

FRANKLIN COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2016

**PREPARED BY THE COUNTY AUDITOR'S OFFICE
OF FRANKLIN COUNTY, TEXAS**

**FRANKLIN COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016**

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INTRODUCTORY SECTION

**FRANKLIN COUNTY, TEXAS
COUNTY OFFICIALS
DECEMBER 31, 2016**

County JudgeScott Lee

Commissioner Precinct 1 Danny Chitsey

Commissioner Precinct 2 Larkin Jumper

Commissioner Precinct 3Deryl Carr

Commissioner Precinct 4Sam Young

County ClerkBetty Crane

District ClerkEllen Jagers

County Treasurer Sue Ann Harper

County Auditor Tina Phillips

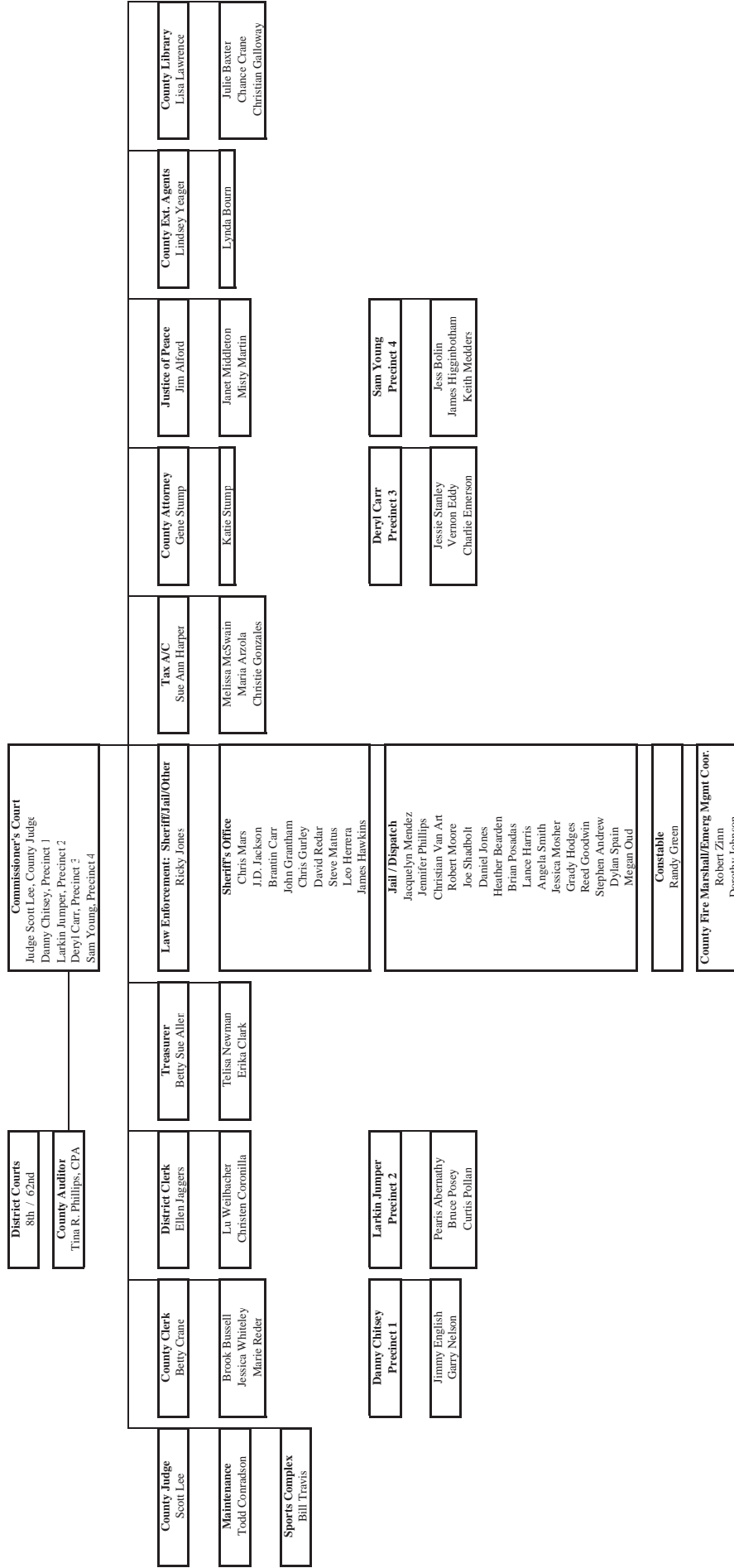
Sheriff Ricky Jones

County Attorney Gene Stump

Justice of the PeaceJim Alford

ConstableRandy Green

FRANKLIN COUNTY, TEXAS
 ORGANIZATIONAL CHART
 DECEMBER 31, 2016



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Honorable Judge and Commissioners
Franklin County, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Franklin County, Texas, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 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, the business-type activities, each major fund, and the aggregate remaining fund information of Franklin County, Texas, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows 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, schedule of changes in net pension liability and related ratios, and schedule of contributions, on pages 3-8 and 41-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Franklin County, Texas' basic financial statements. The introductory section and the combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements 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 fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2017, on our consideration of Franklin County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Franklin County, Texas' internal control over financial reporting and compliance.

Henry E. Peters, PC

Longview, Texas
September 28, 2017



**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

**FRANKLIN COUNTY TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)**

As management of Franklin County (“County”), we offer readers of the Franklin County financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County’s financial statements, which follow this narrative.

Financial Highlights

- The assets of Franklin County exceeded its liabilities at the close of the most recent fiscal year by \$19,197,274 (net position). Of this amount, \$15,369,235 or 80%, is net investment in capital assets which do not directly generate revenue and are not available to generate liquid capital. Net position of \$965,667, or 5%, is restricted for specific purposes including debt service, library use, hotel tax use, court use, attorney use, revolving loans, and the commissary. The remaining \$2,862,372, or 15%, is unrestricted and may be used to meet the government’s ongoing obligations to citizens and creditors.
- The government’s total net position increased by \$98,737, or 1%, excluding prior period adjustments, due to an increase in governmental activities net position.
- As of the close of the current fiscal year, the County’s governmental funds reported combined ending fund balances of \$3,477,333, an increase of \$350,212, or 11%, in comparison with the prior year. A total of \$1,505,693, or 43%, is available for spending at the government’s discretion (unassigned fund balance).
- Franklin County’s long-term obligations increased by \$565,789, or 62%, during the current fiscal year. This increase is due to the increase in net pension liability of \$710,378 less payments made on existing long-term debt. The increase in net pension liability is mainly due to the 2015 market activity of the TCDRS investments.

Overview of 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 consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader’s understanding of the financial condition of the County.

Government-wide Financial Statements

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

The statement of net position presents information on all of County’s assets and liabilities, with the difference between the two reported as net position. Over time, increases and 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.

Revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes). The government-wide financial statements are prepared using the accrual basis of accounting.

Both the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). For audit purposes, the governmental activities of the County include general government, public safety, public works, judicial, parks and recreation, health and public welfare, and the library. The business-type activities of the County include the airport fund.

The government-wide financial statements can be found on pages 9-11.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Once divided into these three categories, each fund is classified as a major fund or a nonmajor fund. A fund is classified as a major fund when it meets each of the two following criteria:

- Total assets, liabilities, revenues or expenditures of that individual governmental or proprietary fund are at least 10% of the corresponding element total (assets, liabilities, revenues or expenditures) for all funds of that category or type (that is total governmental or total proprietary funds).
- The same element that met the 10% criterion above is at least 5% of the corresponding element total for all governmental and proprietary funds combined.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the County's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps to determine if there are more or less financial resources available to finance the County's programs.

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 financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The County adopts an annual budget for its general fund, as required by the Texas Local Government Code. The budget is a legally adopted document that incorporates input from the management of the County and the decisions of the commissioners and County Judge about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary schedule provided for the general fund demonstrates how well the County complied with the budget ordinance and whether or not the County succeeded in providing the services as planned when the budget was adopted. The budgetary comparison schedule uses the modified accrual basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The schedule shows four columns: 1) the original budget, 2) the final budget as amended by the Commissioners' Court, 3) the actual resources and charges, and 4) the variance between the final budget and the actual resources and charges.

The basic governmental fund financial statements can be found on pages 12-16.

Proprietary Funds

The County has one type of proprietary fund which is an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses the enterprise fund to account for its airport. Proprietary funds provide the same type of information as the government-wide financial statements only in more detail.

The basic proprietary fund financial statements can be found on pages 17-19.

Fiduciary Funds

Fiduciary funds are used to account for amounts held on behalf of others by the County as a trustee, or fiduciary. 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 County is responsible for ensuring that the assets reported in this fund are used for their intended purpose.

The basic fiduciary fund financial statement can be found on page 20.

Notes to the Financial Statements

The notes provide additional information that is essential to acquire a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 21-40.

Government-wide Overall Financial Analysis

**Franklin County
Statement of Net Position**

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Current and other Assets	\$ 9,396,542	\$ 8,741,196	\$ (15,276)	\$ (15,895)	\$ 9,381,266	\$ 8,725,301
Capital Assets	15,004,963	15,556,463	809,954	821,672	15,814,917	16,378,135
Total Assets	<u>24,401,505</u>	<u>24,297,659</u>	<u>794,678</u>	<u>805,777</u>	<u>25,196,183</u>	<u>25,103,436</u>
Deferred outflows of resources	1,181,684	466,649	-	-	1,181,684	466,649
Current liabilities	259,746	218,289	990	371	260,736	218,660
Noncurrent liabilities	1,484,234	957,045	-	-	1,484,234	957,045
Total Liabilities	<u>1,743,980</u>	<u>1,175,334</u>	<u>990</u>	<u>371</u>	<u>1,744,970</u>	<u>1,175,705</u>
Deferred inflows of resources	5,435,623	5,395,786	-	-	5,435,623	5,395,786
Net position:						
Net investment in capital assets	14,559,281	14,968,893	809,954	821,672	15,369,235	15,790,565
Restricted	965,667	410,827	-	-	965,667	410,827
Unrestricted	2,878,638	2,813,468	(16,266)	(16,266)	2,862,372	2,797,202
Total net position	<u>\$ 18,403,586</u>	<u>\$ 18,193,188</u>	<u>\$ 793,688</u>	<u>\$ 805,406</u>	<u>\$ 19,197,274</u>	<u>\$ 18,998,594</u>

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The assets of the County exceed liabilities by \$19,197,274 as of December 31, 2016. At the end of the current fiscal year, the County is able to report positive balances in all three categories of net position for the government as a whole.

Net Investment in Capital Assets

The largest portion of the County’s net position of \$15,369,235, or 80%, reflects its investment in capital assets (e.g. land, construction in progress, infrastructure, buildings and improvements, and machinery and equipment) 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 are not available for future spending. Although the 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.

**Franklin County
Statement of Activities**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 1,825,309	\$ 1,645,269	\$ 5,965	\$ 4,965	\$ 1,831,274	\$ 1,650,234
Operating grants and contributions	38,303	86,447	-	-	38,303	86,447
Capital grants and contributions	314,184	30,690	-	-	314,184	30,690
General Revenues:						
Property taxes	5,469,048	5,157,584	-	-	5,469,048	5,157,584
Sales taxes	411,091	389,155	-	-	411,091	389,155
Other taxes	69,344	54,867	-	-	69,344	54,867
Investment income	60,172	86,017	-	-	60,172	86,017
Miscellaneous income	141,026	177,026	-	-	141,026	177,026
Gain on sale of assets	38,679	-	-	-	38,679	-
Total Revenues	<u>8,367,156</u>	<u>7,627,055</u>	<u>5,965</u>	<u>4,965</u>	<u>8,373,121</u>	<u>7,632,020</u>
Expenses:						
General government	2,308,270	2,393,663	-	-	2,308,270	2,393,663
Public safety	1,041,790	1,053,697	-	-	1,041,790	1,053,697
Public works	2,656,262	2,561,599	-	-	2,656,262	2,561,599
Judicial	1,822,759	1,549,216	-	-	1,822,759	1,549,216
Parks and recreation	69,413	101,514	-	-	69,413	101,514
Health and public welfare	151,171	59,810	-	-	151,171	59,810
Library	192,831	190,115	-	-	192,831	190,115
Interest and fiscal charges	6,425	9,816	-	-	6,425	9,816
Airport	-	-	25,463	19,778	25,463	19,778
Total Expenses:	<u>8,248,921</u>	<u>7,919,430</u>	<u>25,463</u>	<u>19,778</u>	<u>8,274,384</u>	<u>7,939,208</u>
Excess before transfers	118,235	(292,375)	(19,498)	(14,813)	98,737	(307,188)
Transfers	(7,780)	(46,677)	7,780	46,677	-	-
Increase (decrease) in net position	110,455	(339,052)	(11,718)	31,864	98,737	(307,188)
Net position, beginning	18,193,188	18,421,551	805,406	773,542	18,998,594	19,195,093
Prior period adjustments	99,943	110,689	-	-	99,943	110,689
Net position, ending	<u>\$ 18,403,586</u>	<u>\$ 18,193,188</u>	<u>\$ 793,688</u>	<u>\$ 805,406</u>	<u>\$ 19,197,274</u>	<u>\$ 18,998,594</u>

Total net position increased by \$98,737, excluding prior period adjustments. The governmental activities increased net position by \$110,455, excluding prior period adjustments. The business-type activities decreased net position by \$11,718.

Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

At the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$3,477,333, an 11% increase from the prior year. The increase in ending fund balance is mainly due to an increase in revenue specifically from the general fund as well as a decrease in expenditures specifically in the county-wide road and bridge fund and nonmajor governmental funds. Of ending fund balance, \$1,505,693, or 43%, constitutes unassigned fund balance that is available for spending at the government's discretion.

A portion of the fund balance is nonspendable totaling \$405,863, or 12%. This amount includes \$271,626 Library Bruce endowment principal, \$99,656 Revolving Loan notes receivable, \$25,355 pre-paid items, and \$9,226 Commissary inventory.

Restricted fund balance of \$694,041, or 20%, includes \$466,480 for court use, \$84,965 for jail commissary use, \$66,190 for hotel tax use, \$57,770 for revolving loan use, \$8,170 for library use, \$6,875 for county attorney use, and \$3,591 for debt service. Committed fund balance of \$184,500, or 5%, includes \$80,000 for the airport runway improvement grant through the Texas Department of Transportation for the final phase of the grant work, \$41,000 for the purchase of one new deputy patrol vehicle, and \$63,500 for wages and benefits to add a new separate Sheriff investigator position. Assigned fund balance of \$687,236, or 20%, includes \$562,389 for road and bridge, \$84,932 for health care, \$32,996 for the library, and \$6,919 for parks and recreation.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,505,693. As a measure of the general fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. This represented 30% of total general fund expenditures.

Proprietary Funds.

The County's proprietary funds provide the same type of information found in the government wide financial statements but in more detail.

Unrestricted net position of the proprietary fund at the end of the fiscal year amounted to (\$16,266), with a decrease in total net position of \$11,718, which is mainly due to a decrease in the amount of transfers in from the prior year.

General Fund Budgetary Highlights

As the County completed the year, its general fund (as presented on page 16) reported a fund balance of \$1,840,395 which is an increase of \$598,244 over the final budgeted amount. Revenues were \$420,202 more than anticipated and expenses were \$259,974 less than anticipated.

Capital Assets and Debt Administration

Capital Assets

The County's investment in capital assets for its governmental and business-type activities as of December 31, 2016, amounts to \$15,004,963 (net of accumulated depreciation). This investment in capital assets includes land, contribution in progress, infrastructure, buildings and improvements, and machinery and equipment.

**Franklin County
Capital Assets, Net of Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	\$ 713,155	\$ 713,155	\$ 394,372	\$ 394,372	\$ 1,107,527	\$ 1,107,527
Construction in progress	157,451	143,190	151,156	151,156	308,607	294,346
Infrastructure	2,994,495	3,177,795	-	-	2,994,495	3,177,795
Buildings and improvements	9,869,733	10,129,064	264,426	276,144	10,134,159	10,405,208
Machinery and equipment	1,270,129	1,393,259	-	-	1,270,129	1,393,259
Total net capital assets	<u>\$ 15,004,963</u>	<u>\$ 15,556,463</u>	<u>\$ 809,954</u>	<u>\$ 821,672</u>	<u>\$ 15,814,917</u>	<u>\$ 16,378,135</u>

Additional information on the County's capital assets can be found in note F on pages 31-32.

Long-term Debt

At the end of the current fiscal year, the County had total debt outstanding of \$1,484,234. The increase of \$565,789, or 62%, in debt can be attributed directly to an increase in the County's net pension liability.

**Franklin County
Long-term Debt**

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Limited tax notes	\$ 220,279	\$ 276,547	\$ -	\$ -	\$ 220,279	\$ 276,547
Notes payable	173,842	244,899	-	-	173,842	244,899
Capital leases	51,561	66,124	-	-	51,561	66,124
Compensated absences	50,141	52,842	-	-	50,141	52,842
Net pension liability	988,411	278,033	-	-	988,411	278,033
Total	\$ 1,484,234	\$ 918,445	\$ -	\$ -	\$ 1,484,234	\$ 918,445

Additional information on the County's long-term debt can be found in note G on pages 32-34.

Economic Factors and Next Year's Budgets and Rates

In the fiscal year 2017 budget, the general fund revenues are budgeted to decrease \$158,850, or 3.15%, from the 2016 budget year. General fund property tax revenue makes up about \$3,609,396, or 73.79%, of anticipated General Fund revenues. The 2016 adjusted appraised property values for the general fund decreased by \$5,430,630 from the prior year. This decrease was primarily due to the loss in appraised mineral values. For the 2016 tax rates for the 2017 budget year, the County Commissioners' Court increased the tax rate by \$0.0063 per \$100 assessed valuation, which was approximately a 1.25% increase over the prior year.

Fees and fines, the second largest revenue source for the general fund, are budgeted at \$564,000 for 2017, or 11.5% of anticipated general fund revenue. Sales tax, the third largest revenue source, is budgeted at \$400,000, or 8.2%. The remaining 6.51% of budgeted revenue is made up of grants, delinquent tax penalties, interest earnings, and miscellaneous other income. The fiscal year 2017 budget includes no wage increases for employees or elected or appointed officials.

Requests for Information

This report is designed to provide an overview of the County's finances for those with an interest in the government's finances. Questions concerning the information found in this report or requests for additional financial information should be directed to Franklin County, 200 N. Kaufman St., Mt. Vernon, Texas 75457.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

FRANKLIN COUNTY, TEXAS
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,305,181	\$ -	\$ 3,305,181
Receivables (net of allowance for estimated uncollectible accounts):			
Taxes	3,233,230	-	3,233,230
Accounts	474,528	-	474,528
Notes and accrued interest	99,656	-	99,656
Internal balances	15,276	(15,276)	-
Inventory	9,226	-	9,226
Prepaid expenses	25,355	-	25,355
Restricted:			
Cash and cash equivalents	1,962,464	-	1,962,464
Investments	271,626	-	271,626
Capital assets (net of accumulated depreciation)	15,004,963	809,954	15,814,917
Total Assets	<u>24,401,505</u>	<u>794,678</u>	<u>25,196,183</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	1,181,684	-	1,181,684
Total Deferred Outflows of Resources	<u>1,181,684</u>	<u>-</u>	<u>1,181,684</u>
LIABILITIES			
Accounts payable	190,009	-	190,009
Accrued expenses	69,737	990	70,727
Long-term debt			
Due within one year	184,614	-	184,614
Due in more than one year	1,299,620	-	1,299,620
Total Liabilities	<u>1,743,980</u>	<u>990</u>	<u>1,744,970</u>
DEFERRED INFLOWS OF RESOURCES			
Advance property tax levy	5,402,247	-	5,402,247
Advance of grant funds	33,376	-	33,376
Total Deferred Outflows of Resources	<u>5,435,623</u>	<u>-</u>	<u>5,435,623</u>
NET POSITION			
Net investment in capital assets	14,559,281	809,954	15,369,235
Restricted for:			
Debt service	3,591	-	3,591
Library			
Expendable	8,170		8,170
Nonexpendable	271,626		271,626
Hotel	66,190		66,190
Court	466,480		466,480
Attorney	6,875		6,875
Revolving loan	57,770		57,770
Commissary	84,965		84,965
Unrestricted	2,878,638	(16,266)	2,862,372
Total Net Position	<u>\$ 18,403,586</u>	<u>\$ 793,688</u>	<u>\$ 19,197,274</u>

See accompanying notes to financial statements.

**FRANKLIN COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General government	\$ 2,308,270	\$ 265,798	\$ -	\$ -
Public safety	1,041,790	493,749	8,514	19,211
Public works	2,656,262	400,565	1,076	280,220
Judicial	1,822,759	656,937	14,727	14,753
Parks and recreation	69,413	-	934	-
Health and public welfare	151,171	-	2,519	-
Library	192,831	8,260	10,533	-
Interest and fiscal charges	6,425	-	-	-
Total Governmental activities	<u>8,248,921</u>	<u>1,825,309</u>	<u>38,303</u>	<u>314,184</u>
Business-Type activities:				
Airport	25,463	5,965	-	-
Total Business-Type activities	<u>25,463</u>	<u>5,965</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 8,274,384</u>	<u>\$ 1,831,274</u>	<u>\$ 38,303</u>	<u>\$ 314,184</u>

General Revenues:

 Taxes:

 Property

 Sales

 Other

 Investment income

 Miscellaneous

 Gain on sale of assets

 Transfers

 Total general revenues

 Change in net position

Net position - beginning of year

Prior period adjustments (Note M)

Net position - end of year

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (2,042,472)	\$ -	\$ (2,042,472)
(520,316)	-	(520,316)
(1,974,401)	-	(1,974,401)
(1,136,342)	-	(1,136,342)
(68,479)	-	(68,479)
(148,652)	-	(148,652)
(174,038)	-	(174,038)
(6,425)	-	(6,425)
<u>(6,071,125)</u>	<u>-</u>	<u>(6,071,125)</u>
-	(19,498)	(19,498)
-	(19,498)	(19,498)
(6,071,125)	(19,498)	(6,090,623)
5,469,048	-	5,469,048
411,091	-	411,091
69,344	-	69,344
60,172	-	60,172
141,026	-	141,026
38,679	-	38,679
(7,780)	7,780	-
<u>6,181,580</u>	<u>7,780</u>	<u>6,189,360</u>
110,455	(11,718)	98,737
18,193,188	805,406	18,998,594
99,943	-	99,943
<u>\$ 18,403,586</u>	<u>\$ 793,688</u>	<u>\$ 19,197,274</u>

FUND FINANCIAL STATEMENTS

**FRANKLIN COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	General Fund	Road and Bridge Funds	County-Wide Road and Bridge Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 3,305,181	\$ 475,748	\$ 727,064	\$ 759,652	\$ 5,267,645
Investments	-	-	-	271,626	271,626
Receivables (net of allowance for estimated uncollectible accounts):					
Taxes	2,176,411	164,320	854,277	38,222	3,233,230
Accounts	306,414	164,057	-	4,057	474,528
Notes	-	-	-	99,656	99,656
Due from other funds	15,276	20,926	-	-	36,202
Prepaid expenses	25,355	-	-	-	25,355
Inventory	-	-	-	9,226	9,226
Total assets	<u>\$ 5,828,637</u>	<u>\$ 825,051</u>	<u>\$ 1,581,341</u>	<u>\$ 1,182,439</u>	<u>\$ 9,417,468</u>
LIABILITIES					
Accounts payable	\$ 100,544	\$ 44,289	\$ 241	44,935	\$ 190,009
Accrued payroll and related expenses	22,435	5,602	-	-	28,037
Due to other funds	815	20,111	-	-	20,926
Accrued expenses	41,700	-	-	-	41,700
Total liabilities	<u>165,494</u>	<u>70,002</u>	<u>241</u>	<u>44,935</u>	<u>280,672</u>
DEFERRED INFLOWS OF RESOURCES					
Advance property tax levy	3,639,107	278,509	1,426,436	58,195	5,402,247
Advance of grant funds	1,250	32,126	-	-	33,376
Unavailable revenue - property taxes	86,721	-	36,689	4,760	128,170
Unavailable revenue - fines	95,670	-	-	-	95,670
Total deferred inflows of resources	<u>3,822,748</u>	<u>310,635</u>	<u>1,463,125</u>	<u>62,955</u>	<u>5,659,463</u>
FUND BALANCES					
Nonspendable:					
Inventory	-	-	-	9,226	9,226
Endowment	-	-	-	271,626	271,626
Prepaid items	25,355	-	-	-	25,355
Notes receivable	-	-	-	99,656	99,656
Restricted for:					
Library	-	-	-	8,170	8,170
Hotel	-	-	-	66,190	66,190
Court	-	-	-	466,480	466,480
Debt service	-	-	-	3,591	3,591
Attorney	-	-	-	6,875	6,875
Revolving loan	-	-	-	57,770	57,770
Commissary	-	-	-	84,965	84,965
Committed to:					
Capital projects	80,000	-	-	-	80,000
Sheriff	104,500	-	-	-	104,500
Assigned to:					
Road & bridge	-	444,414	117,975	-	562,389
Library	32,996	-	-	-	32,996
Health care	84,932	-	-	-	84,932
Parks and recreation	6,919	-	-	-	6,919
Unassigned	1,505,693	-	-	-	1,505,693
Total fund balances	<u>1,840,395</u>	<u>444,414</u>	<u>117,975</u>	<u>1,074,549</u>	<u>3,477,333</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 5,828,637</u>	<u>\$ 825,051</u>	<u>\$ 1,581,341</u>	<u>\$ 1,182,439</u>	<u>\$ 9,417,468</u>

See accompanying notes to financial statements.

**FRANKLIN COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2016**

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance per balance sheet	\$	3,477,333
Capital assets used in governmental activities are not current financial resources; therefore, they are not reported in the governmental funds balance sheet.		15,004,963
Some expenses, including compensated absences, reported in the statement of activities do not require the use of current financial resources; therefore, they are not reported as expenditures in the governmental funds balance sheet.		(50,141)
Long-term liabilities, including bonds payable, notes payable, capital leases payable, and net pension liability (net of deferred inflows of \$1,181,684), are not due and payable in the current period; therefore, they are not reported in the governmental funds balance sheet.		(252,409)
Some of the County's revenues, including fines and property taxes, will be collected after year end, but are not available soon enough to pay current year's expenditures; therefore, they are deferred in the governmental funds balance sheet.		<u>223,840</u>
Net position of governmental activities	\$	<u><u>18,403,586</u></u>

FRANKLIN COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	General Fund	Road & Bridge Funds	County-Wide Road & Bridge Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property	\$ 3,698,368	\$ 286,536	1,428,790	\$ 55,354	\$ 5,469,048
Sales	411,091	-	-	-	411,091
Hotel	-	-	-	63,598	63,598
Beverage	5,746	-	-	-	5,746
Charges for services	721,170	115,825	284,739	103,593	1,225,327
Fines and forfeitures	283,464	-	-	165,264	448,728
Licenses and permits	67,995	-	-	90,327	158,322
Intergovernmental revenue	12,311	12,655	-	-	24,966
Donations	1,467	-	-	-	1,467
Grants	71,988	254,066	-	-	326,054
Interest on investments	35,284	12,316	1,690	10,882	60,172
Miscellaneous	131,579	9,297	-	150	141,026
Total revenues	<u>5,440,463</u>	<u>690,695</u>	<u>1,715,219</u>	<u>489,168</u>	<u>8,335,545</u>
EXPENDITURES					
Current:					
General government	1,934,115	-	-	107,150	2,041,265
Health and public welfare	151,188	-	-	-	151,188
Judicial	1,557,211	-	-	167,202	1,724,413
Library	189,182	-	-	4,000	193,182
Parks and recreation	66,372	-	-	-	66,372
Public safety	923,987	-	-	59,892	983,879
Public works	-	2,289,527	938	-	2,290,465
Capital outlay					
General government	10,946	-	-	-	10,946
Parks and recreation	25,621	-	-	-	25,621
Public safety	102,880	-	-	-	102,880
Public works	-	108,143	-	-	108,143
Debt service:					
Principal	14,563	71,057	-	56,268	141,888
Interest and fiscal charges	-	2,256	-	4,169	6,425
Total expenditures	<u>4,976,065</u>	<u>2,470,983</u>	<u>938</u>	<u>398,681</u>	<u>7,846,667</u>
Excess (deficiency) of revenues over (under) expenditures	<u>464,398</u>	<u>(1,780,288)</u>	<u>1,714,281</u>	<u>90,487</u>	<u>488,878</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	-	38,679	-	-	38,679
Transfers in	484,757	1,704,301	-	-	2,189,058
Transfers out	(473,244)	(19,293)	(1,704,301)	-	(2,196,838)
Total other financing sources (uses)	<u>11,513</u>	<u>1,723,687</u>	<u>(1,704,301)</u>	<u>-</u>	<u>30,899</u>
Net change in fund balances	475,911	(56,601)	9,980	90,487	519,777
Fund balance - beginning of year	<u>1,510,164</u>	<u>501,015</u>	<u>144,684</u>	<u>971,258</u>	<u>3,127,121</u>
Prior period adjustments (Note M)	(145,680)	-	(36,689)	12,804	(169,565)
Fund balance - end of year	<u>\$ 1,840,395</u>	<u>\$ 444,414</u>	<u>\$ 117,975</u>	<u>\$ 1,074,549</u>	<u>\$ 3,477,333</u>

See accompanying notes to financial statements.

FRANKLIN COUNTY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2016

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$	519,777
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense in the current period exceeded capital outlay.		(551,500)
Some expenses reported in the statement of activities, including compensated absences, do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds. This amount reflects the change in the accrued liability for compensated absences.		2,701
The issuance of long-term debt, including bonds payable, notes payable, capital leases payable, provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This amount reflects the principal payments made on long-term debt during the year.		141,888
Governmental funds report all payments to pension benefits as expenditures. However, in the government-wide statement of activities the pension expense is actuarially determined. This amount is the total of the net increase in the net pension liability of \$710,378 net of the increase in the deferred outflows related to pensions of \$715,035.		4,657
Revenues in the statement of activities, including fines and property taxes, that do not provide current financial resources are not reported as revenues in the funds.		<u>(7,068)</u>
Change in net position of governmental activities	\$	<u><u>110,455</u></u>

FRANKLIN COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET VERSUS ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 3,645,270	\$ 3,645,270	\$ 3,698,368	\$ 53,098
Sales	400,000	400,000	411,091	11,091
Beverage	3,000	3,000	5,746	2,746
Charges for services	250,550	364,553	721,170	356,617
Fines and forfeitures	288,550	313,318	283,464	(29,854)
Licenses and permits	58,400	58,400	67,995	9,595
Intergovernmental revenue	10,000	12,311	12,311	-
Donations	500	500	1,467	967
Grants	11,000	65,821	71,988	6,167
Interest on investments	22,855	22,855	35,284	12,429
Miscellaneous	134,233	134,233	131,579	(2,654)
Total revenues	<u>4,824,358</u>	<u>5,020,261</u>	<u>5,440,463</u>	<u>420,202</u>
EXPENDITURES				
Current:				
General government	1,974,355	2,002,045	1,934,115	67,930
Health and public welfare	187,349	187,349	151,188	36,161
Judicial	1,483,266	1,525,158	1,557,211	(32,053)
Library	198,782	198,782	189,182	9,600
Parks and recreation	112,066	112,066	66,372	45,694
Public safety	943,605	982,093	923,987	58,106
Capital outlay				
General government	12,500	12,500	10,946	1,554
Parks and recreation	115,000	115,000	25,621	89,379
Public safety	79,000	86,483	102,880	(16,397)
Debt service:				
Principal	-	14,563	14,563	-
Total expenditures	<u>5,105,923</u>	<u>5,236,039</u>	<u>4,976,065</u>	<u>259,974</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(281,565)</u>	<u>(215,778)</u>	<u>464,398</u>	<u>680,176</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	536,600	562,329	484,757	(77,572)
Transfers out	(588,835)	(614,564)	(473,244)	141,320
Total other financing sources (uses)	<u>(52,235)</u>	<u>(52,235)</u>	<u>11,513</u>	<u>63,748</u>
Net change in fund balances	(333,800)	(268,013)	475,911	743,924
Fund balance - beginning of year	<u>1,510,164</u>	<u>1,510,164</u>	<u>1,510,164</u>	<u>-</u>
Prior period adjustment (Note M)	-	-	(145,680)	(145,680)
Fund balance - end of year	<u>\$ 1,176,364</u>	<u>\$ 1,242,151</u>	<u>\$ 1,840,395</u>	<u>\$ 598,244</u>

See accompanying notes to financial statements.

FRANKLIN COUNTY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016

	Enterprise Fund
	Airport
ASSETS	
Noncurrent assets:	
Capital assets (net)	\$ 809,954
Total noncurrent assets	809,954
Total assets	809,954
 LIABILITIES	
Current liabilities:	
Accrued expenses	990
Due to other funds	15,276
Total current liabilities	16,266
 NET POSITION	
Net investment in capital assets	809,954
Unrestricted	(16,266)
Total net position	\$ 793,688

See accompanying notes to financial statements.

**FRANKLIN COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Enterprise Fund
	Airport
OPERATING REVENUES	
Charges for services	\$ 5,965
Total operating revenues	5,965
OPERATING EXPENSES	
Operating expenses	13,745
Depreciation and amortization	11,718
Total operating expenses	25,463
OPERATING INCOME (LOSS)	(19,498)
Transfers in	7,780
Change in net position	(11,718)
Total net position, beginning	805,406
Total net position, ending	\$ 793,688

See accompanying notes to financial statements.

**FRANKLIN COUNTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Enterprise Funds
	Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 5,965
Cash payments to suppliers for goods and services	(13,745)
Net cash used in operating activities	(7,780)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfers in from other funds	7,780
Net cash provided by noncapital financing activities	7,780
Net increase in cash and cash equivalents	-
Cash and cash equivalents, beginning	-
Cash and cash equivalents, ending	\$ -
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (19,498)
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation and amortization	11,718
Increase (decrease) in liabilities:	
Accrued expenses	619
Due to other funds	(619)
Total adjustments	11,718
Net cash used in operating activities	\$ (7,780)

FRANKLIN COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2016

	Agency								Total Agency Funds
	Tax Assessor/ Collector	County Clerk	County Attorney	District Clerk	Sheriff	Child Welfare Board	Justice of the Peace	Constable	
ASSETS									
Cash and cash equivalents	\$ 75,363	\$ 41,596	\$ 9,084	\$ 68,243	\$ 36,922	\$ 12,242	\$ 196	\$ 8	\$ 243,654
Total assets	<u>\$ 75,363</u>	<u>\$ 41,596</u>	<u>\$ 9,084</u>	<u>\$ 68,243</u>	<u>\$ 36,922</u>	<u>\$ 12,242</u>	<u>\$ 196</u>	<u>\$ 8</u>	<u>\$ 243,654</u>
LIABILITIES									
Intergovernmental payable	\$ 75,363	\$ 41,596	\$ 9,084	\$ 68,243	\$ 36,922	\$ 12,242	\$ 196	\$ 8	\$ 243,654
Total liabilities	<u>\$ 75,363</u>	<u>\$ 41,596</u>	<u>\$ 9,084</u>	<u>\$ 68,243</u>	<u>\$ 36,922</u>	<u>\$ 12,242</u>	<u>\$ 196</u>	<u>\$ 8</u>	<u>\$ 243,654</u>

NOTES TO FINANCIAL STATEMENTS

FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Franklin County, Texas ("County") reports in accordance with accounting principles generally accepted in the United States of America ("GAAP") as established by the Governmental Accounting Standards Board ("GASB") and the Financial Accounting Standards Board ("FASB"), when applicable. The accounting and reporting framework and significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes are organized to provide concise explanation, including required disclosures of budgetary matters, assets, liabilities, fund equity, revenues, expenditures/expenses, and other information considered important to gaining a clear picture of the County's financial activities for the fiscal year ended December 31, 2016.

Reporting Entity

The County is a public corporation and a political subdivision of the State of Texas. A Commissioners' Court, composed of four (4) elected County Commissioners and one (1) elected County Judge, governs the County. The County provides a vast number of services, including public safety, administration of justice, health and human services, culture and recreation, public improvements, and general administration.

Under GASB 14, component units are organizations for which the County is financially accountable and all other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the County appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the County. The County may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the County. GASB 39 added clarification to GASB 34 by including entities which meet all three of the following requirements:

1. The economic resources received or held by the separate organization are entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to other access, are significant to the primary government.

In addition, GASB Statement No. 61 considers an organization that does not meet the financial accountability criteria may be included as a component unit if management's professional judgment determines it to be necessary and misleading if omitted. This evaluation includes consideration of whether a financial benefit or burden exists in the relationship between the entities. Management has not identified any additional organizations that fit these criteria.

There are no component units of the County at the end of this current fiscal period.

Basis of Presentation

The basic financial statements are prepared in conformity with GAAP which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the County's governmental activities and business-type activities on the Statement of Net Position and Statement of Activities. The County's Statement of Net Position includes both noncurrent assets and noncurrent liabilities. In addition, the government-wide Statement of Activities reflects depreciation expenses on the County's capital assets, including infrastructure.

In addition to the government-wide financial statements, the County has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resources measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses recorded at the time liabilities are incurred.

FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Management's Discussion and Analysis includes an analytical overview of the County's financial activities. In addition, a comparison schedule is presented that compares the original adopted and final amended General Fund budget with actual results.

The basic financial statements include both government-wide (based on the County as a whole) and fund financial statements. The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a functional category (General Government, Public Works, etc.) or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, b) grants and contributions that are restricted to meeting the operational requirements of a particular function or program, or c) grants and contributions that are restricted to meeting the capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated resources are also reported as general revenues rather than as program services.

The net cost (by function) is normally covered by general revenue (property and sales taxes and interest income).

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the funds financial statements. The major governmental funds are the General Fund, Road and Bridge Funds 1-4, and County-Wide Road and Bridge Fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses or either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. A combining statement is presented after the notes with detail information for each fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Airport Fund is lease revenue. Operating expenses for the proprietary fund includes the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The government-wide focus is more on the sustainability of the County as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on major individual funds of the governmental and proprietary categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

Governmental fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, in other words, as soon as they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the obligation has matured and is due.

Ad valorem, sales tax revenues, and other taxes collected in the General Fund, Road and Bridge Funds, and County-wide Road and Bridge Fund are recognized under the susceptible to accrual concept. Charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is not available. Investment earnings are recorded as earned since they are measurable and available. Intergovernmental grant revenues are recognized when all eligibility requirements have been met.

Governmental funds are those through which most governmental functions of the County are financed. The acquisition, use, and balances of the County's expendable financial resources and the related liabilities (except those accounted for in the proprietary fund) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following is a description of the major governmental funds:

The *General Fund* is the general operating fund of the County and is always classified as a major fund. This fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, charges for services, fines, and forfeitures, intergovernmental revenues, grant revenue and investment of idle funds.

The *Road & Bridge Funds* are used to account for the revenues restricted for the funding of road repairs and improvements and all expenditures related to the County roads. These funds are broken into two categories: the Road and Bridge Funds 1 - 4 which account for the individual road and bridge accounts of each commissioner and the County-wide Road and Bridge Fund which encompasses the activity for the entire County.

Proprietary funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and changes in cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its Statement of Net Position. Proprietary funds are financed and operated in a manner similar to a private business enterprise. The costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or purpose. The following is a description of the proprietary fund:

The *Airport Fund* accounts for the operation of the Airport. Activities of the fund include the administration, operation and maintenance of the airport infrastructure. This fund also accounts for airport projects while under construction.

Additionally, the County reports the following fund type:

Fiduciary Fund financial statements include fiduciary funds, which are classified as agency funds used to account for assets held by the County as an agent for individuals, other governments, and other funds. Agency funds do not involve a formal trust agreement. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Amounts

Cash, Cash Equivalents, and Investments

Cash of several funds is pooled into a common interest-bearing bank account in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash has equity therein, and interest earned on these monies is allocated based upon relative equity at each month end.

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.

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, investments are recorded at fair value. In accordance with GASB No. 72, the County categorizes its fair value measurements within the fair value hierarchy. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. 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. A detail of the fair value hierarchy of investments held by the County are disclosed in Note C to the financial statements.

Receivables and Payables

Property taxes are levied prior to September 30 based on taxable values as of January 1 and become due October 1 and past due after January 31. Accordingly, receivables and revenues for property taxes are reflected in the government-wide financial statements based on the full accrual method of accounting. Property tax receivables for the current year's levy are shown net of an allowance for uncollectible accounts.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the County. Program grants are recorded as receivables and revenues at the time eligibility requirements have been met and reimbursable costs are incurred.

Reimbursements for services performed are recorded as receivables and revenues when they become eligible for accrual in the government-wide statements. Included are fines and costs assessed by court action and billable services for certain contracts.

Revenues received in advance of the costs being incurred are recorded as deferred revenue in the fund statements.

Lending or borrowing between funds is reflected as "due to" or "due from". Interfund activity reflected in "due to" or "due from" is eliminated on the government-wide statements.

Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide Statement of Activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide Statement of Net Position.

Inventories and Prepaid Items

Inventory is valued at the lower of cost or market price. Reported inventories are offset by a restriction of fund balance, which indicates that they do not constitute "available resources" even though they are a component of current fund balance.

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.

**FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through contractual provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Capital Assets

Capital assets, which include land, buildings, equipment, and improvements, purchased or acquired, are reported in the applicable governmental or business-like activities columns in the government-wide financial statements and proprietary fund types. The County defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-like activities is included as part of the capitalized value of the assets constructed. There was no capitalized interest for this fiscal year.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Infrastructure	50
Buildings and improvements	5-50
Machinery and equipment	5-10

Deferred Outflows/Inflows of resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. The 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 (expenses/expenditures) until then. The County only has one type of deferred outflow, deferred outflows related to pension, which arise only under the accrual basis of accounting. It is reported only in the government-wide Statement of Net Position. This amount is deferred and amortized over the actuarial determined recognition period.

In addition to liabilities, the Statement of Net 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 types of deferred inflows. Unavailable revenue, which only arises on a modified accrual basis of accounting, is comprised of property taxes and revenue from fines and is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Advance from property tax levy, in the government-wide Statement of Net Position and the governmental funds balance sheet, represents property taxes levied before the period for which they are available for spending. Advance from grants represents funds on hand in which the eligibility requirements have been met; however, the funds have not yet been expended.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. The long-term debt consists primarily of notes payable, capital leases payable, pension liability, and compensated absences.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of applicable premium or discount, and payments of principal and interest are reported as expenditures. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations (Continued)

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

Compensated Absences

A liability for unused paid time off accruals and compensatory time for all full-time employees is calculated and reported in the government-wide financial statements. For financial reporting, the following criteria must be met to be considered as compensated absences; a) leave or compensation is attributable to services already rendered, and b) leave or compensation is not contingent on a specific event (such as illness). These accrued liabilities are typically paid by the General Fund for the governmental fund-types.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the County or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

Fund Balances

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the County is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable fund balance** - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).
- **Restricted fund balance** - represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.
- **Committed fund balance** – represents amounts that can only be used for specific purposes imposed by an order, which is the formal action of the County’s highest level of decision-making authority, the Commissioners’ Court. Committed resources cannot be used for any other purpose unless the Commissioners’ Court removes or changes the specified use by the same type of action previously used to commit those amounts.
- **Assigned fund balance** – represents amounts the County intends to use for specific purposes but not meeting the criteria to be reported as committed or restricted fund balance. The governing body or the County Auditor have the authority to assign fund balance.
- **Unassigned fund balance** - represents the residual classification of fund balance and includes all spendable amounts not contained within the other classifications.

It is the County's policy, that restricted fund balances be applied first, then committed and assigned before unassigned.

The purpose of the County's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unprecedented one-time expenditures.

It is the long-term goal of the County to maintain a minimum fund balance in the General Fund (total of committed, assigned and unassigned fund balances) equal to three months of the annual operating expenditures. The County is currently in compliance with this policy.

FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal and State Grants

Grants and shared revenues are generally accounted for within the fund financed. Federal grants are from various federal and state agencies, including Homeland Security, are accounted for in a non-major fund. Most state funded grants, including the Texas Historic Commission, are accounted for in non-major funds as well.

Property Taxes

The County bills and collects its own property taxes and those for the Franklin County Water District, City of Mount Vernon, Mount Vernon ISD, Saltillo ISD, Sulphur Bluff ISD, City of Winnsboro, and Winnsboro ISD. The County is the only entity controlled by the Commissioners' Court; the County acts only as an intermediary in the collection and distribution of property taxes to the other entities.

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the County. Assessed value represents the appraisal value less applicable exemptions authorized by the Commissioners' Court. The Appraisal Board of Review establishes appraised values at 100% for estimated market value. A tax lien attaches to the property on February 1 of each year, to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

Taxes are due October 1 immediately following the levy date and are delinquent after the following January 31st. Delinquent property taxes estimated to be collectible within 60 days following the close of the fiscal year have been recognized as revenue at the fund level.

The Texas Comptroller of Public Accounts Truth-In-Taxation Guide for setting tax rates limits the tax rate for counties to \$1.25 per \$100 value of taxable property. The County's property tax rate is \$0.499657.

Use of Estimates

Preparing the County's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure 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 results could differ from those estimates.

New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which improves financial reporting of certain assets and liabilities measured at fair value. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The County has implemented GASB No. 72 in this annual report.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which improves financial reporting of public employee pensions that are not within the scope of GASB Statement 68. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The County has implemented GASB No. 73 in this annual report.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which improves the usefulness of information about postemployment benefits other than pensions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The County is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which improves financial reporting of postemployment benefits other than pensions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The County is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The County has implemented GASB No. 76 in this annual report.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*, which improves financial reporting by requiring the disclosure of information about the nature and magnitude of tax abatements. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The County has determined that GASB No. 77 is not applicable to its financial statements for the current year.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The County has determined that GASB No. 78 is not applicable to its financial statements for the current year.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The County has determined that GASB No. 79 is not applicable to its financial statements for the current year.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The County is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2016. The County is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses certain issues that have been raised with respect to Statements No. 67, No. 68, and No. 73. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The County is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2018. The County is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which will enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. This statement is effective for reporting periods beginning after December 15, 2018. The County is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

B. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budget and Budgetary Accounting

The County prepares its appropriated budget on a basis consistent with generally accepted accounting principles using the organization perspective, that is, the budget follows the formal, usually statutory, patterns of authority and responsibility granted to actually carry out the functions of the government. For example, the County Judge's office has a separate budget from the County Sheriff's office although various offices may be subsidized from revenues generated by maintenance and operation ad valorem taxes.

The County Auditor and the County Judge prepare an estimated budget based on recommendations and requests submitted by each department head. This estimated budget is presented to the Commissioners, who then begin the process of reallocating specific items that, in their opinion, need to be modified. The proposed budget is filed for public inspection with the County Clerk. Public hearings are then held, if required, and the budget is adjusted, if necessary, and approved in its final form by the Commissioners' Court. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Revisions to the budget are made throughout the year.

The County does not record encumbrances as part of its accounting records.

Excess of Expenditures Over Appropriations

Expenditures were in excess of appropriations by \$61,938 in one department within the General Fund for the year ended December 31, 2016. The County received additional revenue within that department to cover those expenditures; however a budget amendment was not requested for the additional appropriations.

Deficit Fund Balance or Fund Net Position

Road and Bridge Fund #4 has a deficit fund balance of \$33,211 as of December 31, 2016. The deficit is eliminated by an interfund loan from the other road and bridge funds.

C. DEPOSITS AND INVESTMENTS

Cash and investments as of December 31, 2016 consist of and are classified in the accompanying financial statements as follows:

Cash and equivalents	\$ 3,305,181
Restricted cash and equivalents	
Debt service	28,324
Special revenue purposes	1,934,140
Restricted investments	
Endowment	<u>271,626</u>
Total cash and investments	<u>\$ 5,539,271</u>

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the County's will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require that deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of December 31, 2016, the County's deposits were covered by Federal Depository Insurance or by collateral held by a third party custodian.

In the case of investments, this is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's investments consist of a certificate of deposit which was covered by Federal Depository Insurance and collateral held by a third party custodian as of December 31, 2016.

Concentration Risk

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

FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

C. DEPOSITS AND INVESTMENTS (Continued)

Interest-Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment.

Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment or a deposit. The County is not exposed to foreign currency risk.

Investments

Under provisions of state and local statutes and provisions of the County's depository contracts with an area financial institution, the County is authorized to place available deposits and investments in the following:

1. Obligations of the U.S., its agencies and instrumentalities;
2. Direct obligations of the State of Texas; its agencies and instrumentalities rated not less than A or its equivalent
3. Depository banks and credit unions in Texas which are insured by FDIC or NCUA
4. Local Government Investment Pools authorized under Section 2256.016 of the Texas Government code which invest in instruments and follow practices allowed by current law. A pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.
5. Certificates of Deposit and Share Certificates authorized under Section 2256.010 of the Texas Government Code; and
6. SEC registered no-load money market mutual funds

As of December 31, 2016, the County has a certificate of deposit with a two year maturity at First National Bank. The fair value of the certificate of deposit as of December 31, 2016 is \$271,626.

A summary of the County's investments under the requirements of the fair value hierarchy follows:

	Assets at Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Certificate of Deposit	\$ -	\$ 271,626	\$ -	\$ 271,626
Total	\$ -	\$ 271,626	\$ -	\$ 271,626

The certificate of deposit categorized as Level 2 is valued by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

D. RECEIVABLES

Receivables at December 31, 2016 for the County's individual major funds and non-major funds in the aggregate, including the applicable allowance for uncollectible accounts, consist of the following:

Taxes and Accounts Receivable	General Fund	Road & Bridge Funds	County-Wide Road & Bridge Fund	Nonmajor Governmental Funds	Total
Property tax	\$ 2,313,065	\$ 173,358	\$ 912,282	41,653	\$ 3,440,358
Sales tax	68,817	-	-	-	68,817
Court	602,342	-	-	-	602,342
Accounts	141,927	164,057	-	4,057	310,041
Gross receivables	3,126,151	337,415	912,282	45,710	4,421,558
Less: allowance for uncollectibles	(643,326)	(9,038)	(58,005)	(3,431)	(713,800)
Total taxes and accounts receivable (net)	\$ 2,482,825	\$ 328,377	\$ 854,277	\$ 42,279	\$ 3,707,758

FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

E. NOTES RECEIVABLE

As of December 31, 2016, six notes receivable were outstanding under a U.S. Department of HUD revolving loan fund program:

	Interest Rate	Original Issue	Beginning Balance	Increase	Decrease	Ending Balance
Impact Printing	4%	\$ 35,531	\$ 22,677	\$ -	\$ (2,227)	\$ 20,450
Party Barn	4%	47,824	8,615	-	(5,881)	2,734
Fitness Center	4%	35,000	16,631	-	(3,733)	12,898
Mt Vernon Mower	4%	25,000	19,205	-	-	19,205
Cypress Cajun	4%	30,000	25,291	-	-	25,291
Family Health Center	1%	80,000	76,624	-	(13,050)	63,574
Total		253,355	169,043	-	(24,891)	144,152
Allowance for uncollectible accounts			-	(44,496)	-	(44,496)
Notes Receivable, net			<u>\$ 169,043</u>	<u>\$ (44,496)</u>	<u>\$ (24,891)</u>	<u>\$ 99,656</u>

F. CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 713,155	\$ -	\$ -	\$ 713,155
Construction in progress	143,190	14,261	-	157,451
Total capital assets, not being depreciated	<u>856,345</u>	<u>14,261</u>	<u>-</u>	<u>870,606</u>
Capital assets, being depreciated:				
Infrastructure	9,165,000	-	-	9,165,000
Buildings and improvements	13,670,696	19,500	-	13,690,196
Machinery and equipment	6,308,346	213,829	(246,377)	6,768,552
Total capital assets, being depreciated	<u>29,144,042</u>	<u>233,329</u>	<u>(246,377)</u>	<u>29,623,748</u>
Less accumulated depreciation for:				
Infrastructure	(5,987,205)	(183,300)	-	(6,170,505)
Buildings and improvements	(3,541,632)	(278,831)	-	(3,820,463)
Machinery and equipment	(4,915,087)	(336,959)	246,377	(5,498,423)
Total accumulated depreciation	<u>(14,443,924)</u>	<u>(799,090)</u>	<u>246,377</u>	<u>(15,489,391)</u>
Total capital assets, being depreciated, net	<u>14,700,118</u>	<u>(565,761)</u>	<u>-</u>	<u>14,134,357</u>
Governmental activities capital assets, net	<u>\$ 15,556,463</u>	<u>\$ (551,500)</u>	<u>\$ -</u>	<u>\$ 15,004,963</u>

FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

F. CAPITAL ASSETS (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 394,372	\$ -	\$ -	\$ 394,372
Construction in progress	151,156	-	-	151,156
Total capital assets, not being depreciated	<u>545,528</u>	<u>-</u>	<u>-</u>	<u>545,528</u>
Capital assets, being depreciated:				
Buildings and improvements	631,410	-	-	631,410
Total capital assets, being depreciated	<u>631,410</u>	<u>-</u>	<u>-</u>	<u>631,410</u>
Less accumulated depreciation for:				
Buildings and improvements	(355,266)	(11,718)	-	(366,984)
Total accumulated depreciation	<u>(355,266)</u>	<u>(11,718)</u>	<u>-</u>	<u>(366,984)</u>
Total capital assets, being depreciated, net	<u>276,144</u>	<u>(11,718)</u>	<u>-</u>	<u>264,426</u>
Business-type activities capital assets, net	<u>\$ 821,672</u>	<u>\$ (11,718)</u>	<u>\$ -</u>	<u>\$ 809,954</u>

Depreciation expense was charged to functions of the County as follows:

Governmental activities:		
General government		\$ 270,594
Judicial		99,521
Parks and recreation		3,273
Public safety		58,755
Public works		366,947
Total depreciation expense - governmental activities		<u>\$ 799,090</u>
Business-type activities:		
Airport		11,718
Total depreciation expense - business-type activities		<u>\$ 11,718</u>

G. LONG-TERM DEBT

A summary of long-term debt transactions, including the current portion, for the year ended December 31, 2016, is as follows:

	Balance 1/1/2016	Additions	Retirements	Balance 12/31/2016	Due Within One Year
Governmental activities:					
Limited tax notes	\$ 276,547	\$ -	\$ (56,268)	\$ 220,279	\$ 57,589
Notes payable	244,899	-	(71,057)	173,842	91,408
Capital leases	66,124	-	(14,563)	51,561	-
Compensated absences	52,842	130,117	(132,818)	50,141	35,617
Net pension liability	278,033	1,346,430	(636,052)	988,411	-
Total governmental activities	<u>\$ 918,445</u>	<u>\$ 1,476,547</u>	<u>\$ (910,758)</u>	<u>\$ 1,484,234</u>	<u>\$ 184,614</u>

FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

G. LONG-TERM DEBT (Continued)

Limited Tax Notes

The County issues limited tax notes to provide funds for the acquisition and construction of major capital facilities. The County issued Limited Tax Note, Series 2013 through Guaranty Bond Bank on September 15, 2013 in the amount of \$400,000. The purpose of the note is to fund a portion of the County courthouse renovation. The interest rate is 1.70% and the maturity date is September 15, 2020.

Annual debt service requirements to maturity for limited tax notes are as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2017	\$ 57,589	\$ 3,376
2018	58,284	2,395
2019	59,281	1,398
2020	45,125	384
Total	<u>\$ 220,279</u>	<u>\$ 7,553</u>

Notes Payable

The County entered into a note payable with Guaranty Bond Bank in the amount of \$57,960 in May 2014 for the purchase of a 2007 TADC truck. This is a note with two annual payments at an interest rate of 2.05%. The equipment has a ten year estimated life. For the year ended December 31, 2016, \$5,796 was included in depreciation expense in relation to the vehicle.

The County entered into a note payable with Texas American Bank in the amount of \$273,750 in July 2015 for the purchase of a chip sealer and oil distributor truck. This note will be paid in three annual payments with an interest rate of 1.60%. The equipment has a ten year estimated life. For the year ended December 31, 2016, \$37,687 was included in depreciation expense in relation to the equipment.

Annual debt service requirements to maturity for notes payable are as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2017	\$ 91,408	\$ 2,781
2018	82,434	1,319
Total	<u>\$ 173,842</u>	<u>\$ 4,100</u>

Capital Lease

The County entered into a capital lease payable with City Tele-Coin Co. in the amount of \$66,124 in November 2015 for a video visitation system at the County jail. The payments for this lease are based on commissions earned for the use of the system. 57% of commissions earned are to be paid toward this lease. This lease is due until paid in full. The system has a ten year estimated life. For the year ended December 31, 2016, \$8,193 was included in depreciation expense in relation to the system.

**FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

G. LONG-TERM DEBT (Continued)

Capital Lease (Continued)

Following is a schedule of actual payments made in accordance with the terms of the lease, and the remaining note balance.

Year Ending December 31	Governmental Activities	
	Payments	Note Balance
		\$ 66,124
2016	\$ 14,548	51,576
2017	-	51,576
2018	-	51,576
2019	-	51,576
2020	-	51,576
Total	\$ 14,548	

H. PENSION PLAN

Plan Description

The County provides retirement, disability, and survivor benefits for all of its regular full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer retirement system. TCDRS in the aggregate issues a comprehensive annual financial report ("CAFR") on a calendar year basis. The CAFR is available on their website at www.TCDRS.org.

Each employer has a defined benefit plan that functions similarly to a cash balance plan. The assets of the plan are pooled for investment purposes but each employer's plan assets may be used only for the payment of benefits to the members of that employer's plan. In accordance with Texas law, it is intended that the pension plan be constructed and administered in a manner that the retirement system will be considered qualified under Section 401(a) of the Internal Revenue Code. All full-time and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.

TCDRS does not receive funding from the State of Texas. Each plan is funded by employers, members, and investment earnings. TCDRS is administered by a nine-person board of trustees appointed by the governor and confirmed by the Texas Senate. The board appoints a director, who is responsible for the day-to-day operations, and a chief investment officer, who oversees investment operations.

Benefits Provided

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

At retirement, retirees elect to receive their monthly lifetime benefit by choosing from one of the seven payment options. Employers may allow partial lump-sum payments. This allows the retiring member to receive an immediate lump-sum payment not to exceed their account balance, and choose a reduced monthly lifetime benefit from the payment options.

**FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

H. PENSION PLAN (Continued)

Benefits Provided (Continued)

Plan provisions for the County were as follows:

	Plan Year 2016	Plan Year 2015
Employee deposit rate	7%	7%
Employer contribution rate	12%	12%
Years required for vesting	8 years	8 years
Rule of age for retirement	75 years	75 years
Service years for retirement of any age	30 years	30 years
Partial lump-sum payment option	No	No

Plan Membership

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

Inactive employees or beneficiaries currently receiving benefits	50
Inactive employees entitled to but not yet receiving benefits	39
Active employees	73
Total	162

Contributions

The contribution rates for employees in TCDRS is 4%, 5%, 6%, or 7% of employee's gross earnings, and the County is required, by law, to contribute at actuarially determined rates that are determined annually. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees of the County were required to contribute 7% of their annual earnings during the fiscal year. The contribution rate for the County was 12% for calendar years 2015 and 2016. The County's contributions to TCDRS for the current fiscal year were \$329,388 which exceeded the required contributions by \$31,723.

Net Pension Liability

The County's net pension liability (NPL) was measured as of December 31, 2015, and the total pension liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

TCDRS system-wide economic assumptions:	
Real rate of return	5.0%
Inflation	3.0%
Long-term investment return	8.0%
Employer-specific economic assumptions:	
Growth in membership	0.0%
Payroll growth for funding calculations	3.5%

The County has no automatic cost of living adjustment ("COLA") and one is not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculation or in the funding valuation.

The annual salary increase rates for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee. Salary increases were based on a service-related table.

**FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

H. PENSION PLAN (Continued)

Net Pension Liability (Continued)

Actuarial Assumptions (Continued)

Mortality rates for active members, retirees, and beneficiaries were based on the following:

Depositing members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-200 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.
Service retirees, beneficiaries and non-depositing members	The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females
Disable retirees	RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

The actuarial cost method was Entry Age Normal, as required by GASB 68. Straight-line amortization over Expected Working Life with a 5 year smoothing period, and a non-asymptotic recognition method with no corridor were utilized in the actuarial calculations.

The actuarial assumptions that determined the total pension liability as of December 31, 2015, were based on the results of actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68. Updated mortality assumptions were adopted in 2015.

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

The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. The following target asset allocation was adopted by the TCDRS board in April 2016. The geometric real rate of return is net of inflation, assumed at 1.6%, per Cliffwater LLC's 2016 capital market assumptions.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Geometric Real Rate of Return (Expected Minus Inflation)</u>
US Equities	14.50%	5.45%
Private Equity	14.00%	8.45%
Global Equities	1.50%	5.75%
International Equities - Developed	10.00%	5.45%
International Equities - Emerging	8.00%	6.45%
Investment - Grade Bonds	3.00%	1.00%
High-Yield Bonds	3.00%	5.10%
Opportunistic Credit	2.00%	5.09%
Direct Lending	5.00%	6.40%
Distressed Debt	3.00%	8.10%
REIT Equities	3.00%	4.00%
Master Limited Partnerships	3.00%	6.80%
Private Real Estate Partnerships	5.00%	6.90%
Hedge Funds	25.00%	5.25%
Total	100.00%	

**FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

H. PENSION PLAN (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 8.10%. This rate reflected the long-term rate of return funding valuation assumption of 8.00% plus 0.10% adjustment to be gross of administrative expense as required by GASB 68.

The plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active, inactive, and retired members. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, and the municipal bond rate does not apply.

Sensitivity Analysis

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 position 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%
Total pension liability	\$ 12,134,983	\$ 10,798,095	\$ 9,681,744
Fiduciary net position	9,809,684	9,809,684	9,809,684
Net pension liability/(asset)	<u>\$ 2,325,299</u>	<u>\$ 988,411</u>	<u>\$ (127,940)</u>

Change in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/14	\$ 10,127,123	\$ 9,849,090	\$ 278,033
Changes for the year:			
Service cost	348,731	-	348,731
Interest on total pension liability ⁽¹⁾	816,438	-	816,438
Effect of plan changes ⁽²⁾	(61,617)	-	(61,617)
Effect of economic/demographic gains or losses	(48,288)	-	(48,288)
Effect of assumptions changes or inputs	117,919	-	117,919
Refund of contributions	(22,805)	(22,805)	-
Benefit payments	(479,406)	(479,406)	-
Administrative expenses	-	(7,071)	7,071
Member contributions	-	182,022	(182,022)
Net investment income	-	(56,271)	56,271
Employer contributions	-	312,037	(312,037)
Other ⁽³⁾	-	32,088	(32,088)
Net changes	<u>670,972</u>	<u>(39,406)</u>	<u>710,378</u>
Balance at 12/31/15	<u>\$ 10,798,095</u>	<u>\$ 9,809,684</u>	<u>\$ 988,411</u>

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

⁽²⁾ Relates new annuity purchase rates applicable to all TCDRS employers effective January 1, 2018.

⁽³⁾ Relates to allocation of system-wide items.

**FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

H. PENSION PLAN (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TCDRS financial report. The report may be obtained on the TCDRS website at www.TCDRS.org.

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

For the year ended December 31, 2016, the County recognized pension expense of \$323,984.

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

	Deferred Outflows of Resources
Investment (gains) or losses	\$ 762,026
Economic/demographic (gains) or losses	1,831
Assumption changes or inputs	88,439
Contributions subsequent to measurement date	329,388
Total	\$ 1,181,684

County contributions subsequent to the measurement date of \$329,388 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
2016	\$	232,989
2017		232,988
2018		213,962
2019		172,357
2020		-

Group Term Life Insurance

The County participates in a cost-sharing multiple-employer defined benefit group-term life insurance plan operated by the TCDRS. This plan is referred to as the Group Term Life Fund ("GTLF"). This optional plan provides group term life insurance coverage to current eligible employees and, if elected by employers, to retired employees. The County has elected to cover eligible retired employees in addition to current eligible employees. The coverage provided to retired employees is a postemployment benefit other than pension benefits ("OPEB"). Retired employees are insured for \$5,000.

The GTLF is a separate trust administered by the TCDRS board of trustees. Each participating employer contributes to the GTLF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is determined using the unit credit method for providing one-year term life insurance. The County contributions to the GTLF for the years ended 2016, 2015, and 2014 were \$17,293, \$20,367, and \$19,930, respectively, which equaled the contractually required contributions each year.

I. HEALTH CARE COVERAGE

During the year ended December 31, 2016, employees of the County were covered by a health plan with Blue Cross Blue Shield. The County pays all of the employees' insurance premium which is \$645 per month per employee. Employees, at their option, authorize payroll withholdings to pay contributions for dependents. The plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

J. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The County had general liability coverage at a cost that is considered to be economically justifiable. There were no significant reductions in commercial insurance coverage in the past year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

K. COMMITMENTS AND CONTINGENCIES

Grants

The County participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies. Therefore, to the extent that the County has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2016, may be impaired. In the opinion of the County, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Litigation

A lawsuit is pending in which the County is involved. It is the opinion of County management that the County has adequate legal defenses and insurance coverage respecting each action and believes that the ultimate outcome of the lawsuit will not have a material adverse effect on the County's financial position.

Construction Commitments

The County has active construction projects as of December 31, 2016. The projects include the sports complex ball fields and the airport project. As of December 31, 2016, the County's commitments are as follows:

Project	Spent-to-Date	Estimated Remaining Commitment
Sports Complex	\$ 157,451	\$ 75,739
Airport Project	151,156	80,000
Total	\$ 308,607	\$ 155,739

L. INTERFUND TRANSACTIONS

Transfers between funds during the year were as follows:

Transfers Out	Transfers In			
	Governmental		Enterprise	Total
	General Fund	Road & Bridge Funds	Airport Fund	
General Fund	\$ 465,464	\$ -	\$ 7,780	\$ 473,244
Road & Bridge Funds	19,293	-	-	19,293
County-Wide Road & Bridge Fund	-	1,704,301	-	1,704,301
Total	\$ 484,757	\$ 1,704,301	\$ 7,780	\$ 2,196,838

Significant transfers are related to debt service payments and fixed asset purchases. In addition, transfers between the county-wide road and bridge fund and road and bridge funds for each precinct are to allocate net income.

The composition of interfund balances as of December 31, 2016, is as follows:

Due From	Due To		
	Governmental		Total
	General Fund	Road & Bridge Funds	
General Fund	\$ -	\$ 815	\$ 815
Road & Bridge Funds	-	20,111	20,111
Airport Fund	15,276	-	15,276
Total	\$ 15,276	\$ 20,926	\$ 36,202

FRANKLIN COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

M. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment was recorded in the amount of \$82,379 in the general fund to adjust the prior year balance of net court fine receivable. This adjustment on the Governmental Funds Balance Sheet resulted in an \$82,379 adjustment in governmental activities on the Statement of Activities.

A prior period adjustment was recorded in the amount of \$102,738 in the general fund to record the prior year balance of net court fine receivable as unavailable revenue. This adjustment on the Governmental Funds Balance Sheet did not result in an adjustment in governmental activities on the Statement of Activities because unavailable revenue on the fund level is reported as revenue on the government-wide level.

Prior period adjustments were recorded in the amounts of \$86,721, \$36,689, and \$4,760 in the general fund, the county-wide road and bridge fund, and the debt service fund, respectively, to record unavailable revenue related to property taxes. These amounts were previously recorded as revenue; however, they were not available to pay current liabilities. These adjustments on the Governmental Funds Balance Sheet did not result in an adjustment in governmental activities on the Statement of Activities because unavailable revenue on the fund level is reported as revenue on the government-wide level.

A prior period adjustment was recorded in the amount of \$38,600 in the general fund to reclassify longevity pay from compensated absences to accrued payroll. Longevity pay is calculated and paid annually; therefore, it is not considered long term debt. This adjustment on the Governmental Funds Balance Sheet did not result in an adjustment in governmental activities on the Statement of Activities because long-term debt is reported on the government-wide level.

A prior period adjustment was recorded in the amount of \$17,564 in the record retention fund to remove a software expense from fiscal year 2015 that should have been recorded in fiscal year 2016. This adjustment on the Governmental Funds Balance Sheet resulted in a \$17,564 adjustment in governmental activities on the Statement of Activities.

N. SUBSEQUENT EVENTS

The County has evaluated all events or transactions that occurred after December 31, 2016 up through September 28, 2017, the date the financial statements were available to be issued. During this period, the County identified no material subsequent events requiring disclosure.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

FRANKLIN COUNTY, TEXAS

**REQUIRED SUPPLEMENTAL INFORMATION
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

LAST 10 FISCAL YEARS*

(UNAUDITED)

	12/31/2014	12/31/2015
Total pension liability		
Service cost	\$ 316,773	\$ 348,731
Interest on the total pension liability	757,571	816,438
Changes of benefit terms	-	(61,617)
Differences between expected and actual experience	76,095	(48,288)
Changes of assumptions	-	117,919
Benefit payments, including refunds of employee contributions	(433,060)	(502,211)
Net change in total pension liability	717,379	670,972
Total pension liability - beginning	9,409,745	10,127,124
Total pension liability - ending (a)	\$ 10,127,124	\$ 10,798,096
 Plan fiduciary net position		
Contributions - employer	\$ 298,937	\$ 312,037
Contributions - employee	174,379	182,022
Net investment income	633,076	(56,271)
Benefit payments, including refunds of employee contributions	(433,060)	(502,211)
Administrative expense	(7,344)	(7,071)
Other	(38,394)	32,088
Net change in plan fiduciary net position	627,594	(39,406)
Plan fiduciary net position - beginning	9,221,497	9,849,091
Plan fiduciary net position - ending (b)	\$ 9,849,091	\$ 9,809,685
 Net pension liability - ending (a) - (b)	\$ 278,033	\$ 988,411
 Plan fiduciary net position as of percentage of total pension liability	97.25%	90.85%
 Covered employee payroll	\$ 2,491,125	\$ 2,600,316
 Net pension liability as a percentage of covered employee payroll	11.16%	38.01%

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

FRANKLIN COUNTY, TEXAS

**REQUIRED SUPPLEMENTAL INFORMATION
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

LAST 10 FISCAL YEARS

(UNAUDITED)

	12/31/2006	12/31/2007	12/31/2008
Actuarially determined contribution	\$ 139,376	\$ 172,665	\$ 200,769
Contributions in relation to the actuarially determined contribution	139,376	172,665	200,769
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 1,710,135	\$ 2,003,080	\$ 2,179,901
Contributions as a percentage of covered employee payroll	8.15%	8.62%	9.21%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	7.7 years (based on contribution rate calculated in 12/31/2015 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	3.00%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.00%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adoption a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions Reflected in the Schedule	No changes in plan provisions are reflected in the Schedule of Employer Contributions.

<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2015</u>
\$ 212,271	\$ 222,443	\$ 231,108	\$ 243,821	\$ 254,260	\$ 276,515	\$ 280,314
221,868	228,986	255,236	255,735	257,169	298,937	312,037
<u>\$ (9,597)</u>	<u>\$ (6,543)</u>	<u>\$ (24,128)</u>	<u>\$ (11,914)</u>	<u>\$ (2,909)</u>	<u>\$ (22,422)</u>	<u>\$ (31,723)</u>
\$ 2,284,943	\$ 2,180,817	\$ 2,320,363	\$ 2,308,911	\$ 2,354,261	\$ 2,491,125	\$ 2,600,316
9.71%	10.50%	11.00%	11.08%	10.92%	12.00%	12.00%

COMBINING FUND FINANCIAL STATEMENTS

**FRANKLIN COUNTY, TEXAS
COMBINING BALANCE SHEET
ROAD AND BRIDGE FUNDS
DECEMBER 31, 2016**

	Road and Bridge Fund #1	Road and Bridge Fund #2	Road and Bridge Fund #3	Road and Bridge Fund #4	Total Road and Bridge Funds
ASSETS					
Cash and cash equivalents	\$ 232,298	\$ 94,926	\$ 148,364	\$ 160	\$ 475,748
Receivables (net of allowance for estimated uncollectible accounts):					
Taxes	51,079	35,020	40,854	37,367	164,320
Accounts	60,334	103,093	315	315	164,057
Due from other funds	-	20,000	926	-	20,926
Total assets	<u>\$ 343,711</u>	<u>\$ 253,039</u>	<u>\$ 190,459</u>	<u>\$ 37,842</u>	<u>\$ 825,051</u>
LIABILITIES					
Accounts payable	\$ 5,307	\$ 29,110	\$ 3,511	\$ 6,361	\$ 44,289
Accrued payroll and related expenses	1,040	923	2,168	1,471	5,602
Due to other funds	20,000	111	-	-	20,111
Total liabilities	<u>26,347</u>	<u>30,144</u>	<u>5,679</u>	<u>7,832</u>	<u>70,002</u>
DEFERRED INFLOWS OF RESOURCES					
Advance property tax levy	86,895	59,267	69,126	63,221	278,509
Advance of grant funds	-	32,126	-	-	32,126
Total deferred inflows of resources	<u>86,895</u>	<u>91,393</u>	<u>69,126</u>	<u>63,221</u>	<u>310,635</u>
FUND BALANCES					
Assigned to:					
Road & bridge	230,469	131,502	115,654	(33,211)	444,414
Total fund balances	<u>230,469</u>	<u>131,502</u>	<u>115,654</u>	<u>(33,211)</u>	<u>444,414</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 343,711</u>	<u>\$ 253,039</u>	<u>\$ 190,459</u>	<u>\$ 37,842</u>	<u>\$ 825,051</u>

FRANKLIN COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ROAD AND BRIDGE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Road and Bridge Fund #1	Road and Bridge Fund #2	Road and Bridge Fund #3	Road and Bridge Fund #4	Total Road and Bridge Funds
REVENUES					
Taxes:					
Property	\$ 89,466	\$ 60,974	\$ 71,210	\$ 64,886	\$ 286,536
Charges for services	36,137	24,648	28,748	26,292	115,825
Intergovernmental revenue	3,164	3,164	3,163	3,164	12,655
Grants	95,778	75,056	45,347	37,885	254,066
Interest on investments	4,435	3,417	2,771	1,693	12,316
Miscellaneous	2,475	2,302	158	4,362	9,297
Total revenues	<u>231,455</u>	<u>169,561</u>	<u>151,397</u>	<u>138,282</u>	<u>690,695</u>
EXPENDITURES					
Current:					
Public works	582,007	610,147	531,916	565,457	2,289,527
Capital outlay					
Public works	92,664	-	-	15,479	108,143
Debt service:					
Principal	-	-	41,784	29,273	71,057
Interest and fiscal charges	-	-	1,654	602	2,256
Total expenditures	<u>674,671</u>	<u>610,147</u>	<u>575,354</u>	<u>610,811</u>	<u>2,470,983</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(443,216)</u>	<u>(440,586)</u>	<u>(423,957)</u>	<u>(472,529)</u>	<u>(1,780,288)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	194	213	28,798	9,474	38,679
Transfers in	531,742	362,675	423,007	386,877	1,704,301
Transfers out	(4,469)	(5,014)	(4,578)	(5,232)	(19,293)
Total other financing sources (uses)	<u>527,467</u>	<u>357,874</u>	<u>447,227</u>	<u>391,119</u>	<u>1,723,687</u>
Net change in fund balances	84,251	(82,712)	23,270	(81,410)	(56,601)
Fund balance - beginning of year	<u>146,218</u>	<u>214,214</u>	<u>92,384</u>	<u>48,199</u>	<u>501,015</u>
Fund balance - end of year	<u>\$ 230,469</u>	<u>\$ 131,502</u>	<u>\$ 115,654</u>	<u>\$ (33,211)</u>	<u>\$ 444,414</u>

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Record Retention Fund - To account for monies resulting from fees assessed for the recording of documents by the County Clerk's office. Monies are to be used for the record retention services performed by this office.

County Record Retention Fund - To account for monies resulting from fees assessed for the recording of documents by the County Clerk's office and the District Clerk's office. Monies are to be used for the records retention services performed by the County.

Archival Fund - To account for monies received when a public document is presented by a person, excluding a state agency, to the County Clerk for recording or filing. These monies are used for preservation and restoration services performed by the County Clerk in connection with maintaining their records archive.

Record Management District Clerk Fund - To account for monies resulting from fees assessed for the recording of documents by the District Clerk's office. Monies are to be used for the records management and preservation services performed by the District Clerk's office.

County/District Clerk Technology Fund - To account for monies collected as fees from anyone convicted of a criminal offense to be used for technology improvements for the County Clerk's office and the District Clerk's office as well as the cost of training and education regarding technology improvements for the County Court and District Court.

Courthouse Security Fund - To account for monies resulting from fees charged as part of court costs for the purpose of providing security services and equipment for the courthouse.

Justice Court Technology Fund - To account for monies collected as fees from anyone convicted of a criminal offense to be used for technology improvements for the Justice Court as well as the cost of training and education regarding technology improvements for the Justice Court.

Revolving Loan Fund - To account for the Texas Community Development Block Grant (TxCDBG) Program Revolving Loan Fund grant from the Texas Department of Agriculture.

Attorney Check Collection Fund - To account for monies resulting from fees assessed for bad checks and forfeited monies. These monies are used at the discretion of the County Attorney.

State Agency Fund - To account for monies resulting from fees collected in various offices that are used for filings with the Texas Comptroller's Office.

Hotel/Motel Tax Fund - To account for monies resulting from hotel occupancy tax assessed. These monies are to be expended on endeavors which promote tourism and the convention and hotel industry.

County Law Library Fund - To account for monies resulting from fees charged as part of court costs for cases processed through the District and County Courts. These monies are to be used for the maintenance of a law library for the use of judges and litigants of the County.

Commissary Fund - To account for revenues generated by the sale of personal items to jail inmates and the expenditure of those funds for the benefit of the inmates.

Permanent Fund

Bruce Endowment Library Fund - To account for the principal of an endowment which cannot be expended. Interest is deposited into this fund and may be distributed to the County's library.

Debt Service Fund

Interest and Sinking Fund - To account for the accumulation of resources and the subsequent disbursement of such resources to pay principal and interest on long-term general obligation debt of governmental funds.

**FRANKLIN COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	Special Revenue Funds			
	Record Retention	County Record Retention	Archival Fund	Record Management District Clerk
ASSETS				
Cash and cash equivalents	\$ 207,213	\$ 30,375	\$ 90,416	\$ 22,499
Investments	-	-	-	-
Receivables (net of allowance for estimated uncollectible accounts):				
Taxes	-	-	-	-
Accounts	-	-	-	-
Notes	-	-	-	-
Inventory, at lower of cost or market	-	-	-	-
Total assets	<u>\$ 207,213</u>	<u>\$ 30,375</u>	<u>\$ 90,416</u>	<u>\$ 22,499</u>
LIABILITIES				
Accounts payable	\$ 832	\$ -	\$ 430	\$ -
Total liabilities	<u>832</u>	<u>-</u>	<u>430</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Advance property tax levy	-	-	-	-
Unavailable revenue - property taxes	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable:				
Inventory	-	-	-	-
Endowment	-	-	-	-
Notes receivable	-	-	-	-
Restricted for:				
Library	-	-	-	-
Hotel	-	-	-	-
Court	206,381	30,375	89,986	22,499
Debt service	-	-	-	-
Attorney	-	-	-	-
Revolving loan	-	-	-	-
Commissary	-	-	-	-
Total fund balances	<u>206,381</u>	<u>30,375</u>	<u>89,986</u>	<u>22,499</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 207,213</u>	<u>\$ 30,375</u>	<u>\$ 90,416</u>	<u>\$ 22,499</u>

<u>District Clerk Technology</u>	<u>Courthouse Security</u>	<u>Justice Court Technology</u>	<u>Revolving Loan</u>	<u>Attorney Check Collection</u>
\$ 5,376	\$ 59,112	\$ 5,689	\$ 57,770	\$ 6,875
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	99,656	-
-	-	-	-	-
<u>\$ 5,376</u>	<u>\$ 59,112</u>	<u>\$ 5,689</u>	<u>\$ 157,426</u>	<u>\$ 6,875</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	99,656	-
-	-	-	-	-
-	-	-	-	-
5,376	59,112	5,689	-	-
-	-	-	-	-
-	-	-	-	6,875
-	-	-	57,770	-
-	-	-	-	-
<u>5,376</u>	<u>59,112</u>	<u>5,689</u>	<u>157,426</u>	<u>6,875</u>
<u>\$ 5,376</u>	<u>\$ 59,112</u>	<u>\$ 5,689</u>	<u>\$ 157,426</u>	<u>\$ 6,875</u>

**FRANKLIN COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016
(Continued)**

	Special Revenue Funds			
	State Agency	Hotel/Motel Tax	County Law Library	Commissary
ASSETS				
Cash and cash equivalents	\$ 37,004	\$ 68,133	\$ 47,128	\$ 85,568
Investments	-	-	-	-
Receivables (net of allowance for estimated uncollectible accounts):				
Taxes	-	-	-	-
Accounts	-	4,057	-	-
Notes	-	-	-	-
Inventory, at lower of cost or market	-	-	-	9,226
Total assets	<u>\$ 37,004</u>	<u>\$ 72,190</u>	<u>\$ 47,128</u>	<u>\$ 94,794</u>
LIABILITIES				
Accounts payable	\$ 37,004	\$ 6,000	\$ 66	\$ 603
Total liabilities	<u>37,004</u>	<u>6,000</u>	<u>66</u>	<u>603</u>
DEFERRED INFLOWS OF RESOURCES				
Advance property tax levy	-	-	-	-
Unavailable revenue - property taxes	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable:				
Inventory	-	-	-	9,226
Endowment	-	-	-	-
Notes receivable	-	-	-	-
Restricted for:				
Library	-	-	-	-
Hotel	-	66,190	-	-
Court	-	-	47,062	-
Debt service	-	-	-	-
Attorney	-	-	-	-
Revolving loan	-	-	-	-
Commissary	-	-	-	84,965
Total fund balances	<u>-</u>	<u>66,190</u>	<u>47,062</u>	<u>94,191</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 37,004</u>	<u>\$ 72,190</u>	<u>\$ 47,128</u>	<u>\$ 94,794</u>

Total	Permanent Fund Bruce Endowment Library	Debt Service Fund Interest & Sinking	Total Nonmajor Governmental Funds
\$ 723,158	\$ 8,170	\$ 28,324	\$ 759,652
-	271,626	-	271,626
-	-	38,222	38,222
4,057	-	-	4,057
99,656	-	-	99,656
9,226	-	-	9,226
\$ 836,097	279,796	\$ 66,546	\$ 1,182,439
\$ 44,935	\$ -	\$ -	44,935
44,935	-	-	44,935
-	-	58,195	58,195
-	-	4,760	4,760
-	-	62,955	62,955
9,226	-	-	9,226
-	271,626	-	271,626
99,656	-	-	99,656
-	8,170	-	8,170
66,190	-	-	66,190
466,480	-	-	466,480
-	-	3,591	3,591
6,875	-	-	6,875
57,770	-	-	57,770
84,965	-	-	84,965
791,162	279,796	3,591	1,074,549
\$ 836,097	\$ 279,796	\$ 66,546	\$ 1,182,439

FRANKLIN COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Special Revenue Funds			
	Record Retention	County Record Retention	Archival Fund	Record Management District Clerk
REVENUES				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Hotel	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Licenses and permits	47,059	2,450	30,629	2,310
Interest on investments	1,613	268	698	196
Miscellaneous	-	-	-	-
Total revenues	<u>48,672</u>	<u>2,718</u>	<u>31,327</u>	<u>2,506</u>
EXPENDITURES				
Current:				
General government	12,266	-	5,198	-
Judicial	-	-	-	-
Library	-	-	-	-
Public safety	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>12,266</u>	<u>-</u>	<u>5,198</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>36,406</u>	<u>2,718</u>	<u>26,129</u>	<u>2,506</u>
Net change in fund balances	36,406	2,718	26,129	2,506
Fund balance - beginning of year	<u>152,411</u>	<u>27,657</u>	<u>63,857</u>	<u>19,993</u>
Prior period adjustments (Note M)	17,564	-	-	-
Fund balance - end of year	<u>\$ 206,381</u>	<u>\$ 30,375</u>	<u>\$ 89,986</u>	<u>\$ 22,499</u>

<u>District Clerk Technology</u>	<u>Courthouse Security</u>	<u>Justice Court Technology</u>	<u>Revolving Loan</u>	<u>Attorney Check Collection</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	8,535	4,107	-	-
1,655	-	-	-	315
37	505	34	2,943	62
-	-	-	150	-
<u>1,692</u>	<u>9,040</u>	<u>4,141</u>	<u>3,093</u>	<u>377</u>
-	-	-	44,496	-
-	2,170	11,882	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>2,170</u>	<u>11,882</u>	<u>44,496</u>	<u>-</u>
<u>1,692</u>	<u>6,870</u>	<u>(7,741)</u>	<u>(41,403)</u>	<u>377</u>
1,692	6,870	(7,741)	(41,403)	377
<u>3,684</u>	<u>52,242</u>	<u>13,430</u>	<u>198,829</u>	<u>6,498</u>
-	-	-	-	-
<u>\$ 5,376</u>	<u>\$ 59,112</u>	<u>\$ 5,689</u>	<u>\$ 157,426</u>	<u>\$ 6,875</u>

FRANKLIN COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

	Special Revenue Funds			
	State Agency	Hotel/Motel Tax	County Law Library	Commissary
REVENUES				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Hotel	-	63,598	-	-
Charges for services	-	-	-	103,593
Fines and forfeitures	152,622	-	-	-
Licenses and permits	-	-	5,909	-
Interest on investments	-	-	409	576
Miscellaneous	-	-	-	-
Total revenues	<u>152,622</u>	<u>63,598</u>	<u>6,318</u>	<u>104,169</u>
EXPENDITURES				
Current:				
General government	-	45,190	-	-
Judicial	152,622	-	528	-
Library	-	-	-	-
Public safety	-	-	-	59,892
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>152,622</u>	<u>45,190</u>	<u>528</u>	<u>59,892</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>18,408</u>	<u>5,790</u>	<u>44,277</u>
Net change in fund balances	-	18,408	5,790	44,277
Fund balance - beginning of year	<u>-</u>	<u>47,782</u>	<u>41,272</u>	<u>49,914</u>
Prior period adjustments (Note M)	-	-	-	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ 66,190</u>	<u>\$ 47,062</u>	<u>\$ 94,191</u>

Total	Permanent Fund Bruce Endowment Library	Debt Service Fund Interest & Sinking	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 55,354	\$ 55,354
63,598	-	-	63,598
103,593	-	-	103,593
165,264	-	-	165,264
90,327	-	-	90,327
7,341	3,193	348	10,882
150	-	-	150
430,273	3,193	55,702	489,168
107,150	-	-	107,150
167,202	-	-	167,202
-	4,000	-	4,000
59,892	-	-	59,892
-	-	56,268	56,268
-	-	4,169	4,169
334,244	4,000	60,437	398,681
96,029	(807)	(4,735)	90,487
96,029	(807)	(4,735)	90,487
677,569	280,603	13,086	971,258
17,564	-	(4,760)	12,804
\$ 791,162	\$ 279,796	\$ 3,591	\$ 1,074,549

GOVERNMENTAL COMPLIANCE SECTION



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

To the Honorable Judge and Commissioners
Franklin County, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Franklin County, Texas, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Franklin County, Texas' basic financial statements, and have issued our report thereon dated September 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Franklin County, Texas' 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 Franklin County, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the Franklin County, Texas' 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. We identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings, that we consider to be a material weakness (2016-1).

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. We identified a certain deficiency in internal control over compliance, described in the accompanying Schedule of Findings, that we consider to be a significant deficiency (2016-2).

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Franklin County, Texas' 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*.

Franklin County, Texas' Response to Findings

Franklin County, Texas' response to the findings identified in our audit is described in the accompanying Schedule of Findings. Franklin County, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Henry & Peters, PC

Longview, Texas
September 28, 2017

**FRANKLIN COUNTY, TEXAS
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Financial Statement Findings

2016-1

Criteria:

Basic internal control provides for a proper segregation of various accounting functions, reconciliation of financial transactions to the general ledger, and monitoring that these functions are being performed timely and accurately. In addition, internal controls over financial reporting should be designed to ensure financial reporting is in accordance with Governmental Accounting Standards.

Condition:

During the audit, we noted the following conditions:

1. Outstanding items on fiduciary bank account reconciliations are not being reviewed and resolved timely. We noted deposits that had been outstanding for several years, old outstanding checks that had not been either escheated to the state or transferred to the County Treasurer's office, and one reconciliation that had duplicate items on it.
2. Two separate instances were noted where expenditures were not recorded in the correct fiscal year. The instances are a result of invoices received near year-end that were not fully reviewed to determine which fiscal year the goods and services were received, as opposed to when the invoice was received.
3. Financial reporting of the County's capital assets and related depreciation was inadequate. Governmental Accounting Standards require the county to report their capital assets and related depreciation on the Statement of Net Assets under the accrual basis of accounting. All of the capital additions and disposals of county capital assets were not recorded to the general ledger and no depreciation had been calculated. Further, we noted the county does not have a formal accounting policy for capitalization and disposal of fixed assets.
4. Accounting policies under the modified accrual basis of accounting were not being applied appropriately on the fund financial statements. Year-end receivables for delinquent property tax and court fines that were not collected within 60 days should have been recorded as unavailable revenue. Further, longevity pay is an annual calculation and payment; therefore it should have been included as accrued liabilities on the fund financial statements (not as long term debt which is reported only at the government-wide level).
5. Court fines receivable for the current and prior years included cases that did not yet have a judgement. Without a judgement, the county has no legal right to collect on the fines; therefore these should not have been recorded as accounts receivable.

Cause:

It appears the cause may be limited resources in performing financial functions of the County. It's not uncommon for smaller counties to lean on their County Auditor for assistance in performing financial functions; however, it becomes a challenge when those duties restrict the auditor's capacity to carry out the statutory duties of the County Auditor's office including producing financial reports, auditing the departments of the county to ensure financial integrity of the county's financial operations is maintained, and ensuring there is strict enforcement of the laws governing county finances.

Effect or Potential Effect:

The effects were material misstatements of the County's financial reports. The potential effects from these conditions, if not corrected, include the risk of error or fraud going undetected.

Recommendation:

We recommend that County officials review their internal resources to determine whether additional resources are needed, or if resources can be re-allocated, to cover more of the financial functions of the county to allow the County Auditor the capacity to perform more of the audit function in a given year. We recommend that the County auditor develop a routine of annual department audits each year and that the routine be supplemented each year with an element of unpredictability.

Management's Response:

The County has read and understands the financial statement findings. Some of the listed findings involve the accounting year-end procedures. These items will be addressed and corrected during the 2017 accounting year-end procedures. In the next 12 months, the County will advise County officials of and reinforce the Local Government Code requirements for their offices regarding the County financials and internal controls. The County will review current internal resources for financial functions and consider realignment or additions. The County Auditor will develop a routine of annual department audits and include an element of unpredictability on the timing of the audits.

**FRANKLIN COUNTY, TEXAS
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Financial Statement Findings (Cont'd)

2016-2

Criteria:

A system of internal control over compliance with certain provisions of laws and regulations should include controls to ensure adherence to the Texas Local Government Code and the Public Funds Investment Act.

Condition:

During the audit, we noted the following conditions:

1. One instance was noted of noncompliance with Texas Local Government Code section 252.021 *Competition Requirements for Purchases* in which the amount of material purchased required the County to solicit competitive bids, however they did not.
2. One instance was noted of noncompliance with the Texas Local Government Code section 111.010 *Levy of Taxes and Expenditure of Funds Under Budget* in which expenditures were in excess of appropriations by \$61,938. The County received additional revenue within that department to cover those expenditures; however a budget amendment was not requested for the additional appropriations.
3. All statutorily required audits of county departments were not fulfilled in 2016 as required by Texas Local Government Code section 115.0035 and 351.0415(d).
4. County Commissioners did not review the County's investment policy during 2016. Annual review of the policy is required by the Public Funds Investment Act.

Cause:

It appears the cause may be limited resources in performing financial functions of the County. It's not uncommon for smaller counties to lean on their County Auditor for assistance in performing financial functions; however, it becomes a challenge when those duties restrict the auditor's capacity to carry out the statutory duties of the County Auditor's office including producing financial reports, auditing the departments of the county to ensure financial integrity of the county's financial operations is maintained, and ensuring there is strict enforcement of the laws governing county finances.

Effect or Potential Effect:

The effects were material misstatements of the County's financial reports. The potential effects from these conditions, if not corrected, include the risk of error or fraud going undetected.

Recommendation:

We recommend that County officials review their internal resources to determine whether additional resources are needed, or if resources can be re-allocated, to cover more of the financial functions of the county to allow the County Auditor the capacity to perform more of the audit function in a given year. We recommend that the County auditor develop a routine of annual department audits each year and that the routine be supplemented each year with an element of unpredictability.

Management's Response:

The County has read and understands the financial statement findings. Some of the listed findings involve the accounting year-end procedures. These items will be addressed and corrected during the 2017 accounting year-end procedures. In the next 12 months, the County will advise County officials of and reinforce the Local Government Code requirements for their offices regarding the County financials and internal controls. The County will review current internal resources for financial functions and consider realignment or additions. The County Auditor will develop a routine of annual department audits and include an element of unpredictability on the timing of the audits.

**FRANKLIN COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>Finding</u>	<u>Current Status</u>
None	