, retirement rates and retiree mortality rates. A complete listing of all actuarial assumptions can be found in the annual system-wide valuation report.

The long-term expected rate of return on pension plan investments is 8.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TCDRS.

E. RETIREMENT PLAN continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Geometric Real Rate of Return
US Equity	14.50%	5.45%
International Equity	18.00%	5.45%-6.45%
Various	28.50%	1.00%-8.10%
Hedge Funds	25.00%	5.25%
Private Equity	14.00%	8.45%
Total	100.00%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.1%. 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

	Increase (decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at December 31, 2014	\$ 325,199	\$ 445,361	\$ (120,162)
Changes for the year:			
Service cost	35,252	-	35,252
Interest	25,244	-	25,244
Change of benefit terms	(3,143)	-	(3,143)
Difference between expected and actual experience	(43,124)	-	(43,124)
Changes of assumptions	3,213	-	3,213
Contributions - employer	-	11,897	(11,897)
Contributions - employee	-	23,458	(23,458)
Net investment income	-	(3,387)	3,387
Benefit payments, including refund of employee contributions	(62,938)	(62,938)	-
Administrative expense	-	(311)	311
Other changes	-	443	(443)
Net changes	\$ (45,496)	\$ (30,838)	\$ (14,658)
Balance at December 31, 2015	\$ 279,703	\$ 414,523	\$ (134,820)

Sensitivity of the net pension liability to changes in the discount rate

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

	1% Decrease in Discount Rate 7.1%	Discount Rate 8.1%	1% Increase in Discount Rate 9.1%
District's net pension liability	\$ (104,161)	\$ (134,819)	\$ (160,669)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TCDRS financial report. That report may be obtained on the Internet at www.tcdrs.com.

E. RETIREMENT PLAN continued

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

For the year ended December 31, 2016, the District recognized pension expense of \$13,236.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	-	66,927
Changed is actuarial assumptions	2,570	-
Difference between projected and actual investment earnings	34,426	-
Contributions subsequent to the measurement date	-	-
Total	<u>36,996</u>	<u>66,927</u>

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

Year ended December 31:	
2016	(5,571)
2017	(5,571)
2018	(5,571)
2019	(6,731)
2020	(6,486)
Thereafter	-

F. RISK MANAGEMENT

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

G. SUBSEQUENT EVENTS

The District has evaluated subsequent events through March 17, 2017, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Titus County Appraisal District
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
At December 31,

	2014	2015
Total pension liability		
Service Cost	41,640	35,252
Interest (on the Total Pension Liability)	27,251	25,244
Changes of benefit terms	-	(3,143)
Difference between expected and actual experience	(45,399)	(43,124)
Changes of assumptions	-	3,213
Benefit payments, including refunds of employee contributions	(28,071)	(62,938)
Net change in total pension liability	(4,579)	(45,496)
Total pension liability - beginning	329,778	325,199
Total pension liability - ending	325,199	279,703
 Plan fiduciary net position		
Contributions - employer	15,696	11,897
Contributions - employee	23,278	23,458
Net investment income	27,857	(3,387)
Benefit payments, including refunds of employee contributions	(28,071)	(62,938)
Administrative expense	(329)	(311)
Other	1,291	443
Net change in plan fiduciary net position	39,722	(30,838)
Plan fiduciary net position - beginning	405,639	445,361
Plan fiduciary net position - ending	445,361	414,523
 Net pension liability	(120,162)	(134,820)
 Plan fiduciary net position as a percentage of the total pension liability	136.95%	148.23%
 Covered-employee payroll	333,767	335,118
 Net pension liability as a percentage of covered employee payroll	-36.00%	-40.23%

NOTES:

Changes of benefit terms

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

Changes of assumptions

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

INTERNAL CONTROL SECTION



ARNOLD, WALKER, ARNOLD, & Co., P.C.
Certified Public Accountants and Consultants

Bob J. Arnold, C.P.A., P.F.S.
Lanny G. Walker, C.P.A., P.F.S.
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Andrew T. Arnold, C.P.A.
Melissa J. Godfrey, C.P.A.

MEMBER
American Institute Of
Certified Public Accountants
Texas State Society Of
Certified Public Accountants

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*

Board of Directors
Titus County Appraisal District
Mt. Pleasant, 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 and each major fund of the Titus County Appraisal District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 17, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Respectfully Submitted,

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.

March 17, 2017

Titus County Appraisal District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended December 31, 2016

Type of Report on Financial Statements:	Unqualified
Control Deficiencies:	None
Material Weaknesses Involving Control Deficiencies:	None
Noncompliance Material to the Financial Statements:	None
Questioned Costs:	None

Titus County Appraisal District
SCHEDULE OF STATUS OF PRIOR FINDINGS
For the year ended December 31, 2016

N/A

CORRECTIVE ACTION PLAN
For the year ended December 31, 2016

N/A