

Van Zandt County Appraisal District

**Financial Statements
And Independent Auditor's Report**

As of December 31, 2016

Van Zandt County Appraisal District
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**UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION**

Independent Auditor's Report

**Board of Directors
Van Zandt County Appraisal District
Canton, Texas**

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of December 31, 2016, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison and net pension liability information on pages 3 through 7, 12, 14, 15 and 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 3, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

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

February 3, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

The District's total net position was \$558 thousand at December 31, 2016. During the year, the District's revenue exceeded expenditures by \$6 thousand.

The total cost of all the District's activities was \$1.4 million. Expenses were \$18 thousand less than budgeted.

The general fund balance is \$77 thousand at December 31, 2016.

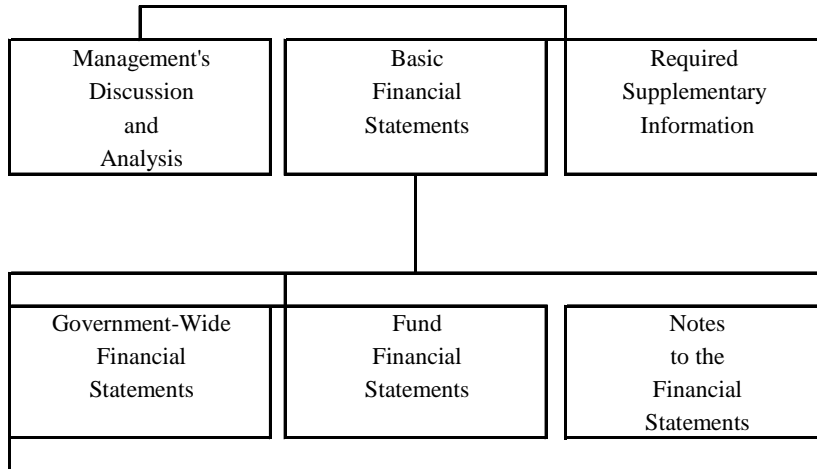
The District continues to have no long-term debt.

The District plans to refund the participating entities \$6 thousand. The remaining general fund balance is reserved for future periods.

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

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

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



Summary ⇔ Detail

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

types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the District's Government-wide Fund Financial Statements

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

Government-wide Statements

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

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

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

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

Fund Financial Statements

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

The District has one fund:

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position.

The District's combined net position were approximately \$559 thousand at December 31, 2016, an increase from \$42 thousand at December 31, 2015.

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

| | Governmental Activities | |
|--------------------------------|----------------------------|------------|
| | 2016 | 2015 |
| Current and other assets | 77 | 71 |
| Capital and non-current assets | 406 | 400 |
| TOTAL ASSETS | <u>483</u> | <u>471</u> |
| DEFERRED OUTFLOWS OF RESOURCES | 205 | 46 |
| Long-term liabilities | - | - |
| Other liabilities | 129 | - |
| TOTAL LIABILITIES | <u>129</u> | <u>-</u> |
| | | |
| Invested in capital assets | 406 | 400 |
| Reserved | 71 | 65 |
| Unrestricted | 82 | 52 |
| TOTAL NET POSITION | <u>559</u> | <u>517</u> |

Net position invested in capital assets net of related debt reflects the book value of the District's capital assets in excess of the debt which financed those assets. Remaining net position is available to fund the programs of the District for future fiscal years or be returned to representative entities.

Changes in net position.

The District's total revenues were \$1.4 million as detailed below.

The total cost of all programs was \$1.4 million. Approximately 66% of this was for salaries and benefits.

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

| | Governmental Activities | |
|--|----------------------------|--------------|
| | 2016 | 2015 |
| Revenues | | |
| <u>Program Revenues</u> | | |
| Charges for Services | 1,395 | 1,358 |
| Operating Grants and Contributions | - | - |
| <u>General Revenues</u> | | |
| Investment earnings | 1 | - |
| Other | 7 | 8 |
| Total Revenues | <u>1,403</u> | <u>1,366</u> |
| | | |
| Expenses | | |
| Tax appraisal and collection | 1,386 | 1,374 |
| Total Expenses | <u>1,386</u> | <u>1,374</u> |
| | | |
| Refunds to entities | 5 | 17 |
| | | |
| Increase (Decrease) in Net Position | 12 | (25) |
| Beginning Net Position | 517 | 505 |
| Prior Period Adjustments | 29 | 37 |
| Ending Net Position | <u>558</u> | <u>517</u> |

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District reported fund balance in its governmental funds of approximately \$77 thousand at December 31, 2016. Revenues were more than expenditures by \$6 thousand.

General Fund Budgetary Highlights

The budget was amended as needed. \$1.4 million was budgeted to be spent. \$1.4 million was actually spent.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table A-3
District's Capital Assets
(in thousands of dollars)

| | Governmental Activities | |
|-----------------------------------|----------------------------|-------------------|
| | 2016 | 2015 |
| Land | <u>11</u> | <u>11</u> |
| Building and improvements | 502 | 502 |
| Furniture, fixtures and equipment | <u>321</u> | <u>337</u> |
| Totals at historical cost | <u>834</u> | <u>850</u> |
| Total accumulated depreciation | <u>(428)</u> | <u>(450)</u> |
| Net capital assets | <u><u>406</u></u> | <u><u>400</u></u> |

Long-Term Debt

The District has no long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's Board and management considered many factors when setting the 2017 budget. Growth and economic conditions were considered. It is anticipated that the equity position will continue to remain about the same. The financial position will remain adequate to meet the needs of the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

GOVERNMENT WIDE STATEMENTS

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

| | Governmental Activities |
|--|----------------------------|
| ASSETS | |
| Current assets | |
| Cash and cash equivalents | 77,303 |
| Capital assets | |
| Land | 10,994 |
| Building and improvements | 501,637 |
| Furniture, fixtures and equipment | 320,998 |
| Accumulated depreciation | (427,617) |
| Total capital assets | <u>406,012</u> |
| Total Assets | <u>483,315</u> |
| DEFERRED OUTFLOW OF RESOURCES | |
| Deferred resource outflow TCDRS | <u>204,757</u> |
| LIABILITIES | |
| Current liabilities | |
| Accounts payable and accrued expenses | - |
| Total current liabilities | <u>-</u> |
| Non-current liabilities--net pension liability | <u>129,581</u> |
| Total Liabilities | <u>129,581</u> |
| POSITION | |
| Invested in capital assets | 406,012 |
| Reserved | 70,817 |
| Unrestricted | 81,662 |
| Total Net Position | <u><u>558,491</u></u> |

The accompanying notes are an integral part of this statement.

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

| | <u>Program Revenues</u> | | | Net (Expense) |
|---|-------------------------|--------------------|----------------------|-----------------------|
| | | Operating | | Revenue and |
| | <u>Expenses</u> | <u>Charges for</u> | <u>Grants and</u> | Changes in |
| | | <u>Services</u> | <u>Contributions</u> | Net Position |
| | | | | <u>Governmental</u> |
| | | | | <u>Activities</u> |
| Primary Government: | | | | |
| GOVERNMENTAL ACTIVITIES | | | | |
| Tax appraisal | 1,081,435 | 1,091,316 | - | 9,881 |
| Collections and certificates | 304,494 | 304,145 | - | (349) |
| Total primary government | <u>1,385,929</u> | <u>1,395,461</u> | <u>-</u> | <u>9,532</u> |
| General Revenues | | | | |
| Investment earnings | | | | 1,074 |
| Miscellaneous | | | | 6,752 |
| Total General Revenues | | | | <u>7,826</u> |
| Other Sources (Uses)-- refund to entities | | | | <u>(5,241)</u> |
| Changes in Net Position | | | | 12,117 |
| Net Position -- Beginning | | | | 517,727 |
| Prior Period Adjustment | | | | 28,647 |
| Net Position -- Ending | | | | <u><u>558,491</u></u> |

The accompanying notes are an integral part of this statement.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

| | <u>General Fund</u> |
|---------------------------------------|-------------------------|
| ASSETS | |
| Cash and cash equivalents | 77,303 |
| Total assets | <u>77,303</u> |
| LIABILITIES | |
| Accounts payable and accrued expenses | - |
| Total liabilities | <u>-</u> |
| FUND BALANCE | |
| Reserved | 70,817 |
| Fund balance-unreserved | 6,486 |
| Total fund balance | <u>77,303</u> |
| Total liabilities and fund balance | <u>77,303</u> |

The accompanying notes are an integral part of this statement.

Van Zandt County Appraisal District
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
 For the year ended December 31, 2016

| | |
|--|-----------------------|
| Total Fund Balances - Governmental Funds | 77,303 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$850,043 and the accumulated depreciation was \$449,738. The net effect of including the beginning balances for capital assets (net of depreciation) is to increase net position. | 400,305 |
| The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. | (57,951) |
| Capital outlay 2016. (see Note I.f.1.) | 63,658 |
| Effect of net pension obligation required by GASB 68 and 71. | <u>75,176</u> |
| Net Position, of Governmental Activities | <u><u>558,491</u></u> |

The accompanying notes are an integral part of this statement.

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

| | Budget* | Actual | Variance Favorable (Unfavorable) |
|--|------------------|------------------|--|
| REVENUE | | | |
| Appraisal fees and collection fees | 1,381,781 | 1,381,781 | - |
| Interest income and other | 28,100 | 21,505 | (6,595) |
| Total revenue | 1,409,881 | 1,403,286 | (6,595) |
| EXPENDITURES | | | |
| Personnel services | 982,701 | 970,832 | 11,869 |
| Purchase & contract services | 235,280 | 250,138 | (14,858) |
| Supplies | 75,000 | 64,343 | 10,657 |
| Other | 103,900 | 98,748 | 5,152 |
| Capital outlay | 13,000 | 7,574 | 5,426 |
| Total expenditures | 1,409,881 | 1,391,635 | 18,246 |
| Excess of revenues over (expenditures) | - | 11,651 | 11,651 |
| Fund balance at beginning of year | 70,893 | 70,893 | - |
| Refund to entities | - | (5,241) | (5,241) |
| Fund balance at end of year | 70,893 | 77,303 | 6,410 |

*The original budget was not amended significantly in total.

The accompanying notes are an integral part of this statement.

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

| | |
|---|----------------------|
| Total Net Change in Fund Balances - Governmental Funds | 6,410 |
| Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position. | (57,951) |
| Capital outlay 2016. (see Note I.f.1.) | 63,658 |
| Effect of recording net pension obligation GASB 68 and 71. | <u>-</u> |
| Change in Net Position of Governmental Activities | <u><u>12,117</u></u> |

The accompanying notes are an integral part of this statement.

Van Zandt County Appraisal District
STATEMENT OF APPRAISAL REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE--BUDGET AND ACTUAL
GENERAL FUND

For the year ended December 31, 2016

| | Budget* | Actual | Variance Favorable (Unfavorable) |
|--|-----------|-----------|--|
| REVENUE | | | |
| Appraisal fees | 1,091,316 | 1,091,316 | - |
| Interest income and other | 6,850 | 4,261 | (2,589) |
| Total revenue | 1,098,166 | 1,095,577 | (2,589) |
| EXPENDITURES | | | |
| Personnel services | 769,824 | 753,436 | 16,388 |
| Purchase & contract services | 183,024 | 191,331 | (8,307) |
| Supplies | 40,050 | 34,832 | 5,218 |
| Other | 97,268 | 94,292 | 2,976 |
| Capital outlay | 8,000 | 5,832 | 2,168 |
| Total expenditures | 1,098,166 | 1,079,723 | 18,443 |
| Excess of revenues over (expenditures) | - | 15,854 | 15,854 |
| Fund balance at beginning of year | 67,745 | 67,745 | - |
| Refund to entities | - | (5,241) | 5,241 |
| Fund balance at end of year | 67,745 | 78,358 | 10,613 |

*The original budget was not amended significantly in total.

The accompanying notes are an integral part of this statement.

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

| | Budget* | Actual | Variance Favorable (Unfavorable) |
|---|---------|---------|--|
| REVENUE | | | |
| Collection fees | 290,465 | 290,465 | - |
| Interest income and other | 21,250 | 17,244 | (4,006) |
| Total revenue | 311,715 | 307,709 | (4,006) |
| EXPENDITURES | | | |
| Personnel services | 212,877 | 217,396 | (4,519) |
| Purchase & contract services | 52,256 | 58,807 | (6,551) |
| Supplies | 34,950 | 29,511 | 5,439 |
| Other | 6,632 | 4,456 | 2,176 |
| Capital outlay | 5,000 | 1,742 | 3,258 |
| Total expenditures | 311,715 | 311,912 | (197) |
| Excess of revenues over (expenditures) | - | (4,203) | (4,203) |
| Fund balance (deficit) at beginning of year | 3,148 | 3,148 | - |
| Fund balance (deficit) at end of year | 3,148 | (1,055) | (4,203) |

*The original budget was not amended significantly in total.

The accompanying notes are an integral part of this statement.

Van Zandt County Appraisal District
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

At December 31, 2016, the District has agreements with twenty-four taxing entities to provide property valuations and/or tax collections.

B. FORMATION

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

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

E. FUND ACCOUNTING

The District reports the following major governmental fund:

The General Fund - The general fund is the District's operating fund. It accounts for all financial resources of the District.

F. OTHER ACCOUNTING POLICIES

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

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

Building and improvements are depreciated using the straight line method over estimated useful lives of 30-40 years. Furniture, fixtures and equipment are depreciated similarly over 5-7 years.

2. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
3. In the financial statements, governmental funds report reservations of fund balances that are not available for appropriation or are restricted for a specific purpose. Designations of fund balance represent management plans that are subject to change.
4. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas County & District Retirement System (TCDRS) and additions to/deductions from TCERS's Fiduciary Net Position have been determined on the same basis as they are reported by TCERS. For this purpose, plan contributions are recognized in the period the compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Additional Contractual provisions governing deposits and investments for the District are as follows:

A. DEPOSITS AND INVESTMENTS (continued)

Policies Governing Deposits and Investments

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

1. Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The District’s policy regarding types of deposits allowed and collateral requirements is that the funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping in an amount sufficient to protect the District’s funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (“FDIC”) insurance.

Deposits of the District are insured or collateralized with securities held by the pledging financial institution’s trust department or agent in the name of the District.

At December 31, 2016, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$77,303 and the bank balance was approximately \$110,000. The District's cash deposits at December 31, 2016 and during the year ended December 31, 2016 were covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

In addition, the following is disclosed regarding coverage of combined balances as of December 31, 2016:

- a. Depository: Citizens National Bank
 - b. Securities were pledged by the depository at December 31, 2016.
 - c. Total amount of FDIC coverage as of December 31, 2016 was \$250,000.
2. Custodial Credit Risk – Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Positions in external investment pools are not subject to custodial credit risk. The District has no investments exposed to custodial credit risk at the end of the period.
 3. Interest- rate Risk – Interest-rate risk occurs when potential purchasers of debt securities do not agree to pay face value for these securities if interest rates rise. The District does not purchase investments where the face value is not guaranteed.

B. CAPITAL ASSET ACTIVITY

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

| | Primary Government | | | | Ending Balance |
|-----------------------------------|----------------------|-----------|-------------|-------------|-------------------|
| | Beginning Balance | Additions | Retirements | Adjustments | |
| Governmental Activities: | | | | | |
| Land | 10,994 | - | - | - | 10,994 |
| Expansion project | 302,122 | - | - | - | 302,122 |
| Building | 199,515 | - | - | - | 199,515 |
| Furniture, fixtures and equipment | 337,412 | 63,658 | (80,072) | - | 320,998 |
| Less Accumulated Depreciation | (449,738) | (57,951) | 80,072 | - | (427,617) |
| Governmental Activities Capital | | | | | |
| Assets, Net | 400,305 | 5,707 | - | - | 406,012 |

C. HEALTH CARE COVERAGE

During the year ended December 31, 2016, employees of Van Zandt County Appraisal District were covered by a health insurance plan (the Plan). The District contributed 100% of the health insurance premiums per pay period per employee to the Plan. The District also provides employees coverage for supplemental dental. The employees, at their option, authorized payroll withholdings to pay any premium for their dependents. All contributions were paid to a licensed insurer.

The contract between the District and the licensed insurer is renewable annually and terms of coverage and contribution costs are included in the contractual provisions.

D. COMMITMENTS AND CONTINGENCIES

Various taxpayer appraisal valuation disputes inevitable arise during the year. Most are settled by negotiations during taxpayer meetings with the chief appraiser and/or Appraisal Review Board (ARB), which is appointed by the Board.

E. RETIREMENT PLAN

Plan Description

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

The plan provisions are adopted by the governing body of the District, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service or with 30 years of service regardless of age or when the sum of their age and years of service equals 75 or more. A member is vested after 8 years of service but must leave his accumulated contributions in the plan to receive any employer-financed benefit. If a member withdraws his personal contributions in a lump-sum, he is not entitled to any amounts contributed by the employer.

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

Benefits Provided

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

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

Employees covered by benefit terms.

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

| | |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 5 |
| Inactive employees entitled to but not yet receiving benefits | 7 |
| Active employees | <u>17</u> |
| | 29 |

Contributions

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

Employees for the District were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rate for the District was 8.72% in calendar year 2016. The District's contributions to TCDRS for the year ended December 31, 2016, were \$74,817, and were equal to the required contributions.

Net Pension Liability

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

Actuarial assumptions:

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

| | |
|---------------------------|--|
| Inflation | 3.00% per year |
| Overall payroll growth | 4.90% per year |
| Investment Rate of Return | 8.00% net of pension plan investment expenses, including inflation |

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

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

The long-term expected rate of return on pension plan investments is 8.1%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TCDRS.

E. RETIREMENT PLAN continued

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

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

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.1%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

| | Increase (decrease) | | |
|--|--------------------------------|------------------------------------|------------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balance at December 31, 2014 | \$ 1,634,732 | \$ 1,650,755 | \$ (16,023) |
| Changes for the year: | | | |
| Service cost | 91,627 | - | 91,627 |
| Interest | 134,913 | - | 134,913 |
| Change of benefit terms | (16,315) | - | (16,315) |
| Difference between expected and actual experience | 7,107 | - | 7,107 |
| Changes of assumptions | 28,895 | - | 28,895 |
| Contributions - employer | - | 71,470 | (71,470) |
| Contributions - employee | - | 51,842 | (51,842) |
| Net investment income | - | (25,060) | 25,060 |
| Benefit payments, including refund of employee contributions | (41,268) | (41,268) | - |
| Administrative expense | - | (1,214) | 1,214 |
| Other changes | - | 3,585 | (3,585) |
| Net changes | \$ 204,959 | \$ 59,355 | \$ 145,604 |
| Balance at December 31, 2015 | \$ 1,839,691 | \$ 1,710,110 | \$ 129,581 |

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

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

| | 1% Decrease in Discount Rate 7.10% | Discount Rate 8.10% | 1% Increase in Discount Rate 9.10% |
|----------------------------------|--|------------------------|--|
| District's net pension liability | \$ 337,192 | \$ 129,581 | \$ (44,972) |

Pension Plan Fiduciary Net Position

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

E. RETIREMENT PLAN continued

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

For the year ended September 30, 2016, the District recognized pension expense of \$74,817.

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual economic experience | - | 21,071 |
| Changed is actuarial assumptions | - | 23,116 |
| Difference between projected and actual investment earnings | - | 145,790 |
| Contributions subsequent to the measurement date | - | - |
| Total | - | 189,977 |

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

| Year ended December 31: | |
|-------------------------|--------|
| 2016 | 50,037 |
| 2017 | 50,037 |
| 2018 | 50,037 |
| 2019 | 39,868 |
| 2020 | - |
| Thereafter | - |

F. RISK MANAGEMENT

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

G. CONTINGENT LIABILITIES

The District serves as a custodian of a collection clearing account which is currently held with the Citizens National Bank. The funds in this account represent the collection of taxes for the benefit of the taxing entities within the county and are distributed on the first of the next month following collections. The District acts only as a fiduciary for these funds and therefore they are not included in the balance sheet.

The undistributed funds in the account as of December 31, 2016 were approximately \$2.1 million. The interest earned on the undistributed funds is allocated to the entities as of the last day of February and the last day of August of each year. The Citizens National Bank maintains pledged securities in an amount sufficient to protect these funds on a day to day basis during the period of the contract.

H. RESERVED FUND BALANCE

The District has previously reserved "excess revenues" to be "carried over" for designated use in future budgets. The following is a summary of that reserve activity for the year ended December 31, 2016:

| | |
|--|---------------|
| Reserved fund balance 1/1/16 | 65,000 |
| 2016 excess of revenues over expenditures | 6,186 |
| Planned refund to entities | (6,186) |
| 2016 expenditures from carryover | - |
| Reserved fund balance 12/31/16 | <u>65,000</u> |

I. LITIGATION

The District had no pending litigation at December 31, 2016.

J. PRIOR PERIOD ADJUSTMENTS

The District has adopted GASB Statement No. 68 for pension accounting and reporting. The effect of the required adjustments was to increase/restate beginning net position by \$28,647.

K. SUBSEQUENT EVENTS

The District has evaluated subsequent events through February 3, 2017, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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

| | <u>2014</u> | <u>2015</u> |
|---|-------------------------|-------------------------|
| Total pension liability | | |
| Service Cost | 90,069 | 91,627 |
| Interest (on the Total Pension Liability) | 119,094 | 134,913 |
| Changes of benefit terms | - | (16,315) |
| Difference between expected and actual experience | 25,643 | 7,107 |
| Changes of assumptions | - | 28,895 |
| Benefit payments, including refunds of employee contributions | <u>(51,420)</u> | <u>(41,268)</u> |
| Net change in total pension liability | 183,386 | 204,959 |
| Total pension liability - beginning | <u>1,451,346</u> | <u>1,634,732</u> |
| Total pension liability - ending | <u><u>1,634,732</u></u> | <u><u>1,839,691</u></u> |
| Plan fiduciary net position | | |
| Contributions - employer | 77,368 | 71,470 |
| Contributions - employee | 49,667 | 51,842 |
| Net investment income | 98,068 | (25,060) |
| Benefit payments, including refunds of employee contributions | (51,420) | (41,268) |
| Administrative expense | (1,203) | (1,214) |
| Other | <u>15,277</u> | <u>3,585</u> |
| Net change in plan fiduciary net position | 187,757 | 59,355 |
| Plan fiduciary net position - beginning | <u>1,462,998</u> | <u>1,650,755</u> |
| Plan fiduciary net position - ending | <u><u>1,650,755</u></u> | <u><u>1,710,110</u></u> |
| Net pension liability | <u><u>(16,023)</u></u> | <u><u>129,581</u></u> |
| Plan fiduciary net position as a percentage of the total pension liability | 100.98% | 92.96% |
| Covered-employee payroll | 709,529 | 740,600 |
| Net pension liability as a percentage of covered employee payroll | -2.26% | 17.50% |

NOTES:

Changes of benefit terms

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

Changes of assumptions

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

INTERNAL CONTROL SECTION



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

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

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Van Zandt County Appraisal District
Canton, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Van Zandt County Appraisal District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 3, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully Submitted,

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

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

February 3, 2017

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

| | |
|--|-------------|
| Type of Report on Financial Statements: | Unqualified |
| Reportable Conditions: | None |
| Material Weaknesses Involving Reportable Conditions: | None |
| Noncompliance Material to the Financial Statements: | None |
| Questioned Costs: | None |

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

N/A

Van Zandt County Appraisal District
CORRECTIVE ACTION PLAN
For the year ended December 31, 2016

N/A