



Nacogdoches
COUNTY

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

FOR THE YEAR ENDED

SEPTEMBER 30, 2017

Prepared by
NACOGDOCHES COUNTY AUDITOR'S OFFICE

NACOGDOCHES, TEXAS 75961

**COUNTY OF
NACOGDOCHES, TEXAS**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2017**

Prepared by:

Nacogdoches County Auditor's Office

NACOGDOCHES COUNTY, TEXAS

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NACOGDOCHES COUNTY, TEXAS

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INTRODUCTORY SECTION





March 26, 2018

The Honorable Campbell Cox, II, Judge, 145th District Court
The Honorable Edwin Klein, Judge, 420th District Court
Honorable County Commissioners' Court
Mike Perry, County Judge
Jerry Don Williamson, County Commissioner, Precinct 1
Jerry Stone, County Commissioner, Precinct 2
Robin Dawley, County Commissioner, Precinct 3
Elton Milstead, County Commissioner, Precinct 4
The Citizens of Nacogdoches County

Conforming to statutory requirements of the duties of the County Auditor, submitted herewith is the Comprehensive Annual Financial Report (CAFR) for Nacogdoches County for the fiscal year ended September 30, 2017. The accompanying financial statements were prepared in accordance with generally accepted accounting principles (GAAP) as promulgated by the Government Accounting Standards Board (GASB).

Management of the County is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. Management assumes full responsibility for the completeness and reliability of the information contained in this report.

Whitley Penn LLP, a firm of licensed certified public accountants, has audited the County's financial statements. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unmodified ("clean") opinion that the County's financial statements for the fiscal year ended September 30, 2017 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Immediately following the independent auditors report is a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

Profile of the Government

Nacogdoches County was created in 1836 and organized in 1837. It is located in the piney woods of East Texas, encompasses 982 total square miles and serves a population of 65,806 according to the Texas Workforce Commission's Labor Market & Career Information Department.

The City of Nacogdoches, the largest city in the County and the oldest town in Texas, serves as the County Seat. It is located at the intersection of U.S. Hwy. 59, State Hwy. 21 and State Hwy. 7. Other cities in the County include Garrison, Cushing, Appleby and Chireno. Smaller communities are Central Heights, Douglass, Etoile, Martinsville, and Woden.

The general governing body of the County is an elected five-member Commissioners' Court (Court) in accordance with Article 5, Paragraph 18 of the Texas Constitution. The Court is comprised of the County Judge, who is the presiding officer, and four Commissioners. The Court's primary function is the administration of the affairs of the County, which includes adopting the County budget, setting the tax rates, approval of contracts, calling of elections and issuance of bonds.

The County provides many varied services for the public it serves. These services include, but are not limited to, the operation of the district, county and justices of the peace judicial systems, voting operations for national, state and some local elections, maintenance on and construction of county owned roads and bridges, recording functions relating to property rights and vital statistics, operation of law enforcement agencies (sheriff and constables), operation of the county jail and general governmental administration.

The annual budget serves as the foundation for the County's financial planning and control. The County Judge is by statute the Budget Officer of the County and is responsible for presenting a prepared County budget to the Commissioners' Court for approval. Public hearings are held on the proposed budget. The Commissioners' Court must adopt an annual operating budget by a majority vote before September 30. Commissioners' Court may legally amend the budget. Budget-to-actual comparisons are provided in this report for all budgeted governmental funds. All transfers of appropriations are submitted and approved by the Court.

Local Economy

According to the Texas Workforce Commission's Labor Market and Career Information website (TRACER2), the County's unemployment rate was 3.8% for September 2017. A year ago, the unemployment rate was 4.9%. Texas' unemployment rate was 4.0% and 4.8% respectively for the same periods. The county's September 2017 rate is slightly lower than the national unemployment rate of 4.1%. The national unemployment rate for September 2016 was 4.8%.

Nacogdoches County has nine public independent school districts and is home to Stephen F. Austin State University. The university has nearly 13,000 students and 1,500 faculty and staff. The university was founded in 1923, and it is a vital transportation, business, medical and tourism center for the area. There are also nearby two-year institutions: Angelina College in Lufkin, TX and Panola College in Carthage, TX.

Nacogdoches County Commissioners' Court, in a joint effort with the Nacogdoches Economic Development Corporation and several local businesses and educational entities, established a Technical Training Center in Nacogdoches for area residents. The objective is to provide marketable job skills (welding, HVAC, electrician and petroleum technology, etc.) to non-college bound students and increase the skilled workforce available to Nacogdoches County employers. On September 23, 2014, Commissioners' Court awarded a construction contract for renovations of the facility. The renovations were funded by a federal grant from the U.S. Department of Housing Urban Development. Funding was passed through the Texas General Land Office. On August 12, 2015 a Certificate of Construction

Completion was executed, on December 4, 2015, a Project Completion Report was submitted to the Texas General Land Office and on January 14, 2016, the Texas General Land Office issued an Administrative Closeout Notification which served to close the grant contract. Nacogdoches County closed on the sale of the building to the Nacogdoches Independent School District during January 2016. During the same month NISD celebrated the official opening of the Nacogdoches Technical Training Center and the new location of the Technical High School. Angelina College serves as the education partner with the independent school district.

Southern Power Company owns and operates the Nacogdoches Generating Plant, one of the largest wood biomass power generation facilities in the U.S. The 115 megawatt power plant became operational in June 2012 and has a 20 year power purchase agreement with the City of Austin, Texas. Approximately 1 million tons of fuel will be required annually, which is procured within a 75 mile radius of the project site – Sacul, Texas. Southern Company owns 14 other natural gas, solar or biomass facilities in Georgia, Nevada, California, New Mexico, North Carolina, Alabama and Florida.

Nacogdoches County was one of the first three communities in Texas to be recognized as a Certified Retirement Community. The GO TEXAN Certified Retirement Community Program is a certification and promotion program provided by the Texas Department of Agriculture (www.retireintexas.org). To become a certified retirement community, each community must complete a rigorous application process to demonstrate that it can meet the living, employment/volunteer, health, entertainment, education and safety needs of its citizens and visitors.

Relevant financial policies and long-term planning

In the past, the County has adopted several financial management policies to provide guidelines to ensure its long-term financial health.

The fund balance policy establishes guidelines for the general and debt service funds. It sets a minimum level of reserve funds in the general fund at 18%-25% of current budgeted expenditures and discourages any dependence on reserves to balance the general fund budget. It also sets a minimum level of reserve funds for debt service at 10%-15% of the following year's debt service requirements.

In an effort to attract long-term investment, establish new jobs and increase the County's revenue raising capabilities, Commissioners' Court established a Tax Abatement Policy in accordance with the Texas Tax Code, Chapter 312. Tax Abatement is one of the principle means by which the public and private sectors can forge a partnership to promote real economic growth within the community.

In accordance with statutory requirements, Nacogdoches County has adopted an investment policy. The policy governs the investment of all financial assets of all funds of Nacogdoches County. The main objectives of the policy are to ensure safety of principal, avoid speculative investing, and strive to maintain adequate liquidity, through scheduled maturity of investments, to cover cash needs. Commissioners' Court reviews and considers proposed changes annually during September.

Major Initiatives

Nacogdoches County suffered approximately \$2.5 million in damages to roads and bridges due to flooding during May and June 2015. The Nacogdoches County Judge declared a state of disaster on May 28, 2015. On June 9th, the notice of a major disaster declaration for the State of Texas was amended to include Nacogdoches County. As a result, Nacogdoches County became eligible to receive Public Assistance grants from the US Department of Homeland Security/Federal Emergency Management Agency. Grant funding will be passed through the Texas Department of Public Safety/Texas Division of Emergency Management. Road and bridge expenditures related to the disaster were incurred beginning in FY 2015, and they were accounted for in the Road and Bridge Fund. Nacogdoches County Commissioners' Court has accepted grant awards for 8 public assistance projects since September 30, 2015. The grant awards include eligible federal funding totaling approximately \$874,434.69. Nacogdoches County has received \$284,600 to date.

In a cooperative effort to prevent pavement damage to roadways caused by overweight loads in Nacogdoches County, the Nacogdoches County Commissioners' Court, the Texas Department of Transportation and the Texas Department of Public Safety are establishing a truck weigh station / inspection facility 5 miles south of the City of Nacogdoches. The facility is located in the TXDOT right-of-way; the TXDPS would staff the facility. Nacogdoches County is constructing all facilities including buildings and scales. Commissioners' Court allocated \$300,000 in the FY 2016 budget for the project. Additionally, Court allocated a portion of the proceeds of the sale of the Technical Training Center. Commissioners' Court executed a memorandum of agreement with TXDOT and TXDPS on 06/29/2015. During FY 2016, Court advertised for proposals for engineering services and executed a contract with Goodwin Lasiter Strong on 11/22/2016. Commissioners' Court decided to move forward with the project during FY 2017 by executing an agreement on 03/14/2017 with Cox Contractors for Construction Manager-at-Risk services, and both parties agreed on a Guaranteed Maximum Price on 10/25/2017. Construction began during December 2017, and completion is scheduled for late Spring/early Summer 2018. Costs incurred during FY 2017 are reported in the Other Supplementary Information section of this report - Schedule of Revenues, Expenditures, and Changes in Fund Balance for the Permanent Improvement Fund. Total authorized construction costs are reported in the Notes to the Financial Statements (Note 6 – Capital Assets).

Prior to October 1, 2014, courthouse security was provided by contract labor that consisted of one full-time/armed guard and one part-time/unarmed guard. For FY 2015, Court provided funding through the adopted budget for 1 full-time employee, an armed Sheriff's deputy, to work along with one contracted full-time/armed guard. Court continues to allocate resources to this program as actual expenditures in the Courthouse Security Fund increased from \$43,000 for FY 2014 to \$80,000 for FY 2017.

Nacogdoches County Commissioners' Court continues to support the maintenance of county roads. During FY 2017, one full-time position and two part-time/seasonal positions were established through the adopted budget with those salaries budgeted at \$57,600 for the Road and Bridge department. During FY 2016, a Special Projects budget was established in the Road and Bridge Fund to account for the expenditure of \$277,000 from Public Assistance Grant reimbursements and \$600,000 from a transfer from the General Fund to the Road and Bridge Fund to cover costs for road maintenance projects during the summer of 2016. Actual expenditures, for Road and Bridge Special Projects, totaled \$323,000 during FY2016. During FY 2017, Court continued to support the project by re-appropriating \$554,000 in remaining funds. Actual expenditures, for Road and Bridge Special Projects, totaled \$490,000 during FY2017.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting for the County's Comprehensive Annual Financial Report for the fiscal year ended September 30, 2016. This was the fourteenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the County published an easily readable and efficiently organized Comprehensive Annual Financial Report. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it for review to GFOA.

The timely completion of this report could not have been accomplished without the efficient and dedicated services of the County Auditor's staff and the professional service provided by our Independent Auditors, Whitley Penn, LLP. We also thank the District Judges, Commissioners' Court, and all other County officials and staff who have given their support in planning and conducting the financial operations of the County in a responsible and professional manner.

Respectfully submitted,

A handwritten signature in cursive script that reads "Jessica Roark Corley". The signature is written in dark ink and is positioned above the printed name.

Jessica Corley
County Auditor



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**County of Nacogdoches
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2016

Christopher P. Morill

Executive Director/CEO

NACOGDOCHES COUNTY, TEXAS
LIST OF PRINCIPAL OFFICIALS
September 30, 2017

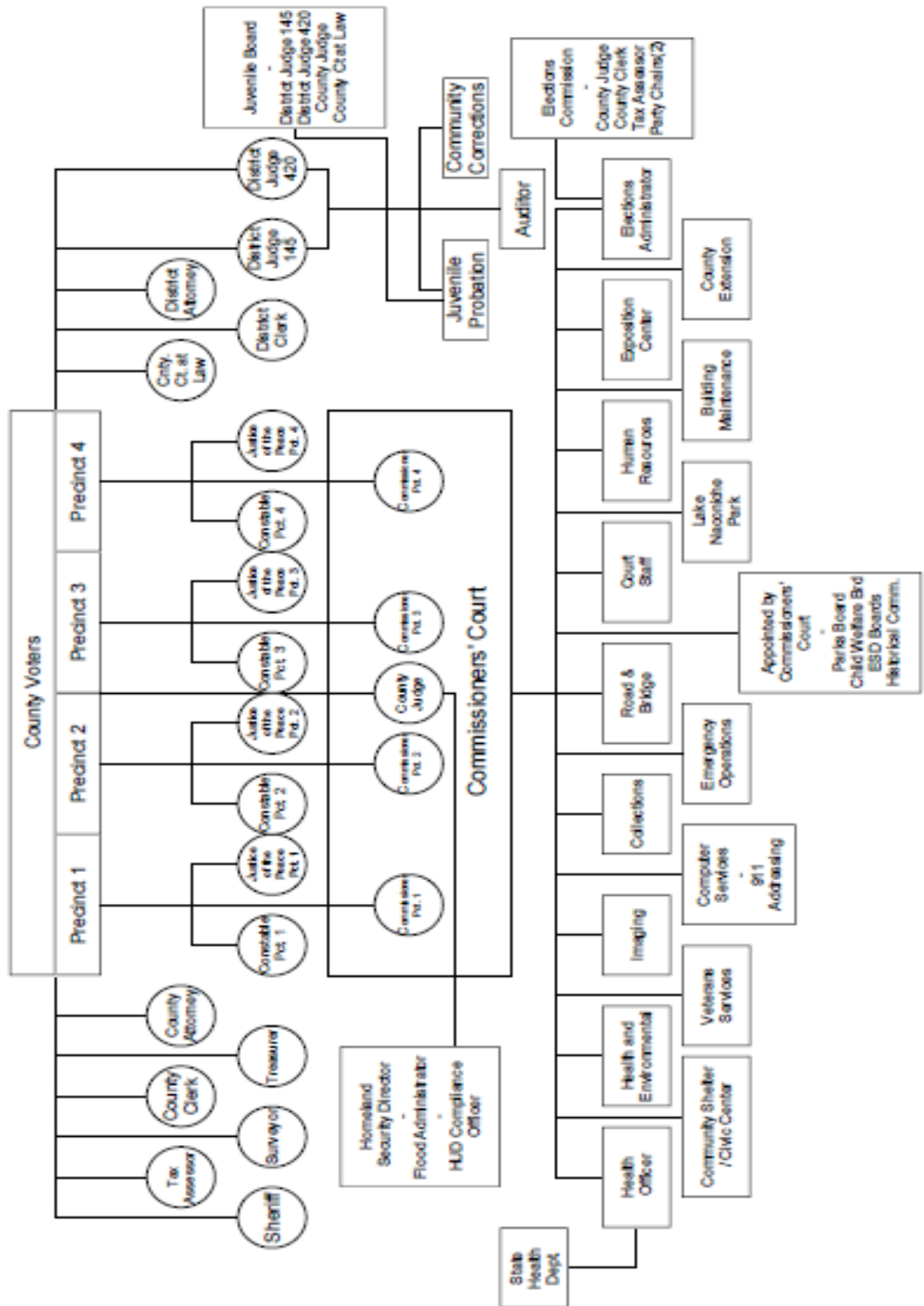
GOVERNING BODY

Mike Perry County Judge
Jerry Don Williamson Commissioner, Precinct 1
Jerry Stone Commissioner, Precinct 2
Robin Dawley Commissioner, Precinct 3
Elton Milstead..... Commissioner, Precinct 4

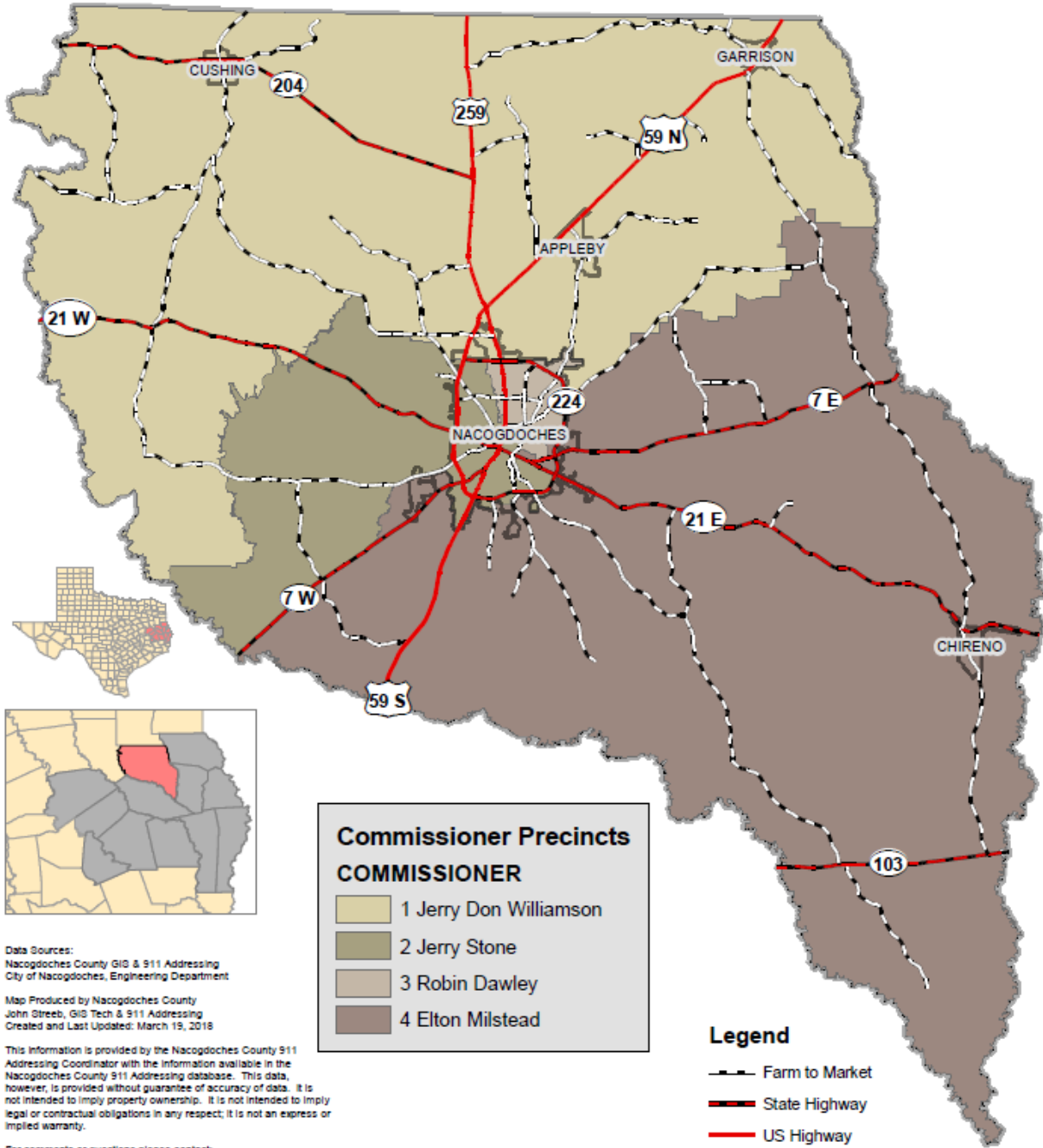
OTHER PRINCIPAL OFFICIALS

Jessica Corley County Auditor
Denise Baublet..... County Treasurer
Kim Morton Tax Assessor-Collector
Jack Sinz County Court-at-Law Judge
John Fleming..... County Attorney
Campbell Cox, II 145th District Judge
Ed Klein..... 420th District Judge
Loretta Cammack..... District Clerk
Nicole Lostracco District Attorney
June Clifton..... County Clerk
Jason Bridges..... County Sheriff
Kerry Don Williamson..... Justice of the Peace, Precinct 1
Dorothy Tigner-Thompson Justice of the Peace, Precinct 2
Leann Goerner..... Justice of the Peace, Precinct 3
David Perkins..... Justice of the Peace, Precinct 4

Organization of County Departments and Agencies



County Commissioner Precincts Nacogdoches County, Texas



Commissioner Precincts	
COMMISSIONER	
	1 Jerry Don Williamson
	2 Jerry Stone
	3 Robin Dawley
	4 Elton Milstead

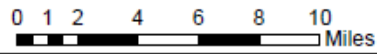
Legend	
	Farm to Market
	State Highway
	US Highway
	City Boundaries
	County Boundary

Data Sources:
Nacogdoches County GIS & 911 Addressing
City of Nacogdoches, Engineering Department

Map Produced by Nacogdoches County
John Streeb, GIS Tech & 911 Addressing
Created and Last Updated: March 15, 2018

This information is provided by the Nacogdoches County 911 Addressing Coordinator with the information available in the Nacogdoches County 911 Addressing database. This data, however, is provided without guarantee of accuracy of data. It is not intended to imply property ownership. It is not intended to imply legal or contractual obligations in any respect; it is not an express or implied warranty.

For comments or questions please contact:
911 ADDRESSING
203 W MAIN ST STE 105
NACOGDOCHES, TX 75961
(936) 564-0658
Fax: (936) 564-0477





FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Honorable Mike Perry, County Judge
and Members of the Commissioners Court
Nacogdoches 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 Nacogdoches County, Texas (the County) as of and for the year ended September 30, 2017, 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 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 of 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 county'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 County'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.

To the Honorable Mike Perry, County Judge
and Members of the Commissioners Court

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 County as of September 30, 2017, and the respective changes in financial position, for the year then ended in conformity 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 on pages 4 through 12, budgetary comparison, and required pension system on pages 42 through 49 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 statement. 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 Supplementary 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 introductory section, combining and individual non-major fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and schedules 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 and individual non-major fund financial statements and schedules is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

To the Honorable Mike Perry, County Judge
and Members of the Commissioners Court

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Whitley Penn LLP

Houston, Texas
March 26, 2018

NACOGDOCHES COUNTY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Management's Discussion and Analysis* of the County of Nacogdoches' Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the County's financial performance during the fiscal year that ended September 30, 2017. It should be read in conjunction with the transmittal letter located at the front of this CAFR and the county's financial statements, which follow this part of the CAFR.

Financial Highlights

- The assets and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$44.8 million (net position). Of this amount, \$3.5 million (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's total net position increased by \$721 which is mainly attributed to property taxes. The Commissioners' Court adopted the effective tax rate which increased the tax levy by \$364,733, of which \$183,609 was from new property on the tax roll. The remaining increase was related to deferred property taxes.
- As of the close of the current fiscal year, the County's governmental funds reported a combined ending fund balance of \$10.1 million, an increase of \$720 thousand from the prior year fund balance.
- At the end of the current fiscal year the General Fund had approximately \$6.1 million in fund balance of which \$5.8 million is available for spending at the government's discretion (unassigned general fund balance). This fund balance amounts to 37% of total general fund expenditures.
- The County's total bonded debt decreased by approximately \$1.6 million during the current fiscal year. The decrease was the result of debt payments during the year offset by additional debt from capital leases.

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 comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The statement of net position presents information for all of the County's assets, deferred outflows, liabilities, and deferred inflows with the difference between the three 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 government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements present functions of the County that are principally supported by taxes (governmental activities). The governmental activities of the County include general government, judicial and law enforcement, highway and streets, health and welfare, parks and recreation, and interest on long-term debt. The government-wide financial statements can be found on pages 14 through 15 of this report.

NACOGDOCHES COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County are categorized as governmental funds or fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains 53 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Road and Bridge Fund, both of which are considered to be major funds. Data from the other 51 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the comprehensive annual financial report.

Nacogdoches County adopts an annual appropriated budget for its General Fund and other funds. Budgetary comparison statements have been provided for all these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 16 through 19 of this report.

Fiduciary funds

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 of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 20 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 21 through 40 of this report.

NACOGDOCHES COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to its employees. The County adopts an annual appropriated budget for its general, debt service, Road and Bridge and certain special revenue funds. Budgetary comparison statements have been provided for the general fund and the road and bridge fund to demonstrate compliance with this budget. Required supplementary information can be found on pages 42 through 49 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets and deferred outflows of resources, exceeded liabilities and deferred inflows of resources by \$44.8 million at the close of the most recent fiscal year.

By far the largest portion of the County's net position \$37.3 million (83%) reflects its investment in capital assets (e.g., land, buildings, vehicles, road equipment, office furniture and equipment, infrastructure, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services 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.

Nacogdoches County's Net Position

	Governmental Activities	
	2017	2016
Assets		
Current and other assets	\$ 12,214,669	\$ 11,784,483
Capital assets, net	44,625,673	45,510,556
Total Assets	56,840,342	57,295,039
Deferred outflows of resources		
Deferred charge on refunding	353,794	424,352
Deferred pension items	3,753,648	4,500,306
Total deferred outflows of resources	4,107,442	4,924,658
Liabilities		
Other liabilities	1,158,120	1,575,296
Long-term liabilities	14,642,008	16,069,973
Total Liabilities	15,800,128	17,645,269
Deferred inflows of resources		
Deferred pension items	344,451	491,995
Total deferred inflows of resources	344,451	491,995
Net Position:		
Net Investment in capital assets	37,306,367	36,721,196
Restricted	4,020,899	4,720,640
Unrestricted	3,475,939	2,640,597
Total Net Position	\$ 44,803,205	\$ 44,082,433

NACOGDOCHES COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

A portion of the County's net position, \$4.0 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$3.5 million, may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the County's fund designation and fiscal policies.

The County's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$44.8 million, which is an increase of \$0.72 million from the prior year's net position amount of \$44.1 million. Overall total assets decreased due to disposal of vehicles and equipment. Long-term liabilities overall decreased due to payments of bonds and capital leases. A change in pension liabilities of \$0.18 million is a result of Texas County and District Retirement System actuarial valuation. The overall increase in net position from the statement of activities shows the increase primarily related to property taxes.

Governmental activities change in Net Position for the County was a \$721 thousand increase. The key elements of this increase are as follows:

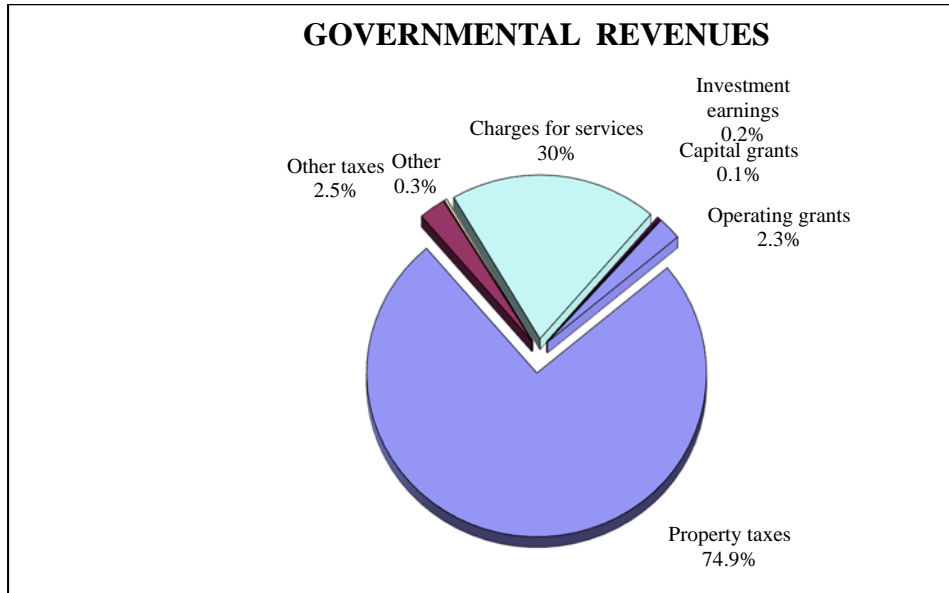
- The effective tax rate was adopted for fiscal year 2017. The effective tax rate was the total tax rate needed to raise the same amount of property tax revenue for the same properties in both the preceding tax year and current tax year. This rate increased the tax levy by \$364,733 or 2.10%. Of this amount \$183,609, was property tax revenue from new property added to the tax roll. The remaining increase in property tax revenue was related to deferred property taxes.
- Highway and streets expense decreased which also contributed to the increase in net position. During the prior year, two capital leases were executed for Road and Bridge equipment. There were no capital leases executed for fiscal year 2017.

Nacogdoches County's Changes in Net Position

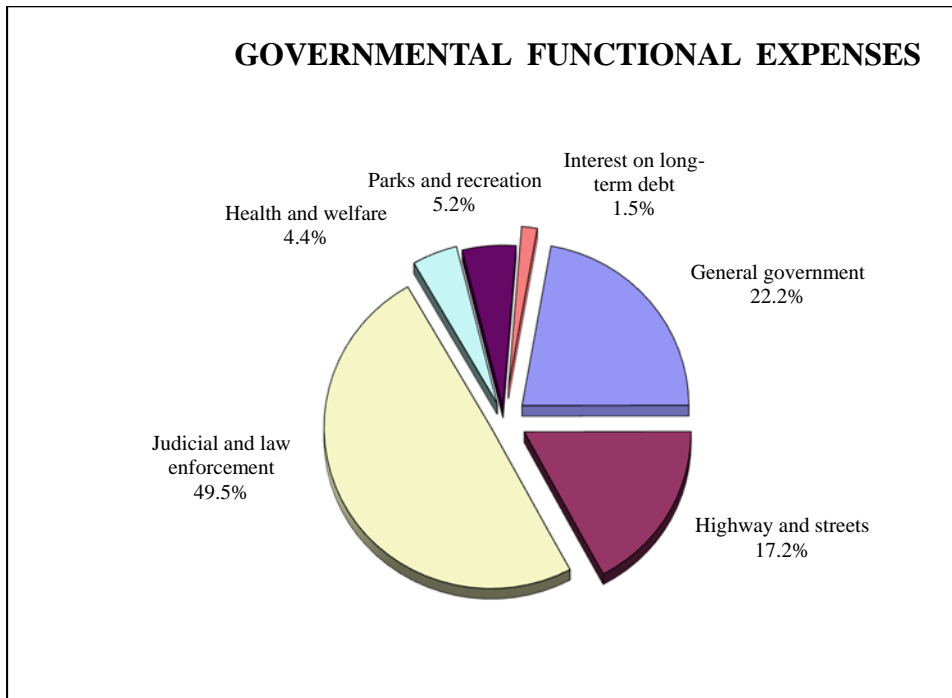
	Governmental Activities	
	2017	2016
Revenues		
Program revenues:		
Charges for services	\$ 4,794,834	\$ 4,868,671
Operating grants and contributions	550,294	726,182
Capital grants and contributions	25,710	284,600
General revenues:		
Property taxes	18,207,931	17,580,862
Other taxes	613,763	631,298
Earnings on investments	59,282	49,448
Grants and Contributions not restricted to specific programs	9,847	
Loss on disposal of capital assets		(2,324,843)
Miscellaneous	52,889	632,566
Total Revenues	24,314,550	22,448,784
Expenses		
General government	5,237,319	5,291,325
Highway and streets	4,061,703	4,233,633
Judicial and law enforcement	11,687,652	11,187,905
Health and welfare	1,023,558	1,051,784
Parks and recreation	1,227,346	1,239,338
Interest on long-term debt	356,200	378,988
Total Expenses	23,593,778	23,382,973
Change in Net Position	720,772	(934,189)
Net Position, Beginning	44,082,433	45,016,622
Net Position, Ending	\$ 44,803,205	\$ 44,082,433

NACOGDOCHES COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental activities revenue for fiscal year 2017 are graphically displayed as follows:



Governmental activities functional expenses were as follows:



NACOGDOCHES COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Financial Analysis of the County's Funds

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

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

The County's governmental funds reflect a combined fund balance of \$10.1 million an increase of \$0.7 million compared with the prior year fund balance \$9.4 million. Of the \$10.1 million fund balance, \$5.8 million is unassigned and available for day-to-day operations of the County. The remaining restricted fund balances is approximately \$4.0 million mainly for capital projects and specific purposes of the special revenue funds.

The General Fund Balance increased by \$1.4 million with an ending fund balance of \$6,080,350. Overall, revenue to the General Fund increased by \$506 thousand. The effective tax rate increased the tax levy by \$364 thousand, of which, \$183 thousand was generated by new property added to the tax roll. Also, current property taxes required to be applied to the Debt Service Fund decreased by \$255 thousand dollars. Those dollars were deposited to the General Fund. General Fund expenditures increased by \$102 thousand from prior year which was mainly from operational increases related to personnel, fringe benefits, and capital lease payments for law enforcement vehicles.

The Road and Bridge Fund Balance decreased by \$386,937 compared to prior year with an ending balance of \$559,786. Commissioners' Court approved two budget amendments to draw down the prior year fund balance by re-appropriating unspent fiscal year 2016 funding for road maintenance projects and purchasing two backhoes.

General Fund Budgetary Highlights

The County made revisions to the original appropriations approved by the Commissioners' Court. These changes resulted in an increase from the original budget by \$84,915. Although the amended budgeted expenditures totaled \$16,715,957 actual expenditures totaled \$15,786,439, a \$929,518 positive variance. This is a result from all departments not expending their total appropriations.

Total revenue exceeded the final budget by \$313,868. This was primarily due to property taxes. Current, delinquent, and penalty and interest tax collections exceeded the budget by \$219,679. Miscellaneous revenue exceeded budget but was offset by fees and fines which were below budget. Actual earnings on investments and charges for services exceeded budget.

NACOGDOCHES COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Capital Assets and Debt Administration

Capital Assets - At the end of fiscal year 2017, the County's governmental activities had invested \$44.6 million (net of accumulated depreciation). This investment in capital assets includes Land, buildings, equipment, improvements (other than buildings) infrastructure and construction in progress, as reflected in the following schedule. The capital acquisitions were approximately \$1.9 million, offset by \$2.6 million in depreciation expense showing a net decrease in Capital Assets of \$884,883 over the previous fiscal year.

	Governmental Activities	
	2017	2016
Non-Depreciable Assets		
Land and intangibles	\$ 2,353,904	\$ 2,353,904
Construction in progress	74,166	17,400
Other Capital Assets, Net		
Land Improvements	2,856,828	2,925,886
Buildings and improvements	15,911,514	16,613,509
Infrastructure	18,165,292	17,954,639
Machinery and equipment	5,263,969	5,645,218
Total Capital Assets	\$ 44,625,673	\$ 45,510,556

Major capital events occurring during the current year included the following:

- Acquisitions of \$261,778 in leased assets which included patrol vehicles.
- Disposal of vehicles and equipment with total historical cost of \$813,010.

Long-Term Debt - At the end of the current fiscal year, the County had total debt outstanding of \$9.1 million. This is a decrease of \$1.6 million from the prior year due to principal payments made during the year of \$1.8 million offset by additional debt of \$262 thousand on capital leases.

	Governmental Activities	
	2017	2016
Certificates of Obligation	\$ 2,445,000	\$ 2,670,000
Refunding Bonds	4,927,000	6,076,000
Capital Leases	1,721,404	1,926,909
Total	\$ 9,093,404	\$ 10,672,909

Additional information on capital assets and long-term debt is available in Notes 6 and 7, respectively, to the financial statements.

NACOGDOCHES COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Economic Factors and Outlook

- According to the Texas Workforce Commission's Labor Market and Career Information website (TASER2), the unemployment rate for Nacogdoches County was 3.8% as of September 2017 compared to a Texas statewide unemployment rate of 4.0%. A year ago, Nacogdoches County's unemployment rate was 4.9% and the Texas statewide unemployment rate was 4.8%. The national unemployment rate as of September 2017 and 2016 was 4.1% and 4.8% respectively.
- Advameg, Inc. published a Cost of Living Index (www.city-data.com) as of March 2016 for the City of Nacogdoches – 83.0. The national average is 100. Nearby cities include: Lufkin, TX 80.9, Tyler, TX 85.7, Longview, TX 83.8, Monroe, LA 86.0, Jackson, MS 84.3, College Station, TX 90.2, New Braunfels, TX 88.7, Austin, TX 95.6, Houston, TX 94.0, Dallas, TX 94.1, and San Antonio, TX 87.5.
- The Texas Education Agency reported 10,936 students attending public schools in Nacogdoches County for 2016. Five years prior (2011), the total was 10,646.
- On September 26, 2017, Stephen F. Austin State University announced a fall enrollment of 12,614 students. Fall 2016 enrollment was 12,742, which is a 1% decrease. Various factors influence enrollment. The number of college students in the area affects the level of business activity in the county.
- Nacogdoches County continues to monitor revenue from sources other than property taxes. Traffic cases are a source of revenue from court costs and fines. Traffic cases across the state have decreased 37% from its peak in 2006. These cases are at the lowest level in more than 30 years according to the 2016 Annual Statistical Report for the Texas Judiciary released by the Texas Office of Court Administration. In the past, The Texas Department of Public Safety has focused on warnings and shifted officers to the Texas border to work. With less federal funds available for traffic programs and higher speed limits in Texas, the number of traffic cases is expected to remain low. However, KXAN News in Austin, Texas reported on September 12, 2017, that the Texas Department of Public Safety could stop rotating troopers to the Texas border. Decreasing traffic cases are part of a statewide trend of shifting caseloads in Texas Courts. The County will continue to monitor this trend.

The County Commissioners set fiscal policy, establish service priorities, and allocate resources through the budget. While preparing the FY 2018 budget, the County Commissioners and management considered the following:

- Financing alternatives for law enforcement vehicles in an effort to provide service and conserve cash.
- In a continuing effort to meet standards set by the Texas Jail Commission and reduce liability, Court included in the budget 5 jailer positions and funding for medical and psychology services.
- The FY 2016 audited fund balance for the General Fund was presented to Court during April 2017, two months before work on the FY 2018 budget began. Audited fund balance was higher than originally projected in the adopted FY2016 budget. During budget workshops, department heads presented several long-term projects needed to improve or maintain services. Considering the FY2016 audited fund balance and the County's fund balance policy, Court decided to draw down fund balance by including inter-fund transfers from the General Fund to the Permanent

NACOGDOCHES COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Improvement Fund to: replace electronic voting equipment; purchase land, a roof and air conditioners for the jail; and replace an electronic road sign at the Exposition and Civic Center.

- The budgeted amount from fund balance to be utilized to offset current general fund expenditures was \$894,000. This is an increase of \$721,000 compared to the prior fiscal year. This is due to an estimated beginning fund balance that is higher than the county's fund balance policy. Court budgeted to draw down the estimated beginning fund balance and adopt the effective tax rate (as opposed to increasing property taxes). The estimated 09/30/2018 ending fund balance in the adopted budget is \$4,505,096 which is 25% of current budgeted expenditures. Nacogdoches County's fund balance policy is to maintain 18%-25% of current budgeted expenditures for unanticipated needs.

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 Nacogdoches County Auditor, at 101 West Main Street; Suite 140, Nacogdoches, Texas 75961.

BASIC FINANCIAL STATEMENTS

NACOGDOCHES COUNTY, TEXAS**STATEMENT OF NET POSITION**

September 30, 2017

	Primary Government Governmental Activities
Assets	
Cash and cash equivalents	\$ 10,605,656
Receivables (Net of Allowance for Uncollectibles)	1,296,802
Prepaid items	308,956
Inventory	3,255
Capital assets, not being depreciated	2,428,070
Capital assets, net of accumulated depreciation	<u>42,197,603</u>
Total Assets	<u>56,840,342</u>
Deferred outflows of resources	
Deferred charge on refunding	353,794
Deferred pension items	<u>3,753,648</u>
Total deferred outflows of resources	<u>4,107,442</u>
Liabilities	
Accounts payable and accrued expenses	705,153
Accrued payroll	211,456
Accrued interest payable	87,817
Unearned revenues	109,053
Due to other governments	44,641
Long-term liabilities due within one-year	1,828,324
Compensated absences due within one-year	113,618
Compensated absences due in more than one-year	227,237
Long-term liabilities due in more than one-year	7,408,084
Net pension liability	<u>5,064,745</u>
Total Liabilities	<u>15,800,128</u>
Deferred inflows of resources	
Deferred pension items	<u>344,451</u>
Total deferred inflows of resources	<u>344,451</u>
Net Position	
Net investment in capital assets	37,306,367
Restricted for:	
Debt Service	317,037
Records management	394,689
Road and bridge	559,786
Judicial and law enforcement	1,063,718
Other purposes	1,685,669
Unrestricted	<u>3,475,939</u>
Total Net Position	<u>\$ 44,803,205</u>

The accompanying notes are an integral part of these financial statements.

NACOGDOCHES COUNTY, TEXAS

STATEMENT OF ACTIVITIES

For the year ended September 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Primary Government					
Governmental Activities:					
General government	\$ 5,237,319	\$ 399,068	\$ 19,266	\$ -	\$ (4,818,985)
Highway and streets	4,061,703	1,084,315	-	25,710	(2,951,678)
Judicial and law enforcement	11,687,652	2,672,948	526,937	-	(8,487,767)
Health and welfare	1,023,558	-	-	-	(1,023,558)
Parks and recreation	1,227,346	638,503	4,091	-	(584,752)
Interest	356,200	-	-	-	(356,200)
Total Primary Government	\$ 23,593,778	\$ 4,794,834	\$ 550,294	\$ 25,710	(18,222,940)
General revenues:					
					18,207,931
					59,282
					613,763
					9,847
					52,889
					<u>18,943,712</u>
					720,772
					<u>44,082,433</u>
					<u>\$ 44,803,205</u>

The accompanying notes are an integral part of these financial statements.

NACOGDOCHES COUNTY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2017

	<u>General Fund</u>	<u>Road and Bridge</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 1,171,317	\$ 156,715	\$ 1,735,779	\$ 3,063,811
Investments	5,201,967	483,834	1,856,044	7,541,845
Receivables (net of allowance for uncollectibles)	910,114	208,906	177,782	1,296,802
Due from other funds	31,393	-	-	31,393
Inventory	-	-	3,255	3,255
Prepaid items	261,977	9,946	37,033	308,956
Total Assets	<u>\$ 7,576,768</u>	<u>\$ 859,401</u>	<u>\$ 3,809,893</u>	<u>\$ 12,246,062</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities:				
Accounts payable	\$ 423,330	\$ 107,830	\$ 173,709	\$ 704,869
Accrued expenditures	284	-	-	284
Accrued payroll	175,459	27,759	8,238	211,456
Due to other funds	-	-	31,393	31,393
Due to other governments	44,641	-	-	44,641
Unearned revenues	82,505	-	26,548	109,053
Total Liabilities	<u>726,219</u>	<u>135,589</u>	<u>239,888</u>	<u>1,101,696</u>
Deferred Inflows of Resources				
Unavailable revenue-property taxes	770,199	164,026	82,319	1,016,544
Total Deferred Inflows of Resources	<u>770,199</u>	<u>164,026</u>	<u>82,319</u>	<u>1,016,544</u>
Fund Balances:				
Nonspendable				
Inventories and prepaids	261,977	9,946	39,757	311,680
Restricted				
Debt service	-	-	337,830	337,830
Capital projects	-	-	1,563,308	1,563,308
Grants	-	-	17,049	17,049
Records	-	-	420,410	420,410
Public safety	-	-	356,757	356,757
Judicial	-	-	703,522	703,522
Road and bridge	-	549,840	-	549,840
Other	-	-	72,434	72,434
Unassigned	5,818,373	-	(23,381)	5,794,992
Total Fund Balances	<u>6,080,350</u>	<u>559,786</u>	<u>3,487,686</u>	<u>10,127,822</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 7,576,768</u>	<u>\$ 859,401</u>	<u>\$ 3,809,893</u>	<u>\$ 12,246,062</u>

The accompanying notes are an integral part of these financial statements.

NACOGDOCHES COUNTY, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
September 30, 2017

Total fund balance, governmental funds \$ 10,127,822

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 44,625,673

Unavailable property tax revenues in the governmental fund statements are recognized as revenue in the government wide statements . 1,016,544

Deferred outflows related to pension activities 3,753,648

Some liabilities and deferred inflows of resources are not due and payable in the current period and are not included in the fund financial statement, but are reported in the governmental activities of the Statement of Net Position.

Certificates of obligation	(2,445,000)
Premium on bonds	(142,922)
Refunding bond	(4,927,000)
Loss on refunding	353,794
Capital lease payable	(1,721,486)
Compensated absences	(340,855)
Net pension liability	(5,064,745)
Deferred inflows related to pension activities	(344,451)
Accrued interest payable	<u>(87,817)</u>

Net Position of Governmental Activities \$ 44,803,205

The accompanying notes are an integral part of these financial statements.

NACOGDOCHES COUNTY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2017

	<u>General Fund</u>	<u>Road and Bridge</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 13,637,406	\$ 2,865,359	\$ 1,550,237	\$ 18,053,002
Charges for services	877,974	883,957	-	1,761,931
Fees and fines	982,203	142,190	863,813	1,988,206
Intergovernmental	941,767	-	502,391	1,444,158
Earnings on investments	46,680	3,349	7,860	57,889
Miscellaneous	438,018	4,209	486,455	928,682
Total Revenues	<u>16,924,048</u>	<u>3,899,064</u>	<u>3,410,756</u>	<u>24,233,868</u>
Expenditures				
Current:				
General government	4,663,833	-	571,257	5,235,090
Administration of justice	3,519,288	-	721,389	4,240,677
Public safety	6,749,634	-	-	6,749,634
Highway and streets	-	4,077,685	64,472	4,142,157
Health and Welfare	312,309	-	-	312,309
Parks and recreation	-	-	837,319	837,319
Libraries and education	-	-	-	-
Capital Outlay	261,860	-	7,140	269,000
Debt Service:				
Principal	267,206	200,077	1,374,000	1,841,283
Interest and fiscal charges	12,309	31,739	235,452	279,500
Total Expenditures	<u>15,786,439</u>	<u>4,309,501</u>	<u>3,811,029</u>	<u>23,906,969</u>
Excess (Deficiency) of Revenues			-	
Over (Under) Expenditures	<u>1,137,609</u>	<u>(410,437)</u>	<u>(400,273)</u>	<u>326,899</u>
Other Financing Sources (Uses)				
Sale of capital assets	107,489	23,500	-	130,989
Transfers in	-	-	129,055	129,055
Transfers out	(129,055)	-	-	(129,055)
Proceeds from capital leases	261,860	-	-	261,860
Total other financing sources (uses)	<u>240,294</u>	<u>23,500</u>	<u>129,055</u>	<u>392,849</u>
Net change in fund balances	1,377,903	(386,937)	(271,218)	719,748
Fund balances - beginning	<u>4,702,447</u>	<u>946,723</u>	<u>3,758,904</u>	<u>9,408,074</u>
Fund balances - ending	<u>\$ 6,080,350</u>	<u>\$ 559,786</u>	<u>\$ 3,487,686</u>	<u>\$ 10,127,822</u>

The accompanying notes are an integral part of these financial statements.

NACOGDOCHES COUNTY, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN

FUND BALANCES (GOVERNMENTAL FUNDS) TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2017

Net change in fund balances - total governmental funds: \$ 719,748

Adjustments for the Statement of Activities:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay of (\$1.93 million) was capitalized on the entity wide statement and the depreciation expense (\$2.6 million) that was expensed in the current period. 1,928,864 (2,615,111)

The statement of activities reports a loss arising from disposal of capital assets as the difference between the proceeds from disposal and the net book value of the assets. (198,636)
The governmental funds report only the proceeds from disposal. This amount represents the net book value of capital assets disposed during the year.

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 154,929

Proceeds from capital lease are sources of funding for Governmental Funds to acquire assets, but is not included in government wide statement of activities. (261,860)

Repayment of bond principal is an expenditure in the governmental fund, but the repayment of principal reduces long-term liabilities in the Statement of Net Position. 1,374,000

Repayment of capital lease principal is an expenditure in the governmental fund, but the repayment of principal reduces capital lease liabilities in the Statement of Net Position. 467,283

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported in governmental funds. This adjustment reflects the net change in:

Accrued interest payable (27,315)
Amortization of deferred charges including premiums 21,173
and discounts on issuance of bonds 11,600
Compensated absences (70,558)
Amortization of refunding loss (783,345)
Net pension liabilities and associated deferred outflows of resources

Change in net position of governmental activities \$ 720,772

The accompanying notes are an integral part of these financial statements.

NACOGDOCHES COUNTY, TEXAS
STATEMENT OF AGENCY ASSETS AND LIABILITIES
September 30, 2017

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 5,368,508</u>
Total Assets	<u><u>\$ 5,368,508</u></u>
Liabilities	
Due to other agencies and beneficiaries	<u>\$ 5,368,508</u>
Total Liabilities	<u><u>\$ 5,368,508</u></u>

The accompanying notes are an integral part of these financial statements.

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

A. Financial Reporting Entity

Nacogdoches County, Texas ("County") is an independent governmental entity created under the laws of the State of Texas. The County is governed by an elected Commissioners' Court. The financial statements of the County include all funds and agencies over which the County is considered to be financially accountable.

The County is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the County's financial reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the County's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the County is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the County's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

B. Government-wide and Fund Accounting

The basic financial statements include both government-wide (based on the County as a whole) and fund financial statements. While the previous reporting model emphasized fund types (the total of all funds of a particular type), the GASB 34 reporting model focuses on either the County as a whole or on major individual funds (within the fund financial statements). Typically, both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. All primary activities of the County are considered to be governmental type activities; therefore no business type activities are presented within the basic financial statements. In the government-wide Statement of Net Position, governmental activities are presented on a full accrual, economic resource basis, which incorporates long-term assets and receivables, as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (general administration, financial administration, public safety, etc.), which are otherwise being supported by general government revenues (property taxes, earnings on investments, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues. The program revenues must be directly associated with the function (general administration, financial administration, public safety, etc.).

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile fund-based financial statements with the governmental column of the government-wide presentation.

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Accounting (continued)

The County's fiduciary funds are presented in the fund financial statements by type. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. Since the County only reports agency funds, a statement of changes in fiduciary net position is not presented. All assets reported in agency funds should be offset by a corresponding liability, resulting in zero net position.

In the fund financial statements, the accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

The County reports the following major governmental funds:

General Fund

The General Fund is the County's primary operating fund. It is used to account for all financial transactions not properly includable in other funds. The principal source of revenue is local property taxes. Expenditures include all costs associated with the daily operations of the County.

Road and Bridge Fund

The Road and Bridge Fund is used to account for the proceeds of specific revenue sources, mostly taxes and fees that are legally restricted to expenditures for street and highway improvements.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund-types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statements of net position and statements of activities are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Agency funds have no measurement focus but utilize the *accrual basis of accounting* for reporting assets and liabilities.

The accounts of the Governmental Fund Types (the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds) are maintained, and the financial statements have been prepared, on the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized when they become susceptible to accrual (i.e., both measurable and available). Available means collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Substantially all revenues, except property taxes, are considered to be susceptible to accrual. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on long-term debt are recognized as expenditures when due.

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

C. Basis of Accounting (continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. An exception to this general rule is that interfund services provided and used within the County are not eliminated in the process of consolidation. Elimination of these services would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: (1) charges to customers for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Revenues that are generated internally are reported as general revenues, including property taxes.

D. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used as an extension of formal budgetary control. Encumbrances outstanding at year-end are reported as assigned or committed fund balances and do not constitute expenditures or liabilities of the current year and are reappropriated in the budget of the subsequent year. Unencumbered appropriations lapse at the end of the year. The County did not have any significant encumbrances at year-end.

E. Cash and Cash Equivalents

The County's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, temporary investments with maturities of three months or less when purchased are considered to be cash equivalents.

F. Investments

The County's investments are comprised of certificates of deposit and money market accounts. Obligations with maturities of one year or less when purchased are reported on the balance sheet at their amortized cost, which approximates fair value. All other investments are reported at fair value. The investments in U.S. Government Securities are generally held to maturity.

The County categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The County's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*.

G. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Note 1 - Summary of Significant Accounting Policies *(continued)*

H. Due to and Due From Other Funds

During the course of operations, transactions occur between individual funds for specified purposes, such as lending/borrowing arrangements or amounts. These receivables and payables are classified as "due from other funds" or "due to other funds."

I. Interfund Transfers

The County maintains numerous special revenue and capital project funds to account separately for monies that have been set aside for particular purposes. Often, these monies are initially budgeted in the General Fund during the annual budget process and are then transferred to various funds during the course of the fiscal year. In addition, when these projects are complete, these same funds often transfer residual monies back to the General Fund or some other fund, as determined by where the monies should be returned. These interfund transfers are classified as "transfers in" and "transfers out" within the primary government.

J. Interest Receivable

Interest on investments is recorded as revenue in the year the interest is earned and available to pay liabilities of the current period.

K. Capital Assets

Capital assets used in governmental fund types of the government are recorded as expenditures of the General, Special Revenue and Capital Projects Funds and as assets in the government-wide financial statements to the extent the County's capitalization threshold (currently \$5,000) is met. Depreciation is recorded on capital assets on a government-wide basis. Major outlays for capital assets and improvements are capitalized as projects are constructed and subsequently depreciated over their estimated useful lives on a straight-line basis at both the fund and government-wide levels. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement should be reported at acquisition value rather than fair value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and resulting gain or loss is included in the results of operations.

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

K. Capital Assets (continued)

The County applies monthly depreciation for all assets. Therefore, depreciation is charged to operations for each month that an asset is in service. Depreciation has been provided for plant and equipment using the straight-line method over the estimated useful life for the type of assets as follows:

<u>Assets</u>	<u>Years</u>
Buildings	27.5 - 40, depending on construction
Building improvements	10-20
Infrastructure	10-50
Roads and horizontal infrastructure	10-50
Electrical systems	20
Plumbing systems	20
Central air/heat systems	15
Equipment (non-office)	7-15
Office furnishings	7-10
Office equipment	7-10
Motor vehicles	5
Used vehicles	3
Computer equipment	3-8

L. Accrued Compensated Absences

County employees earn 12 days of vacation with pay per year during the first 10 years of employment and 17 days of vacation with pay per year for after more than 10 years of continuous employment. Employees may carry over two weeks of unused vacation leave. Employees may also convert one week of vacation to one week sick leave. Vacation in excess of carryover and conversion shall be forfeited. Upon termination, unused vacation, compensation time, and holidays are paid out to the employee. Unused sick leave, 5 days of funeral leave and jury leave are not paid upon termination.

M. Fund Balance

The County follows GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. The statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Non-spendable fund balance** – includes amounts that cannot be spent because they are either not spendable in form (inventory, prepaids, long-term portion of notes receivable) or are legally or contractually required to be maintained intact (e.g., the corpus or principal of a permanent fund). As such, the inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet as non-spendable fund balance.
- **Restricted fund balance** – includes amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. The fund balances for debt service, capital projects from bond sales, federal and other grant funds are classified as restricted.

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

M. Fund Balance (continued)

- **Committed fund balance** – includes amounts that can only be used for specific purposes or constrained to specific purposes as approved through a resolution by the Commissioners' Court which is the highest level of decision making authority of the County. Once amounts are reported as committed, the amounts cannot be used for any other purposes unless the Commissioners' Court approves a resolution to remove or change the constraint.
- **Assigned fund balance** – amounts the County intends to use for a specific purpose. Management Intent can be expressed by Commissioners' Court or by the County Judge to whom the authority to assign fund balance has been give through the County's Fund Balance policy approved by the Commissioner's Court.
- **Unassigned fund balance** - includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. The General Fund is the only fund that is allowed to have positive amounts reported in this category.

For the purpose of fund balance classification, expenditures incurred in the unrestricted fund balances shall be reduced first from the committed fund balance, then from the assigned fund balance and lastly, the unassigned fund balance.

N. Restricted/Unrestricted Net Position and Fund Balances

It is the County's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted/unassigned net position/fund balance are available.

O. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures when consumed rather than when purchased.

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. The cost of prepaid items are recorded as expenditures when consumed rather than when purchased.

P. Reclassifications

Certain reclassifications to prior year balances have been made to conform to current year presentation. Such reclassifications have had no effect on the excess of revenues over expenditures.

Q. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

R. Pension

The County reports a liability for pension obligations and related deferred outflows/inflows of resources in accordance with generally accepted accounting principles. Changes in the net pension liability from year-to-year will be recognized as pension expense on the statement of activities or reported as deferred outflows/inflows of resources, depending on the type of change. Deferred inflows/outflows of resources are amounts that are not entirely recognized when they occur and are recognized over a period of time.

S. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government has two items that qualifies for reporting as deferred outflows of resources.

- Deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred outflows of resources for pension reported in the government-wide statement of net position. This deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees).

In addition to liabilities, the governmental fund balance sheet and statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has two items that qualify for equity as deferred inflows of resources.

- The governmental funds report unavailable revenues - property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- The deferred inflows of resources is reported on the government-wide statement of net position. The deferred inflows is related to pension and they are results primarily from (1) changes in actuarial assumption; and (2) differences between expected and actual actuarial experiences. These pension related deferred inflows will be amortized over the expected remaining service lives of all employees that are provided with pensions.

T. New Accounting Standards

In the current fiscal year, the County implemented the following new standards. The applicable provisions of these new standards are summarized here. Implementation is reflected in the financial statements and the notes to the financial statements.

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

T. New Accounting Standards (continued)

GASB Statement No. 77, *Tax Abatement Disclosures*, requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues.

GASB Statement 82, *Pension Issues-An amendment of GASB Statements No. 67, No. 68 and No. 73*, addresses the presentation of payroll-related measures in required supplementary information, selection of assumptions and the treatment of deviations from the guidance in an actuarial standard of practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements.

Note 2 - Deposits (Cash) and Investments

A. Authorization for Deposits and Investments

The County reports all investments at fair value based on quoted market prices at year-end date. The County categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the County.

In accordance with applicable statutes, the County has a depository contract with an area bank (depository) providing for interest rates to be earned on deposited funds and for banking charges the County incurs for banking services received. The County may place funds with the depository in interest and non-interest bearing accounts. State law provides that collateral pledged as security for bank deposits must have a market value of not less than the amount of the deposits and must consist of: (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas; and/or (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent. County policy requires the collateralization level to be at least 100% of market value of principal and accrued interest.

Commissioners Court has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995 (Chapter 2256, Texas Government Code). The investments of the County are in compliance with this policy. State statutes authorize the County to invest in fully collateralized or insured time deposits, direct debt obligations of the United States, and certain repurchase agreements. Investments in security repurchase agreements are authorized when the investment has a defined termination date, is secured by obligations described in the Public Funds Investment Act, is pledged to the County, is deposited with a third party selected and approved by the entity, and is placed through a primary government securities dealer or national bank domiciled in the State of Texas. The County did not invest in repurchase agreements for the year ended September 30, 2017.

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2 - Deposits (Cash) and Investments

A. Authorization for Deposits and Investments (continued)

The County's cash and investments are classified as: cash and cash equivalents, and investments. Cash and cash equivalents include cash on hand, and deposits with financial institutions.

At September 30, 2017, the County's cash deposits of \$3.0 million, certificate of deposits of \$6.1 million, and \$1.5 million money market are either insured by FDIC or covered by collateral held by the County's agent in the County's name.

B. Deposit and Investment Amounts

The following schedule shows the County's recorded cash, cash equivalents and investments at year-end, excluding Agency Funds:

	<u>Total Fair Value</u>
Cash deposits	\$ 2,975,724
Certificate of Deposits	6,131,183
Money Market Accounts	1,498,749
Total cash and investment	<u>\$ 10,605,656</u>

The County's investments are certificates of deposit accounts at Citizen's Bank and Commercial Bank of Texas and a money market account at Commercial Bank of Texas. Investment's fair value measurement at year-end are as follows:

<u>Investments</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		<u>Inputs</u>	<u>Inputs</u>	<u>Inputs</u>
Certificates of Deposit	\$ 6,131,183	\$ -	\$ 6,131,183	\$ -
Money Market	1,498,749	-	1,498,749	-
Total	<u>\$ 7,629,932</u>	<u>\$ -</u>	<u>\$ 7,629,932</u>	<u>\$ -</u>

Interest Rate Risk

In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the average dollar weighted maturity of its investment portfolios to a maximum of 90 days.

At year-end, the County had the following investments subject to interest rate risk disclosure, under U.S. generally accepted accounting principles:

	<u>Fair Value</u>	<u>Weighted</u> <u>Average</u> <u>Maturity</u> <u>(days)</u>	<u>Percentage</u> <u>of Total</u> <u>Portfolio</u>
Certificate of Deposits	\$ 6,131,183	22	80.4%
Money Market Accounts	1,498,749	1	19.6%
Total Fair Value	<u>\$ 7,629,932</u>		
Portfolio weighted average maturity		<u>18</u>	

Portfolio maturities will be structured to meet the obligations of the County first and then to achieve the highest rate of return of interest. When the County has funds not required to meet current-year obligations, maturity restraints will be imposed based upon the investment strategy for the group of funds.

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2 - Deposits (Cash) and Investments (continued)

Concentration of Credit Risk

It is the County's policy to diversify its portfolio to eliminate the risk of loss resulting from a concentration of assets in a specific maturity, a specific issuer or a specific class of investments.

It is the County's policy to select investments in order to provide stability of income and reasonable liquidity.

Note 3 - Receivables

Receivables, including applicable allowances for uncollectible accounts, as of September 30, 2017, were as follows:

	<u>Governmental Activities</u>			Total
	General	Road and Bridge	Other Governmental Funds	
Receivables:				
Taxes	\$ 816,895	\$ 171,642	\$ 93,113	\$ 1,081,650
Grants	97,076	-	56,090	161,490
Other	28,819	44,130	32,288	96,913
Gross receivables	<u>942,790</u>	<u>215,772</u>	<u>181,491</u>	<u>1,340,053</u>
Less: allowance for uncollectibles	(32,676)	(6,866)	(3,709)	(43,251)
Total	<u>\$ 910,114</u>	<u>\$ 208,906</u>	<u>\$ 177,782</u>	<u>\$ 1,296,802</u>

Note 4 - Property Taxes

The County's tax year covers the period October 1 through September 30. The County's property taxes are levied annually in October on the basis of the Nacogdoches Central Appraisal District's (CAD) assessed values as of January 1 of that calendar year. Such taxes become delinquent on February 1 of the subsequent calendar year. The CAD establishes appraised values at 100% of market value less exemptions. The County's property taxes are billed and collected by the County's Tax Assessor/Collector.

A. 2016-17 Tax Year

Property taxes are prorated between the General and Debt Service Funds based on rates adopted for the year of the levy. For the 2017 fiscal year (2016 tax year), the County levied property taxes of \$0.60650 per \$100 of assessed valuation. The 2016 rates resulted in total tax levies of approximately \$17.8 million based on a total adjusted valuation of approximately \$3.06 billion. The total tax rate in the 2016 tax year was prorated as follows:

	<u>Tax Rate</u>
General Fund	\$ 0.45822
Debt Service Fund	0.04905
Road and Bridge	0.09628
Jury	0.00118
Lake Naconiche	0.00178
Total	<u>\$ 0.60650</u>

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4 - Property Taxes (continued)

B. Nacogdoches Central Appraisal District

The Nacogdoches Central Appraisal District (CAD), a separate governmental entity, is responsible for the recording and appraisal of property for all taxing units in the County.

The CAD is required by state law to assess property at 100% of its appraised value. Further, real property must be appraised at least every four years. Under certain circumstances, the taxpayers and taxing units, including the County, may challenge orders of the CAD's Appraisal Review Board through various appeals and, if necessary, legal action may be taken.

The Commissioners Court will continue to set the tax rates on the property. State law also provides that, if approved by the qualified voters in the County, collection functions may be assigned to the CAD.

Note 5 - Interfund Activity

During the year, cash advances are occasionally made between funds for various projects and situations, which create receivables and payables between these funds. Interfund balances are expected to be paid within one year. At September 30, 2017, the Interfund receivables and payables outstanding are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 31,393	\$ -
Non-major Governmental Funds	-	31,393
Total Governmental Activity	<u>\$ 31,393</u>	<u>\$ 31,393</u>

Interfund transfers

Transfers totaling \$129,055 were made during the year primarily for the purpose of moving unrestricted fund revenues to finance various programs that the government must account for in other funds in accordance with the budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 129,055
Non-major Governmental Funds	129,055	-
	<u>\$ 129,055</u>	<u>\$ 129,055</u>

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 6 - Capital Assets

A summary of changes in the primary government's capital assets for the year ended September 30, 2017, follows:

	Primary Government			
	10/1/2016	Additions	Reclassifications/ Decreases	Balance 09/30/17
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 2,353,904	\$ -	\$ -	\$ 2,353,904
Construction in progress	17,400	56,766	-	74,166
Total capital assets not being depreciated	<u>2,371,304</u>	<u>56,766</u>	<u>-</u>	<u>2,428,070</u>
Capital assets being depreciated:				
Land improvements	3,452,891	-	-	3,452,891
Buildings and improvements	27,628,216	69,072	-	27,697,288
Infrastructure	30,474,115	1,110,549	-	31,584,664
Machinery and equipment	9,205,615	430,617	(813,010)	8,823,222
Capital leases assets	3,391,939	261,860	-	3,653,799
Total other capital assets	<u>74,152,776</u>	<u>1,872,098</u>	<u>(813,010)</u>	<u>75,211,864</u>
Accumulated depreciation for:				
Land improvements	(527,005)	(69,058)	-	(596,063)
Buildings and improvements	(11,014,707)	(771,067)	-	(11,785,774)
Infrastructure	(12,519,476)	(899,896)	-	(13,419,372)
Machinery and equipment	(6,332,902)	(504,785)	614,374	(6,223,313)
Capital leases assets	(619,434)	(370,305)	-	(989,739)
Total accumulated depreciation	<u>(31,013,524)</u>	<u>(2,615,111)</u>	<u>614,374</u>	<u>(33,014,261)</u>
Total capital assets being depreciated, net	43,139,252	(743,013)	(198,636)	42,197,603
Total Net Capital Assets	<u>\$ 45,510,556</u>	<u>\$ (686,247)</u>	<u>\$ (198,636)</u>	<u>\$ 44,625,673</u>

Depreciation expenses were charged to the following functions in the statement of activities:

General Administration	\$ 413,524
Judicial and Law Enforcement	409,574
Highway and Street	1,050,806
Health & Welfare	373,584
Culture and Recreation	367,623
Total Depreciation Expense	<u>\$ 2,615,111</u>

Construction in progress as of September 30, 2017, consisted of the following projects and remaining commitments:

<u>Project</u>	<u>Authorized Construction</u>	<u>Total in Progress</u>	<u>Remaining Commitment</u>
Nacogdoches County Truck Weigh/Inspection Facility			
Survey - Opperman Surveying	\$ 2,400	\$ 2,400	\$ -
Land Clearing - Drewery Construction	15,000	15,000	-
Engineer - Goodwin Lasiter Strong execute 11/22/16	66,950	52,266	14,684
Engineer, Geotechnical - Terracon Consultants 1/9/17	4,500	4,500	-
Construction Manager-At-Risk - 10/25/17	608,402	-	608,402
	<u>\$ 697,252</u>	<u>\$ 74,166</u>	<u>\$ 623,086</u>

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 7 - Long-Term Debt

A. General Obligation Bonds and Certificates of Obligation

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Long-term bonded debt at September 30, 2017, is as follows:

<u>Original Issue</u>	<u>Description</u>	<u>Interest Rate %</u>	<u>Matures</u>	<u>Debt Outstanding</u>
\$ 4,400,000	Tax & Solid Waste Rev C/O Series 2006	3.93	2026	\$ 2,445,000
5,160,000	2012 Refunding Bonds	2.0-3.0	2024	3,750,000
2,589,000	2014 Refunding Bonds	1.5	2019	<u>1,177,000</u>
	Total General Obligation Bonds			<u><u>7,372,000</u></u>

A summary of long-term liability transactions of the County for the year ended September 30, 2017, follows:

	<u>October 1, 2016</u>			<u>September 30, 2017</u>	
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>	<u>Amounts Due Within One Year</u>
Certificates of obligation	\$ 2,670,000	\$ -	\$ 225,000	\$ 2,445,000	\$ 230,000
Refunding bonds	6,076,000	-	1,149,000	4,927,000	1,173,000
Premium on bonds	164,095	-	21,173	142,922	-
Total bonds payable	<u>8,910,095</u>	<u>-</u>	<u>1,395,173</u>	<u>7,514,922</u>	<u>1,403,000</u>
Capital leases	1,926,909	261,778	467,283	1,721,404	425,324
Compensated absences	352,455	657,413	669,013	340,855	113,618
Total Long-Term Liabilities	<u>\$ 11,189,459</u>	<u>\$ 919,191</u>	<u>\$ 2,531,469</u>	<u>\$ 9,577,181</u>	<u>\$ 1,941,942</u>
				<u>\$ 7,635,321</u>	
				Total Long-term liabilities due in more than one year	

General obligation debt is paid from the debt service fund. In prior years, the general fund's resources have been used to liquidate other long-term liabilities, including accrued compensated absences. Capital Leases will be paid from the General fund and Road and Bridge fund.

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 7 - Long-Term Debt (continued)

A. General Obligation Bonds and Certificates of Obligation (continued)

Annual debt service requirements (excluding accrued compensated absences) to maturity are summarized as follows:

Year Ending September 30	Principal	Interest	Total
2018	\$ 1,403,000	\$ 207,364	\$ 1,610,364
2019	1,439,000	173,601	1,612,601
2020	730,000	142,155	872,155
2021	755,000	117,509	872,509
2022	780,000	92,019	872,019
2023	810,000	65,612	875,612
2024	835,000	38,263	873,263
2025	305,000	18,373	323,373
2026	315,000	6,190	321,190
	<u>\$ 7,372,000</u>	<u>\$ 861,084</u>	<u>\$ 8,233,084</u>

B. Capital Lease Obligations

During the year ended September 30, 2017, the County executed one (1) lease agreement classified as capital lease. The County acquired seven patrol vehicles for the Sheriff's Department. The amount capitalized as equipment was \$261,860. The principal amount of the lease was \$261,778. For the fiscal year ended September 30, 2017, the County recorded \$39,279 in depreciation expense for the new capital lease. The lease agreement qualifies as capital lease for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The total minimum lease payments of \$1,810,352 and the amount representing interest of \$88,948 included prior year's capital leases.

		Governmental Activities
Year Ending September 30:	2018	\$ 465,078
	2019	903,887
	2020	376,941
	2021	64,446
	Total minimum lease payments:	1,810,352
	Less: amount representing interest	(88,948)
	Present value of minimum lease payments:	<u>\$ 1,721,404</u>

Note 8 - Retirement Plan

The County provides retirement, disability and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and County Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 624 nontraditional defined benefit pension plans. TCDRS, in the aggregate, issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8 - Retirement Plan (continued)

The plan provisions are adopted by the County’s Board of Commissioners (the “Board”), within the options available in the Texas state statutes governing TCDRS (“TCDRS Act”). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any County financed benefit. Vested members are eligible for a partial lump-sum payment option.

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

Funding Policy

The County 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 County based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the County is actuarially determined annually as a percentage of employee earnings subject to plan changes (e.g. for cost -of-living benefit increases) adopted by the County’s governing body within the constraints of the TCDRS Act. The County contributed using the actuarially determined rate of 10.52% for October through December 2016, and 10.69% for January through September 2017.

The employee contribution rate is also a percentage of employee earnings subject to adjustment by the County’s Board within the constraints of the TCDRS Act. The employee contribution rate was 7% during the current fiscal year.

Actuarial Assumptions

The actuarial assumptions that determined the total pension liability as of December 31, 2016 were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68.

The following are the key assumptions and methods applied to this measurement period:

Valuation Date	December 31, 2016
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	3.0%
Salary Increases	3.5%
Investment Rate of Return	8.10%
Cost-of-Living Adjustments	Cost-of-Living Adjustments for Nacogdoches County are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of- living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Turnover	New employees are assumed to replace any terminated members and have similar entry ages.

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8 - Retirement Plan (continued)

Discount Rate

The discount rate used to measure the total pension liability was 8.10%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments is 8.10%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the systems target asset allocation as of December 31, 2016 are summarized below:

Asset Class	Benchmark	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	Dow Jones U.S. Total Stock Market Index	13.50%	4.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index	16.00%	7.70%
Global Equities	MSCI World (net) Index	1.50%	5.00%
International Equities - Developed	MSCI World Ex USA (net)	10.00%	4.70%
International Equities - Emerging	MSCI EM Standard (next) index	7.00%	5.70%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	0.60%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.70%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	3.83%
Direct Lending	S&P?LSTA Leveraged Loan Index	10.00%	8.15%
Distressed Debt	Cambridge Associates Distressed Securities Index	3.00%	6.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FTSE EPRA/NAREIT Global Real Estate Index	2.00%	3.85%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.60%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index	6.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	20.00%	3.85%

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8 - Retirement Plan (continued)

Changes in Net Pension Liability

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability / (Asset)
Balance at 12/31/2015	\$ 47,096,217	\$ 42,215,702	\$ 4,880,515
Changes for the year:			
Service cost	1,513,785	-	1,513,785
Interest on total pension liability	3,783,371	-	3,783,371
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	(21,938)	-	(21,938)
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(130,136)	(130,136)	-
Benefit payments	(2,174,911)	(2,174,911)	-
Administrative expenses	-	(33,950)	33,950
Member contributions	-	794,249	(794,249)
Net investment income	-	3,124,683	(3,124,683)
Employer contributions	-	1,113,386	(1,113,386)
Other	-	92,620	(92,620)
Balance at 12/31/2016	<u>\$ 50,066,388</u>	<u>\$ 45,001,643</u>	<u>\$ 5,064,745</u>

Sensitivity of the County's share of the net pension liability

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

	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	\$ 56,522,062	\$ 50,066,389	\$ 44,709,372
Fiduciary net position	45,001,643	45,001,644	45,001,643
Net pension liability/(asset)	<u>\$ 11,520,419</u>	<u>\$ 5,064,745</u>	<u>\$ (292,271)</u>

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8 - Retirement Plan (continued)

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

At September 30, 2017, the County reported deferred inflows and outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 42,284	\$ 344,451
Changes of assumptions	239,848	-
Net difference between projected and actual earnings	2,600,658	-
Employer contributions made subsequent to measurement date	870,858	-
Totals	\$ 3,753,648	\$ 344,451

The \$870,859 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended September 30, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	Net Deferred Outflows/Inflows of Resources
2018	\$ 875,841
2019	833,558
2020	772,671
2021	56,269
Total	\$ 2,538,339

Note 9 - Contingencies and Commitments

Litigation and Other Contingencies

The County is contingently liable with respect to lawsuits and other claims in the ordinary course of its operations. The settlement of such contingencies under the budgetary process would not materially affect the financial position of the County as of September 30, 2017.

Note 10- Risk Management

The County is exposed to various risks related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The County's risk management program encompasses various means of protecting the County against loss through self-insurance and obtaining property, casualty, and liability coverage through commercial insurance carriers. Settled claims have not exceeded insurance coverage in any of the previous three fiscal years. There has not been any significant reduction in insurance coverage from that of the previous year.

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 11 - Fund Balance Restrictions

Amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors are classified as restricted fund balance. A summary of restricted fund balance in the governmental funds at September 30, 2017, follows:

	Road and Bridge	Other Governmental Funds
Debt Service-payment on debt	\$ -	\$ 337,830
Capital projects		
Acquisition and construction on Lake Naconiche project	-	656,962
Infrastructure improvements	-	809,392
Acquisition of County facilities	-	96,954
	<u>-</u>	<u>1,563,308</u>
Grants		
Voting system program	-	17,049
	<u>-</u>	<u>17,049</u>
Records		
Court System records	-	392,670
County records management and preservation	-	27,740
	<u>-</u>	<u>420,410</u>
Road and Bridge		
Street and bridge maintenance	<u>549,840</u>	<u>-</u>
Public Safety		
Law enforcement	-	14,586
Juvenile programs and probation	-	328,379
Courthouse security	-	13,792
	<u>-</u>	<u>356,757</u>
Judicial		
Law enforcement	-	321,680
Court operations	-	171,679
Maintain law library	-	210,163
	<u>-</u>	<u>703,522</u>
Other		
Lake project	-	51,635
Election services	-	7,538
Veterans memorial	-	13,088
CETRZ Tax Increment	-	173
	<u>-</u>	<u>72,434</u>
Total	<u>\$ 549,840</u>	<u>\$ 3,471,310</u>

NACOGDOCHES COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 12 - Tax Abatements

In March 2014, the County Commissioner's Court approved a resolution electing to become eligible to participate in tax abatement and adopting guidelines and criteria for grant tax abatement. The attraction of long-term investment and the establishment of new jobs in Nacogdoches County would enhance the economic base of the County. The Property Redevelopment and Tax Abatement Act (the "Act") Chapter 312 of the Texas Tax Code authorizes the County to provide property tax abatement for limited periods of time as an inducement for the development or redevelopment of a property. The Act requires eligible taxing jurisdictions to establish guidelines and criteria as to eligibility for tax abatement agreements prior to granting any future tax abatement, said guidelines to be unchanged for a two (2) year period unless amended or repealed by a three-fourths vote of the Court.

The County has developed Guidelines and Criteria for Tax Abatement. All applications must meet the following general criteria before being considered for tax abatement: 1) the tax abatement will comply with Property Redevelopment and Tax Abatement Act Chapter 312 of the Texas Tax Code; 2) the project must reasonably likely to contribute to the retention or expansion of primary employment or attract major investment that will benefit the County's economic development; 3) tax abatement agreements will be considered for both new facilities and structures and for the expansion or modernization of existing facilities and structures; 4) the project expands the local tax base; 5) the project creates or helps maintain permanent full time employment opportunities; 6) the project would not otherwise be developed; 7) the project makes a contribution to enhancing future economic development; 8) the project must remain in good standing with all governmental and environmental regulations; 9) the project has not been started and no construction by applicant has commenced at the time the application is approved; and 10) the project must not have the objections specified in the tax abatement policy. If the project in the application meets the general criteria, is a facility of a Targeted Enterprise and has a capital cost that exceeds One Million and No/100 Dollars (\$1,000,000) then abatement of any or all of the increased value will be considered. The Commissioner's Court will approve or deny a tax abatement request based upon its subjective evaluation of these guidelines and criteria. The Court may in its discretion agree to abate taxes on real property, real property improvements and/or personal property, including equipment, furniture, inventory, and supplies. No tax abatement shall exceed the maximum allowed by state law, presently 100% for ten (10) years.

Currently, the County has seven (7) active tax abatement agreements under contract for tax year 2016. These companies comprise of approximately \$ 357 million in real and personal property values. In tax year 2016, the County abated \$1.7 million in property taxes. Property tax collections from these same companies were \$500 thousand based on \$83 million in real and personal property values.

Note 13 - Subsequent Event

In preparing these financial statements, the County has evaluated events and transactions for potential recognition or disclosure through March 26, 2018, the date on which the financial statements were available to be issued. There were no subsequent events that were required to be recognized or disclosed in the financial statements through that date.

REQUIRED SUPPLEMENTARY INFORMATION

NACOGDOCHES COUNTY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
Year Ended September 30, 2017

	Original Budget	Final Budget	Actual	Variance from Final Budget Positive (Negative)
Revenues				
Taxes	\$ 13,417,727	\$ 13,417,727	\$ 13,637,406	\$ 219,679
Charges for services	813,000	813,000	877,974	64,974
Fees and fines	1,081,590	1,081,590	982,203	(99,387)
Intergovernmental	917,626	955,931	941,767	(14,164)
Earnings on investments	25,500	25,500	46,680	21,180
Miscellaneous	316,432	316,432	438,018	121,586
Total Revenues	16,571,875	16,610,180	16,924,048	313,868
Expenditures				
Current:				
General government				
Commissioners and County Judge	520,323	520,676	469,383	51,293
County clerk	289,645	290,245	285,721	4,524
Veteran's service officer	54,461	54,461	53,025	1,436
Professional services, insurance	806,423	806,423	789,883	16,540
General government-fees-dues	10,485	10,485	7,702	2,783
General programs	59,010	68,010	42,881	25,129
Nondepartmental	400,475	403,398	221,490	181,908
Imaging	61,286	61,286	51,769	9,517
District clerk	365,910	366,186	362,430	3,756
County auditor	326,135	326,135	307,174	18,961
County treasurer	159,777	159,929	158,588	1,341
Computer services	940,145	942,017	844,809	97,208
Building maintenance	479,175	479,175	429,621	49,554
Tax assessor-collector	274,032	274,186	268,154	6,032
Elections	182,318	182,318	182,370	(52)
Personnel department	73,803	74,203	70,291	3,912
Collections department	122,978	123,137	118,542	4,595
Total general government	5,126,381	5,142,270	4,663,833	478,437

NACOGDOCHES COUNTY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
Year Ended September 30, 2017

	Original Budget	Final Budget	Actual	Variance from Final Budget Positive (Negative)
Administration of justice				
County court-at-law	\$ 411,366	\$ 411,634	\$ 408,396	\$ 3,238
145th district court	263,731	263,731	259,369	4,362
420th district court	260,716	260,716	251,661	9,055
Justice of the peace-precinct 1	165,556	165,556	164,860	696
Justice of the peace-precinct 2	155,560	155,560	153,541	2,019
Justice of the peace-precinct 3	116,193	116,193	115,045	1,148
Justice of the peace-precinct 4	167,003	167,003	161,989	5,014
County attorney	821,620	821,620	795,740	25,880
District attorney	648,516	649,036	623,425	25,611
Juvenile probation	180,939	180,939	181,504	(565)
Adult probation	2,700	2,700	1,062	1,638
Public defense - indigent	540,355	540,355	402,696	137,659
Total Administration of justice	3,734,255	3,735,043	3,519,288	215,755
Public safety				
Sheriff	2,317,428	2,323,896	2,227,222	96,674
Jail	3,072,105	3,074,443	2,838,492	235,951
Department of public safety	39,936	39,936	39,912	24
Law enforcement building maintenance	584,050	584,364	500,363	84,001
Constable-precinct 1	264,195	264,353	255,332	9,021
Constable-precinct 2	67,066	113,676	64,056	49,620
Constable-precinct 3	68,375	68,375	68,001	374
Constable-precinct 4	259,547	259,962	252,896	7,066
Rural fire protection	377,298	377,298	375,809	1,489
Emergency management	118,125	129,955	127,551	2,404
Total public safety	7,168,125	7,236,258	6,749,634	486,624

NACOGDOCHES COUNTY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance from Final Budget Positive (Negative)
Health and welfare				
County extension office	\$ 107,961	\$ 107,961	\$ 100,088	\$ 7,873
Special agencies	214,720	214,825	212,221	2,604
Total Health and welfare	<u>322,681</u>	<u>322,786</u>	<u>312,309</u>	<u>10,477</u>
Capital outlay	-	-	261,860	(261,860)
Debt service				
Principal	267,291	267,291	267,206	85
Interest and fiscal charges	<u>12,309</u>	<u>12,309</u>	<u>12,309</u>	-
Total Expenditures	<u>16,631,042</u>	<u>16,715,957</u>	<u>15,786,439</u>	<u>929,518</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(59,167)</u>	<u>(105,777)</u>	<u>1,137,609</u>	<u>1,243,386</u>
Other Financing Sources (Uses)				
Sale of capital assets	70,000	70,000	107,489	37,489
Transfers out	(184,199)	(187,699)	(129,055)	58,644
Proceeds from Capital Lease	-	-	261,860	261,860
Total Other Financing Sources (Uses)	<u>(114,199)</u>	<u>(117,699)</u>	<u>240,294</u>	<u>357,993</u>
Net Changes in Fund Balances	(173,366)	(223,476)	1,377,903	1,601,379
Fund Balances, Beginning of Year	<u>4,702,447</u>	<u>4,702,447</u>	<u>4,702,447</u>	-
Fund Balances, End of Year	<u>\$ 4,529,081</u>	<u>\$ 4,478,971</u>	<u>\$ 6,080,350</u>	<u>\$ 1,601,379</u>

NACOGDOCHES COUNTY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
ROAD AND BRIDGE FUND
For the Year Ended September 30, 2017

	Original Budget	Final Budget	Actual	Variance from Final Budget Positive (Negative)
Revenues				
Taxes	\$ 2,819,144	\$ 2,819,144	\$ 2,865,359	\$ 46,215
Charges for Services	884,000	884,000	883,957	(43)
Fees and Fines	137,500	137,500	142,190	4,690
Earnings on investments	1,400	1,400	3,349	1,949
Miscellaneous	2,000	2,000	4,209	2,209
Total Revenues	3,844,044	3,844,044	3,899,064	55,020
Expenditures				
Highway and streets	3,596,978	4,293,522	4,077,685	215,837
Debt Service:				
Principal	200,081	200,081	200,077	4
Interest	31,739	31,739	31,739	-
Total Expenditures	3,828,798	4,525,342	4,309,501	215,841
Excess (Deficiency) of Revenues Over (Under) Expenditures	15,246	(681,298)	(410,437)	270,861
Other Financing Sources (Uses)				
Sale of capital assets	-	-	23,500	23,500
Total Other Financing Sources (Uses)	-	-	23,500	23,500
Net Changes in Fund Balances	15,246	(681,298)	(386,937)	294,361
Fund Balances - Beginning of Year	946,723	946,723	946,723	-
Fund Balances - End of Year	\$ 961,969	\$ 265,425	\$ 559,786	\$ 294,361

NACOGDOCHES COUNTY, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

1. The County Judge and Commissioners' Court have departmental meetings with management to determine the departmental budget requests.
2. The County Judge and Commissioners must meet in several workshops to establish a proposed budget for the fiscal year commencing the following October. The operational budget includes proposed expenditures and the means of financing them. The proposed budget is filed with County Clerk and made available for public inspection at least 15 days prior to public budget hearing.
3. Public hearings are conducted to obtain taxpayer comments.
4. After the public hearings, the Commissioners' Court reviews the budget and makes any adjustments they feel necessary.
5. The budget is then legally enacted by the Commissioners' Court on or before October 1, in the timeframe required by statute.

Only the governing body, composed of the Commissioners' Court, may amend the budget after its adoption so long as the amendment continues to meet the requirements of Section 111 of the *Local Government Code*. During the year, several supplementary amendments to the original budget were required. Individual amendments were not material in relation to the original appropriations, and all amendments were legally made. The budget amounts shown in the combined financial statements represent the budget as amended at September 30, 2017. Under state statute, actual expenditures cannot exceed budgetary appropriations at any level for which the budget is formally approved. The County's legally adopted budget is at the department level in those funds with multiple departments and at the fund level in single department funds. Management can, with the exception of personnel items, make adjustments to their budget within the departmental level with Commissioners' Court approval. All budgets are fixed in nature. All governmental funds except for one Special Revenue Fund has a legally adopted budget. For internal management purposes, the budgets are detailed by line item and entered into the accounting records. Comparisons of actual expenditures to budget are made on an ongoing basis. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budget appropriations lapse at year-end. All encumbrances lapse at year-end.

One Special Revenue Fund does not issue a budget. The one Special Revenue fund with no budget comparison is County Unearned Fund.

NACOGDOCHES COUNTY, TEXAS
TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSIONS LIABILITY AND RELATED RATIOS
For the Last Three Measurement Years

	Year Ended December 31		
	2016	2015	2014
Total Pension Liability			
Service cost	\$ 1,513,785	\$ 1,397,202	\$ 1,332,841
Interest on total pension liability	3,783,371	3,598,136	3,357,254
Effect of plan changes	-	(268,129)	-
Effect of assumption changes or inputs	-	479,695	-
Effect of economic/demographic (gains) or losses	(21,938)	(655,994)	169,135
Benefit payments/refunds of contributions	(2,305,046)	(2,133,257)	(1,912,363)
Net change in total pension liability	2,970,172	2,417,653	2,946,867
Total pension liability, beginning	47,096,217	44,678,564	41,731,697
Total pension liability, ending (a)	<u>\$ 50,066,389</u>	<u>\$ 47,096,217</u>	<u>\$ 44,678,564</u>
Fiduciary Net Position			
Employer contributions	\$ 1,113,386	\$ 1,074,841	\$ 1,050,271
Member contributions	794,249	732,644	707,595
Investment income net of investment expenses	3,124,683	(133,178)	2,750,243
Benefit payments/refunds of contributions	(2,305,046)	(2,133,257)	(1,912,363)
Administrative expenses	(33,950)	(30,560)	(31,914)
Other	92,620	(17,769)	57,034
Net change in fiduciary net position	2,785,942	(507,279)	2,620,866
Fiduciary net position, beginning	42,215,702	42,722,981	40,102,115
Fiduciary net position, ending (b)	<u>\$ 45,001,644</u>	<u>\$ 42,215,702</u>	<u>\$ 42,722,981</u>
Net pension liability / (asset), ending = (a) - (b)	<u>\$ 5,064,745</u>	<u>\$ 4,880,515</u>	<u>\$ 1,955,583</u>
Fiduciary net position as a % of total pension liability	89.88%	89.64%	95.62%
Pensionable covered payroll	\$ 10,922,166	\$ 10,455,687	\$ 10,108,497
Net pension liability as a % of covered payroll	46.37%	46.68%	19.35%

GASB No. 68 and GASB No. 71 were implemented during the fiscal year ended September 30, 2015. Ten years of data should be presented in the schedule, but data was unavailable prior to 2014.

NACOGDOCHES COUNTY, TEXAS
TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Last Ten Fiscal Years

Year Ending September 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll ⁽¹⁾	Actual Contribution as a % of Covered Payroll
2007	\$ 637,942	\$ 637,942	-	\$ 7,686,045	8.3%
2008	670,401	670,401	-	8,740,555	7.7%
2009	750,839	750,839	-	9,688,241	7.8%
2010	884,636	884,636	-	10,052,686	8.8%
2012	924,056	924,056	-	9,935,534	9.3%
2013	949,780	949,780	-	9,609,872	9.9%
2014	1,049,029	1,049,029	-	10,108,497	10.4%
2015	1,096,895	1,096,895	-	10,455,687	10.5%
2016	1,147,468	1,147,468	-	10,922,166	10.5%
2017	1,130,714	1,130,714	-	10,860,775	10.4%

⁽¹⁾ Payroll is calculated based on contributions as reported to TCDRS.

NACOGDOCHES COUNTY, TEXAS

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

Schedule of Methods and Assumptions Used to Determine Contribution Rates:

Valuation Date	December 31, 2016
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	3.0%
Salary Increases	3.5%
Investment Rate of Return	8.1% including inflation
Cost-of-Living Adjustments	Cost-of-Living Adjustments for Nacogdoches County are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of- living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Turnover	New employees are assumed to replace any terminated members and have similar entry ages.