

BREWSTER COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2016

BREWSTER COUNTY, TEXAS

DECEMBER 31, 2016

Table of Contents

	<u>Page</u>	<u>Exhibit</u>
COUNTY OFFICIALS	1	
FINANCIAL SECTION	3	
Independent Auditor's Report	4	
Basic Financial Statements:	7	
<u>Government-Wide Financial Statements</u>		
Statement of Net Position - Modified Cash Basis	9	1
Statement of Activities - Modified Cash Basis	10	2
<u>Fund Financial Statements</u>		
Balance Sheet - Modified Cash Basis - Governmental Funds	12	3
Statement of Revenues, Expenditures, and Changes in Fund Balance - Modified Cash Basis - Governmental Funds	14	4
Statement of Net Position - Modified Cash Basis - Fiduciary Funds	16	5
Notes to the Financial Statements	17	
Supplementary Information	43	
<u>Non-Major Governmental Funds</u>		
Combining Balance Sheet - Modified Cash Basis	44	6
Combining Statements of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis	50	7
<u>Agency Funds</u>		
Combining Statement of Changes in Assets and Liabilities - Modified Cash Basis - All Agency Funds	55	8
Other Information	59	
Management's Discussion and Analysis	61	
Budgetary Comparison Schedule - Texas Department of Agriculture		
Community Development Block Grant:		
Water Facilities Improvements - Contract Number 713-049	66	9
Water Facilities Improvements - Contract Number 721-5049	67	10

BREWSTER COUNTY, TEXAS

DECEMBER 31, 2016

Table of Contents

	<u>Page</u>	<u>Exhibit</u>
FEDERAL FINANCIAL ASSISTANCE SECTION	69	
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 <i>Government Auditing Standards</i>	71	
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	73	
Schedule of Findings and Questioned Costs	75	
Auditee Corrective Action Plan	78	
Auditor Summary Schedule of Prior Audit Findings	79	
Auditee Summary Schedule of Prior Audit Findings	82	
Schedule of Expenditures of Federal Awards	86	11
Notes to Schedule of Expenditures of Federal Awards	88	

BREWSTER COUNTY, TEXAS

DECEMBER 31, 2016

County Officials

Eleazar R. Cano Judge

Luc Novovitch (appointed April 2015, served through 12/31/2016) Commissioner, Pct 1

Betse Esparza (elected 01/01/2017) Commissioner, Pct 1

Hugh Garrett Commissioner, Pct 2

Ruben Ortega Commissioner, Pct 3

Mike Pallanez Commissioner, Pct 4

Ruth Staton (elected 01/01/2015, resigned 01/31/2016) Treasurer

Babett Mann (appointed 03/15/2016) Treasurer

Berta Rios-Martinez Clerk

Betty Jo Rooney Tax Assessor/Collector

Ronny Dodson Sheriff

Steve Houston Attorney

Treva Watson County Auditor

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Judge Eleazar Cano and
Members of the Commissioners Court of the
Brewster County, Texas

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brewster 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 the modified cash basis of accounting described in Note I, F; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Governmental 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 purposes 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.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
General Fund	Unmodified
Road & Bridge Fund	Unmodified
HIDTA All Initiatives	Unmodified
Tourism Council	Unmodified
Debt Service Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for *Qualified Opinion* on Governmental Activities

Because of the inadequacy of accounting records for the years up to 2016, we were unable to obtain sufficient appropriate audit evidence regarding the amounts at which property and equipment and accumulated depreciation are recorded in the accompanying financial balance sheet at December 31, 2016 (stated at \$20,271,670 and \$10,442,223, respectively), or the amount of depreciation expense for the year then ended (stated at \$810,002).

***Qualified Opinion* on Governmental Activities**

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion on Governmental Activities paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the governmental activities, each major fund, and the aggregate remaining fund information of Brewster County, Texas, as of and for the year ended December 31, 2016, in accordance with the modified cash basis of accounting.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of each major fund and the aggregate remaining fund information of Brewster County, Texas as of December 31, 2016, and the respective changes in the modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Note I, F.

Basis of Accounting

We draw attention to Note I, F of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to that matter.

Supplementary and Other Information

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

Other Reporting required by *Government Auditing Standards*

Ch Ruddock Rtd LLC

6

BASIC FINANCIAL STATEMENTS

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BREWSTER COUNTY, TEXAS
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2016

EXHIBIT 1

	Primary	Government
		Governmental Activities
<hr/>		
ASSETS		
Cash and Cash Equivalents	\$	4,403,525
Receivables (net of allowance for uncollectibles)		232
Capital Assets:		
Land		604,329
Infrastructure		3,056,154
Buildings		7,893,600
Machinery and Equipment		8,641,144
Construction in Progress		76,443
Accumulated Depreciation		(10,442,223)
Total Assets		<u>14,233,204</u>
LIABILITIES		
Payroll Withholdings		102,901
Intergovernmental Payable		138,515
Noncurrent Liabilities		
Due Within One Year		160,000
Due in More Than One Year		2,330,000
Total Liabilities		<u>2,731,416</u>
NET POSITION		
Net Investment in Capital Assets		7,339,447
Restricted for:		
Restricted for Federal and State Grants		16,570
Restricted for Debt Service		91,012
Restricted for Other Purposes		1,282,727
Unrestricted Net Position		2,772,032
Total Net Position	\$	<u><u>11,501,788</u></u>

The notes to the financial statements are an integral part of this statement.

BREWSTER COUNTY, TEXAS
STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

		Program Revenues	
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 2,066,453	\$ 249,234	\$ 13,402
Public Safety	3,213,194	919,021	812,785
Infrastructure and Environmental Services	730,466	420,055	-
Health and Welfare	120,417	22,719	-
Administration of Justice	923,677	353,135	114,353
Community and Economic Development	1,038,858	-	-
Bond Interest	118,805	-	-
Intergovernmental	323,278	-	-
TOTAL PRIMARY GOVERNMENT:	\$ 8,535,148	\$ 1,964,164	\$ 940,540

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes
Property Taxes, Levied for Debt Service
Sales Taxes
Hotel Occupancy Taxes
Franchise Taxes
Penalty and Interest
Grants and Contributions Not Restricted (PILOT)
Miscellaneous Revenue
Investment Earnings

Total General Revenues

Change in Net Position

Net Position- Beginning
Prior Period Adjustment
Net Position--Ending

The notes to the financial statements are an integral part of this statement.

EXHIBIT2

Net (Expense) Revenue and Changes in Net Position	
Capital Grants and Contributions	Primary Government Governmental
\$ -	\$ (1,803,817)
18,772	(1,462,616)
-	(310,411)
-	(97,698)
-	(456,189)
-	(1,038,858)
-	(118,805)
-	(323,278)
<u>\$ 18,772</u>	<u>(5,611,672)</u>

2,509,306
247,955
554,104
952,167
917
36,886
1,222,259
184,061
12,340
<u>5,719,995</u>
108,323
11,452,922
(59,457)
<u>\$ 11,501,788</u>

BREWSTER COUNTY, TEXAS
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General Fund	Road & Bridge Fund	HIDTA All Initiatives
ASSETS			
Cash and Cash Equivalents	\$ 2,888,615	\$ 48,507	\$ -
Intergovernmental Receivables	232	-	-
Due from Other Funds	174,392	-	-
Total Assets	<u>\$ 3,063,239</u>	<u>\$ 48,507</u>	<u>\$ -</u>
LIABILITIES			
Payroll Withholdings	\$ 95,538	\$ 3,445	\$ 2,974
Intergovernmental Payable	79,376	59,139	-
Due to Other Funds	-	-	40,691
Total Liabilities	<u>174,914</u>	<u>62,584</u>	<u>43,665</u>
FUND BALANCES			
Restricted Fund Balance:			
Federal or State Funds Grant Restriction	-	-	-
Retirement of Long-Term Debt	-	-	-
Other Restricted Fund Balance	-	-	-
Committed Fund Balance:			
Other Committed Fund Balance	82,666	-	-
Unassigned Fund Balance	2,805,659	(14,077)	(43,665)
Total Fund Balances	<u>2,888,325</u>	<u>(14,077)</u>	<u>(43,665)</u>
Total Liabilities and Fund Balances	<u>\$ 3,063,239</u>	<u>\$ 48,507</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

EXHIBIT 3

Tourism Council	Debt Service Fund	Other Funds	Total Governmental Funds
\$ 836,085	\$ 151,082	\$ 479,236	\$ 4,403,525
-	-	-	232
-	-	-	174,392
<u>\$ 836,085</u>	<u>\$ 151,082</u>	<u>\$ 479,236</u>	<u>\$ 4,578,149</u>
\$ 565	\$ -	\$ 379	\$ 102,901
-	-	-	138,515
-	60,070	73,631	174,392
<u>565</u>	<u>60,070</u>	<u>74,010</u>	<u>415,808</u>
-	-	16,570	16,570
-	91,012	-	91,012
835,520	-	447,207	1,282,727
-	-	-	82,666
-	-	(58,551)	2,689,366
<u>835,520</u>	<u>91,012</u>	<u>405,226</u>	<u>4,162,341</u>
<u>\$ 836,085</u>	<u>\$ 151,082</u>	<u>\$ 479,236</u>	<u>\$ 4,578,149</u>

BREWSTER COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - MODIFIED CASH
BASIS GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	General Fund	Road & Bridge Fund	HIDTA All Initiatives
REVENUES:			
Taxes:			
Property Taxes	\$ 2,509,306	\$ -	\$ -
General Sales and Use Taxes	554,104	-	-
Hotel Occupancy Taxes	-	-	-
Franchise Tax	917	-	-
Penalty and Interest on Taxes	31,706	-	-
Licenses and Permits	3,422	245,096	-
Intergovernmental Revenue and Grants	1,290,752	-	291,734
Charges for Services	1,180,757	-	-
Fines	141,100	-	-
Forfeits	-	-	-
Special Assessments	-	156,532	-
Investment Earnings	8,032	-	-
Rents and Royalties	44,779	-	-
Contributions & Donations from Private Sources	4,000	-	-
Other Revenue	133,951	-	-
Total Revenues	5,902,826	401,628	291,734
EXPENDITURES:			
Current:			
General Government	1,947,282	-	-
Public Safety	2,079,633	-	269,813
Infrastructure and Environmental Services	8,885	486,866	-
Health and Welfare	119,964	-	-
Administration of Justice	850,267	-	-
Community and Economic Development	140,562	-	-
Debt Service:			
Bond Principal	-	-	-
Bond Interest	-	-	-
Capital Outlay:			
Capital Outlay	23,495	133,182	-
Intergovernmental:			
Intergovernmental	323,278	-	-
Total Expenditures	5,493,366	620,048	269,813
Excess (Deficiency) of Revenues Over (Under) Expenditures	409,460	(218,420)	21,921
OTHER FINANCING SOURCES (USES):			
Transfers In	47,608	200,000	-
Transfers Out (Use)	(220,000)	-	-
Total Other Financing Sources (Uses)	(172,392)	200,000	-
Net Change in Fund Balances	237,068	(18,420)	21,921
Fund Balance - January 1 (Beginning)	2,709,993	(30,822)	(67,289)
Prior Period Adjustment	(58,736)	35,165	1,703
Fund Balance - December 31 (Ending)	\$ 2,888,325	\$ (14,077)	\$ (43,665)

The notes to the financial statements are an integral part of this statement.

Tourism Council	Debt Service Fund	Other Funds	Total Governmental Funds
\$ -	\$ 247,955	\$ -	\$ 2,757,261
-	-	-	554,104
952,167	-	-	952,167
-	-	-	917
-	5,180	-	36,886
-	-	7,067	255,585
-	-	595,085	2,177,571
-	-	159,708	1,340,465
-	-	781	141,881
-	-	67,055	67,055
-	-	7,942	164,474
3,735	130	443	12,340
-	-	-	44,779
-	-	-	4,000
-	-	35	133,986
955,902	253,265	838,116	8,643,471
-	-	24,500	1,971,782
-	-	387,348	2,736,794
-	-	-	495,751
-	-	-	119,964
-	-	71,325	921,592
864,571	-	32,047	1,037,180
-	155,000	-	155,000
-	118,805	-	118,805
76,443	-	300,197	533,317
-	-	-	323,278
941,014	273,805	815,417	8,413,463
14,888	(20,540)	22,699	230,008
-	-	67,608	315,216
(95,216)	-	-	(315,216)
(95,216)	-	67,608	-
(80,328)	(20,540)	90,307	230,008
915,848	123,708	340,352	3,991,790
-	(12,156)	(25,433)	(59,457)
\$ 835,520	\$ 91,012	\$ 405,226	\$ 4,162,341

BREWSTER COUNTY, TEXAS
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
DECEMBER 31, 2016

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 360,376
Total Assets	<u>\$ 360,376</u>
LIABILITIES	
Due to Others	\$ 360,376
Total Liabilities	<u>\$ 360,376</u>

The notes to the financial statements are an integral part of this statement.

BREWSTER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note F, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Financial Reporting Entity

The County's financial reporting entity comprises the following:

Primary Government:	Brewster County, Texas
Blended Component Unit:	Brewster County Groundwater Conservation District
Discretely Presented Component Unit:	None

Primary Government

Brewster County was organized under the appropriate articles of the Constitution of the State of Texas. A County Judge and one commissioner from each of four precincts within the County govern the County. The County provides the following services: general government, public safety (law enforcement), infrastructure and environmental, health and welfare, administration of justice, and community and economic development. The County does not have legislative authority.

Blended Component Unit

A *blended component unit* is a separate legal entity for which the elected officials of the primary government are financially accountable and that meets the blended component unit criteria. A blended component unit meets at least one of the following criteria: (a) the blended component unit's governing body is the same or substantially the same as the Commissioners Court, and there is a financial benefit or burden relationship with the County, or County management has operational responsibility for the component unit; (b) the component unit provides services entirely or almost entirely to the County; or (c) the component unit's debt is expected to be repaid entirely or almost entirely with resources of the County. The blended component unit's funds are blended into those of the County by appropriate fund type to constitute the primary government presentation.

Discretely Presented Component Unit

Discretely presented component units are separate legal entities that meet the financial accountability component unit criteria but do not meet the criteria for blending, as previously described.

Evaluation of Component Units

Based on the application of the criteria described above, the following is a brief overview of each potential component unit addressed in defining the governmental entity.

(Continued)

BREWSTER COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Brewster County Groundwater Conservation District-Blended Component Unit

Brewster County Commissioner's Court appoints members to the Board of Directors and the District is financially dependent upon Brewster County. Consequently the District is considered a blended component unit and its activities at and for the year ended December 31, 2016 have been presented in the fund financial statements as a special revenue fund.

Tri-County Juvenile Probation Department - Separate Entity

Brewster, Jeff Davis, and Presidio County judges have oversight duties of the Tri-County Juvenile Probation Department. Brewster County is the fiscal agent for those monies. The County has one representative on the juvenile probation's board of directors. The County has no authority in selecting the management of the juvenile probation and Tri County Juvenile Probation Department is considered a separate entity. Brewster County has a fiduciary responsibility for Tri-County Juvenile Probation Department and reports the department as an agency fund. However, the Department is not a component unit.

B. Related Organizations

Related organizations provide services within the County that are administered by separate boards or commissions, but the County is not financially accountable, and such organizations are therefore not component units of the County, even though Commissioners Court may appoint a voting majority of an organization's board. Consequently, financial information for the following entity is not included within the scope of these financial statements.

Emergency Services District #1 - A related organization of the County includes the Emergency Services District #1 which was created to implement emergency services to a specific area.

Brewster County Appraisal District - Separate Entity

Appraisal districts were created by the Texas Legislature and operate to provide accurate property values for all taxing entities in the respective counties. Representation on the Brewster Appraisal district is provided to each taxing entity in proportion to their share of total appraised value. The County has one representative on the appraisal district's board of directors. Each taxing authority has the responsibility to fund the district and has input as to the budget amounts. The County has no authority in selecting the management of the appraisal district. By legislative act, the district is to be independent and separate from the participating entities and therefore, its financial statements are not included with Brewster County's statements.

C. Government-wide Statements

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The County's basic financial statements include both government-wide and fund financial statements and categorize primary activities as either governmental or business type. The County's general government, public safety, infrastructure and environmental services, health and welfare, administration of justice, and community and economic development activities are classified as governmental activities.

(Continued)

BREWSTER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the government-wide Statement of Net Position, both governmental and business-type activities columns are presented on a consolidated basis. As of December 31, 2016 the County had no business type activities to report. The County's net position is reported in three parts-net investment in capital assets; restricted net position; and unrestricted net position.

The government-wide Statement of Activities reports both the gross and net cost of each of the County's governmental functions and business type. Governmental activities generally are financed through taxes, intergovernmental revenues and fines and fees and other nonexchange revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues. Program revenues must be directly associated with the function. Operating grants include *operating* specific and discretionary (either operating or capital) grants while the capital grants column reflects *capital* specific grants. The County does not allocate indirect costs.

This government-wide focus is more on the sustainability of the County as an entity and the change in the County's net position resulting from the current year's activities.

D. Fund Financial Statements

The financial transactions of the County are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance/net position, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

E. Fund Accounting

The County accounts for its activities in two types of funds (Governmental and Fiduciary) and two account groups (Long-term debt and Capital Assets). As of December 31, 2016, the County had no capital projects funds.

GOVERNMENTAL FUNDS - The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income.

The County reports the following major governmental funds:

1. **General Fund** - The general fund is the County's primary operating fund of the County and always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund includes the Jail Infrastructure fund to track committed funds specific to jail infrastructure. These funds have been consolidated for financial reporting purposes.
2. **Road & Bridge Fund** - The County accounts for road & bridge fees and disbursements related to the repair and maintenance of the County's roads in the road and bridge fund.

(Continued)

BREWSTER COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. HIDTA - All Initiatives - The County accounts for federal financial assistance passed through the office of National Drug Control Policy used to reduce drug trafficking and drug production in the United States.
4. Tourism Council Fund - The County accounts for receipts, primarily from hotel occupancy taxes, and disbursements related to the promotion of tourism to the Brewster County, Texas in the tourism council fund.
5. Debt Service Fund - The County accounts for resources accumulated and payments made for principal and interest on general long-term debt of governmental funds in a debt service fund.

Additionally, the County reports the following fund types:

GOVERNMENTAL FUNDS:

1. Special Revenue Funds-The County accounts for the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes other than debt service or capital projects in a special revenue fund. Most federal and state financial assistance is accounted for in a special revenue fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

FIDUCIARY FUNDS

1. Agency Funds - The County accounts for resources held for others in a custodial capacity in agency funds. These resources are not available to support County programs. Agency funds include the following:

Historical Commission is used to account monies held by the County in trust for the Historical Commission used for the historical preservation of sites within Brewster County.

County Attorney fund is used to account for the collections and disbursement of insufficient fund checks filed with the County Attorney by area merchants.

District Clerk Bonds is used to account for bond monies related to criminal cases held in trust until case is determined.

District Clerk Other and *County Clerk Other* are used to account for restitution amounts held in trust until the related case is resolved.

District Clerk Child Support and *County Clerk Child Support* are used to account for the collections and disbursements of the child support funds.

County Clerk Bonds is used to account for bond monies related to civil cases held in trust until case is determined.

(Continued)

BREWSTER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inmate Trust Fund is used to account for monies held in trust collected at the time of booking and refunded to inmates upon release.

Tri-County Juvenile Probation is used to account monies held by the County in trust for the Tri-County Juvenile Probation Department.

Child Welfare Board is used to account monies held by the County in trust for the Child Welfare Board.

Passports is used as a clearing account for monies collected for the Passport program pending allocation to the County treasury.

The emphasis in fund financial statements is on the major funds in either the governmental or business type activities categories. Non-major funds by category are summarized into a single column.

The County's fiduciary funds are presented in the fiduciary fund financial statements by type (trust and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

F. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as subsequently defined in item (2) below.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

1. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

(Continued)

BREWSTER COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. The government-wide statements utilize an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position and net financial position. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with the activities are generally reported within the limitations of the modified cash basis of accounting.

Modified Cash Basis of Accounting

The County's basic financial statements have been presented using the modified cash basis of accounting (also referred to as the cash basis of accounting) which is a comprehensive basis of accounting other than generally accepted accounting principles. Revenues are recognized when received and expenses are recognized when paid. Only cash (and cash equivalents) and items that involve the receipt or disbursement of cash (or cash equivalents) during the period are recognized, except for the following modifications:

1. Interfund receivables and payables that arise from transactions and events involving cash or cash equivalents are recognized;
2. Assets that normally convert to cash or cash equivalents (e.g. certificates of deposit, marketable investments, and receivables resulting from loans) that arise from transactions and events involving cash or cash equivalents are recognized;
3. Liabilities for cash (or cash equivalents) held on behalf of others, held in escrow, or received in advance of being earned or meeting eligibility requirements are recognized;
4. Capital assets, including related depreciation, that arise from cash transactions and events (by definition this would exclude donated and capital lease transactions) are recognized in the government-wide statements and fiduciary fund statements only;
5. Long-term liabilities that arise from cash transactions and events are recognized in the government-wide statements and fiduciary fund statements only.

The use of the modified cash basis of accounting results in certain assets and their related revenues (such as accounts receivable and revenues for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable, expenses for goods and services received but not yet paid, and accrued expenses and liabilities) *not* being recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the County utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

(Continued)

BREWSTER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Other Accounting Policies

1. The County has defined cash to include cash on hand, demand deposits, and cash with fiscal agents. Additionally, each fund's position in the external investment pool is treated as a cash equivalent because the County can deposit or effectively withdraw cash at any time without prior notice or penalty.
2. Investments are reported at cost, the amount of the cash outflow to acquire the investment.
3. The funds of the County must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law**. The depository bank places approved pledged securities for safekeeping and trust with the County's agent bank in an amount sufficient to protect County funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.
4. The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the County to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the County to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers' acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act. Management asserts that the County is in substantial compliance with the requirements of the Act and with local policies.
5. Additional policies and contractual provisions governing deposits and investments for the County are specified below:

Credit Risk:

Deposits - This is not applicable to the County.

Temporary Investments - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the County limits investments to those that have received top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of December 31, 2016, the County's investments in TexSTAR and TexPool investment pools were rated AAAm by Standard and Poor's.

(Continued)

BREWSTER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Custodial Credit Risk:

Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the County complies with this law, it has minimal custodial credit risk for deposits.

Temporary Investments - To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party, the County requires counterparties to register the securities in the name of the County and hand them over to the County or its designated agent. This includes securities in securities lending transactions. Investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book-entry form.

Concentration of Credit Risk:

Deposits - This is not applicable to the County.

Temporary Investments - To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the County's policy states that the portfolio must be diversified. Concentration of Credit Risk is not applicable to investment pools since the purpose of these pools is to diversify the County's investment portfolio.

Interest Rate Risk:

Deposits - This is not applicable to the County.

Temporary Investments - To limit the risk that changes in interest rates will adversely affect the fair value of the investments, the County requires its internally created pool fund groups of the County to have a maximum dollar weighted maturity of 180 days, other individual investments owned by the County to have maximum maturities of less than one year from the time of purchase. The County reserves its authority to authorize longer maturities for a given investment, within legal limits. All of the County's investment pools qualify as a 2a7-like pools and are excluded from the interest rate risk disclosure requirement. See Note IV for further details.

Foreign Currency Risk:

Deposits - The County attempts to limit the risk that changes in exchange rates will adversely affect a deposit by avoiding deposits denominated in a foreign currency.

(Continued)

BREWSTER COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporary Investments - The County attempts to limit the risk that changes in exchange rates will adversely affect the fair value of an investment by avoiding investment pools or securities which are denominated in a foreign currency.

6. The County does not inventory supplies. Supplies are expended when purchased and the effect to the financial statements is not considered to be material.
7. Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. 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 expended as incurred. Depreciation on all assets is provided on the straight line basis over the following estimated useful lives:

Buildings	20-40 years
Building restoration	30 years
Machinery and equipment	3-15 years
Improvements	10-30 years
Other infrastructure	10-50 years

The County reports and depreciates new infrastructure assets. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. The County elected to implement the infrastructure provisions on a prospective basis for infrastructure investments occurring subsequent to January 1, 2003.

8. The County permits compensated absences for vacation and sick leave accumulated monthly based on years of service. An employee is to be paid for unused vacation time for a maximum of 336 hours upon separation from service, including death. An employee's estate is to be paid for one-half of unused sick leave for a maximum of 336 hours if the employee dies while employed by the County. An employee is not compensated for sick leave under any other separation from service. The total dollar amount of unpaid vacation benefits as of December 31, 2016 was \$87,134, which will be expended in the reporting period when paid in accordance with the modified cash basis of accounting.
9. During 2014, Commissioners Court approved changes to the qualifications and conditions to be eligible for post-retirement healthcare benefits. Adopted and effective July 14, 2014, the primary changes were the removal of creditable service being continuous, 15 years of service was reduced to 10 years of service for full-time employees and 8 years for elected officials regardless of hire date. However, on May 15, 2015, the policy was rescinded and the original policy was reinstated.

(Continued)

BREWSTER COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The County's original policy provides post-retirement healthcare and life benefits to employees and elected officials that retire after 15 years of continuous creditable service for employees and elected officials hired subsequent to September 1, 2000 and 10 years of continuous creditable service for employees and elected officials hired prior to that date, subject to other restrictions detailed in the Employee Handbook adopted July 2013. In 2016, seventeen County retirees received post-retirement benefits at a total cost of \$149,202, to the County for insurance premiums paid. The County reports post-retirement benefits on a modified cash basis which records expense in the reporting period when paid.

10. Interfund activity is reported either as a loan, services provided, reimbursements or transfers. 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/expenses. Reimbursements are 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 between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

11. The preparation of financial statements in conformity with the modified cash basis of accounting used by the County requires management to make estimates and assumptions that affect certain reported amounts and disclosures such as estimated useful lives in determining depreciation expense; accordingly, actual results could differ from those estimates.
12. The County has adopted the fund balance classifications prescribed by GASB. Fund balances are classified as nonspendable, restricted, committed, assigned and unassigned based on the circumstances that apply. In accordance with County policy:
 1. Nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
 2. Restricted fund balance classification includes funds with constraints placed on the use of resources which were either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
 3. Committed fund balances include amounts that can only be used for specific purposes pursuant to constraints imposed by court resolution/formal action of the commissioners' court which is the government's highest level of decision-making authority.

(Continued)

BREWSTER COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Assigned fund balances include amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the commissioners' court action or (b) by the County Judge who is the official delegated by the commissioners' court with the authority to assign amounts to be used for specific purposes.
5. Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

For the classification of fund balances the County considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available and (2) the County considers committed and assigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Minimum Fund Balance Policies - The County has not formally adopted a minimum fund balance policy; however, in practice, deficit funds are classified as unassigned since the deficits are typically paid through pooled cash overdrafts.

13. The County's annual ad valorem property tax is required to be levied by September 1, or as soon thereafter as practicable, on the assessed value listed as of the prior January 1 for all real and certain personal property. Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year of the levy. Penalties and interest begin accruing on February 1. On January 1 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed.

All taxes are assessed based on 100% of the actual value of property. The State Constitution and the County Charter set a maximum tax rate per \$100 valuation of \$.80. There is no debt limit or margin set by State Law or County Charter. The tax rate adopted during 2016 was \$.395400 per \$100 valuation.

The Texas Property Tax Code (Code), with certain exceptions, exempts intangible personal property, household goods, and family-owned automobiles from taxation. In addition, the Code provides for the establishment of countywide appraisal districts. Since January 1, 1983, the appraisal of property within the County has been the responsibility of the countywide appraisal district.

(Continued)

BREWSTER COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The appraisal district is required under the Code to appraise all taxable property within the appraisal district on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of real property within the appraisal district must be reviewed every four years; however, the County may, at its own expense, require annual reviews of appraised values. The County may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action.

The County Tax Office collects County property taxes for the County and six other local governments. At the first of the year, tax receivables represent delinquent and current year uncollected taxes. Major tax payments are received December through April, and are recognized as revenue in the year received. Delinquent tax payments, received throughout the year, are recognized as revenue in the year received.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Position

The reconciliation below reconciles certain differences between the funds balance for total governmental funds on the governmental funds balance sheet and the net position for governmental activities as reported in the government-wide statement of net position.

**Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position - Modified Cash Basis**

Total Fund Balances - Governmental Funds	\$ 4,162,341
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Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$19,738,353 and the accumulated depreciation was \$9,632,221. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.

7,461,132

(Continued)

BREWSTER COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(Continued)**

**Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position - Modified Cash Basis**

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2016 capital outlays and debt principal payments is to increase net position. 688,317

The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. (810,002)

Net Position of Governmental Activities \$ 11,501,788

B. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The reconciliation below reconciles the differences between the net changes in funds balance as shown on the governmental funds statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities.

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities - Modified Cash Basis**

Total Net Change in Fund Balances - Governmental Funds \$ 230,008

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2016 capital outlays and debt principal payments is to increase net position. 688,317

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position. (810,002)

Change in Net Position of Governmental Activities \$ 108,323

(Continued)

BREWSTER COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

III. LEGAL COMPLIANCE - BUDGETS

The County Judge serves as the Budget Officer for the Commissioners Court of the County. Budgets are adopted by Commissioners Court on a cash basis.

The Budget Officer prepares a proposed budget utilizing spending requests received from the various County departments and agencies. This proposed budget contains the County Judge's estimate of revenues. The Commissioners Court may not legally adopt an annual operating budget containing appropriations in excess of the available funds at the beginning of the fiscal year and the anticipated revenues for the fiscal year as estimated by the County Judge.

Public hearings pertaining to the proposed budget are conducted by Commissioners Court and the Budget Officer. During these hearings, the department heads are requested to explain and justify their spending requests. Before determining the final budget, Commissioners Court, while establishing overall spending priorities for the County, may increase or decrease the amounts requested by the different departments and agencies.

Commissioners Court must approve and adopt the budget by end of August. After approval of the budget, Commissioners Court may authorize transfers of appropriations within the various expenditure levels during the year. Such transfers, however, may not increase the overall budget total. The County budget may be increased during the course of the fiscal year for newly received bond proceeds, grants, state aid, intergovernmental contracts or unanticipated revenue received after adoption of the budget.

The legal level of budgetary control requires that all expenditures shall be made in strict compliance with the budget. The legal level of the budgetary control for the general fund and special revenue funds is effectively controlled at the category (personnel, operations, capital outlays) level by department, while control for the debt service fund and capital projects funds is at the fund level. Any budgetary changes impacting appropriations at these levels may be made only with the formal approval of the Commissioners Court.

(Continued)

BREWSTER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

At December 31, 2016, the carrying amount of the County's general fund, major and nonmajor governmental funds, and agency fund's deposits (cash and interest bearing savings accounts included in temporary investments) were \$2,984,542. Of the banks' balances, \$330,108 was secured by FDIC coverage and the balance by an irrevocable \$2,750,000 letter of credit issued by Federal Home Loan Bank of Dallas, dated July 2, 2013 and expiring July 2, 2017, in the name of the depository bank and pledged to Brewster County Commissioners Court. Although the pledged securities are not in the name of Brewster County, the deposits were deemed collateralized under Texas Law.

The County's temporary investments included in cash and cash equivalents at December 31, 2016, are shown below at fair value, which approximates the value of the pool shares.

<u>Temporary Investments</u>	<u>Fair Value</u>	<u>WAM (in days)</u>	<u>Rating</u>
TexPool	\$ 1,368,834	43	AAAm
Texas Class	<u>410,525</u>	50	AAAm
Total	<u>\$ 1,779,359</u>		

TexPool is a local government investment pool in the State of Texas. The State Comptroller of Public Accounts oversees TexPool. There is also the TexPool Advisory Board which advises on TexPool's Investment policy and approves any fee increases. The Advisory Board is composed equally of participants in TexPool and other persons who are qualified to advise TexPool. Texas Class (Texas Cooperative Liquid Assets Securities System Trust) is a pooled investment program administered by Public Trust Advisors, LLC. Texas Class is governed by the Board of Trustees which has appointed an Advisory Board composed of Participants and other persons who are qualified to advise the Trust.

TexPool and Texas Class each issue publicly available financial reports that include financial statements and required supplementary information. Those reports may be obtained by calling TexPool at 1-866-TEXPOOL and Texas Class at 1-800-707-6242 or online at www.texasclass.com.

(Continued)

BREWSTER COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

Pooled Cash - The County has a pooled checking account to accomplish cash transactions for a number of funds and sub-funds. Following is a summary of pooled cash as of December 31, 2016:

General fund:	
General	\$ 890,006
Jail infrastructure	(18,173)
Total general fund:	<u>871,833</u>
Special revenue funds:	
Road and bridge	(102,974)
Records management	125,014
County and district attorney PTD fund	70,926
Courthouse security	8,696
LEOSE training	16,570
District clerk fund	1,817
Justice court building security	1,981
JP Technology Fund	14,837
Courthouse preservation	79,684
Law Library	2,976
Fire Truck VFD	5,593
Community Facilities	3,810
Clerk technology	500
	<u>229,430</u>
	<u>\$ 1,101,263</u>

B. Property Taxes

Property taxes receivable consisted of the following at December 31, 2016 which are recognized when received using the modified cash basis of accounting:

Current taxes receivable	\$ 1,791,067
Delinquent taxes receivable	<u>303,603</u>
Ad valorem taxes receivable	<u>\$ 2,094,670</u>
Delinquent taxes by year:	
2015	\$ 64,625
2014	40,666
2013	27,920
2012	22,629
2011	19,503
2010 and prior	<u>128,260</u>
	<u>\$ 303,603</u>

(Continued)

BREWSTER COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

C. Interfund Balances and Transfers

Interfund balances are a result of normal operations and are eliminated periodically. Management intends to pay out these balances within one year.

Interfund balances at December 31, 2016 consisted of the following individual amounts:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund		
HIDTA - All Initiatives	\$ 40,691	\$ -
Debt Service Fund	60,070	-
Nonmajor Governmental Funds	73,631	-
Total General Fund	<u>174,392</u>	<u>-</u>
HIDTA - All Initiatives		
General Fund	<u>-</u>	<u>40,691</u>
Debt Service Fund		
General Fund	<u>-</u>	<u>60,070</u>
Nonmajor Governmental Funds		
General Fund	<u>-</u>	<u>73,631</u>
Total	<u><u>\$ 174,392</u></u>	<u><u>\$ 174,392</u></u>

Interfund transfers are generally to cover operating expenditures/deficits in accordance with County policy or legal requirements.

During the year, the most significant transfers were to fund operations within the Road and Bridge fund, and transfers of hotel taxes collected from the Tourism Fund restricted for the Courthouse Preservation fund, and to the General Fund to cover expenditures related to bookkeeping and audit expenses of tourism fund finances.

	<u>Transfers into:</u>			
<u>Transfers out of:</u>	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
General Fund	\$ -	\$ 200,000	\$ 20,000	\$ 220,000
Tourism Council	47,608	-	47,608	95,216
Total	<u><u>\$ 47,608</u></u>	<u><u>\$ 200,000</u></u>	<u><u>\$ 67,608</u></u>	<u><u>\$ 315,216</u></u>

(Continued)

BREWSTER COUNTY, TEXAS**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2016

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)**D. Capital Assets**

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

	Beginning Balance	Additions	Retirements & Transfers	Ending Balance
Land	\$ 604,329	\$ -	\$ -	\$ 604,329
Court house and buildings	5,655,828	8,306	-	5,664,134
Jail building	2,228,130	1,336	-	2,229,466
Machinery and equipment	6,497,527	97,848	-	6,595,375
Emergency equipment	1,848,338	197,431	-	2,045,769
Infrastructure streets	2,904,201	151,953	-	3,056,154
Work-in-progress, renovations	-	76,443	-	76,443
Totals at historical cost	19,738,353	533,317	-	20,271,670
Accumulated Depreciation	(9,632,221)	(810,002)	-	(10,442,223)
	<u>\$ 10,106,132</u>	<u>\$ (276,685)</u>	<u>\$ -</u>	<u>\$ 9,829,447</u>

Depreciation expense for the year ended December 31, 2016 as reported in the government-wide financial statements follows:

General Government	\$ 94,671
Public Safety	476,400
Infrastructure and Environmental Services	234,715
Health and Welfare Services	453
Administration of Justice	2,085
Community and Economic Development	1,678
	<u>\$ 810,002</u>

E. Intergovernmental Payable

Intergovernmental payable is primarily owed to other taxing entities and the State of Texas. When a taxpayer fails to pay its taxes, the County will sell the property. However, upon sale, the funds must be held for two years if the property was occupied or 6 months if the property was vacant before the sale proceeds can be disbursed to the taxing entities, including the County, in order to allow the delinquent taxpayer or its heirs to redeem the property. These funds are held in the District Excess Tax account in the General Fund.

(Continued)

BREWSTER COUNTY, TEXAS**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016****IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)**

The court fines, court fees, vehicle registration fees, and vehicle sales tax collected by the County on behalf of the State of Texas are recorded as an intergovernmental payable on the balance sheet and the County's portion is recorded as revenue in the Statement of Revenues, Expenditures and changes in Fund Balance. The court fines and fees are generally remitted to the State the month after each quarter end with the filing of the State Criminal Costs and Fees report. Vehicle registration fees are generally remitted to the State at the end of each week and vehicle sales tax are generally remitted to the State the month after the Tax Assessors/Collectors office has collected the fees.

At December 31, 2016, the carrying amount in the intergovernmental balance was as follows:

	General Fund	Road & Bridge Fund	Total
Due to Taxing Authorities	\$ 39,109	\$ -	\$ 39,109
Due to State of Texas	40,267	59,139	99,406
Total	<u>\$ 79,376</u>	<u>\$ 59,139</u>	<u>\$ 138,515</u>

F. Long-term Debt

Long-term liability activity for the year ended December 31, 2016, was as follows:

Description	Beginning Balance	Issued	Retired	Ending Balance	Due Within One Year
Certificates of Obligation, Series 2008	\$ 2,645,000	\$ -	\$ 155,000	\$ 2,490,000	\$ 160,000
	<u>\$ 2,645,000</u>	<u>\$ -</u>	<u>\$ 155,000</u>	<u>\$ 2,490,000</u>	<u>\$ 160,000</u>

The annual debt service requirements to maturity, including principal and interest, as of December 31, 2016 are as follows:

Year Ending	Principal	Interest	Total
2017	\$ 160,000	\$ 112,425	\$ 272,425
2018	165,000	105,639	270,639
2019	175,000	98,414	273,414
2020	180,000	90,690	270,690
2021	190,000	82,458	272,458
2022 - 2026	1,100,000	267,286	1,367,286
2027 - 2028	520,000	26,250	546,250
	<u>\$ 2,490,000</u>	<u>\$ 783,162</u>	<u>\$ 3,273,162</u>

(Continued)

BREWSTER COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

Certificates of Obligation, Series 2008 - In September 2008, the County issued Certificates of Obligation in the amount of \$2,925,000 to provide construction funds to construct three Emergency Response Centers, renovate the old Alpine library for office space, and fund various other County facilities construction and improvements net of bond issuance costs that totaled \$109,654. Interest accruing at rates ranging from 3.5% to 5% is to be paid semi-annually on February 15, and August 15 commencing on February 15, 2010. Principal maturities are scheduled to be paid February 15th each year. The Certificates maturing on February 15, 2019, February 15, 2021 and February 15, 2028 (term certificates) are also subject to mandatory sinking fund redemption prior to maturity.

G. Fund Balances

The following schedule discloses the details of fund balance classifications as of December 31, 2016:

	General Fund	Road & Bridge Fund	HIDTA - All Initiatives	Tourism Council	Debt Service	Other Funds	Total
<i>Restricted:</i>							
Records Management and Preservation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 126,831	\$ 126,831
Pre-Trial Diversion Program	-	-	-	-	-	70,926	70,926
Courthouse Security	-	-	-	-	-	10,677	10,677
Marathon EMS	-	-	-	-	-	72	72
Groundwater Conservation	-	-	-	-	-	23,800	23,800
Sheriff Seized Property	-	-	-	-	-	60,588	60,588
Sheriff Abandoned Vehicles	-	-	-	-	-	20,636	20,636
County Attorney Hot Checks	-	-	-	-	-	6,682	6,682
JP Technology Fund Courthouse	-	-	-	-	-	14,837	14,837
Preservation	-	-	-	-	-	86,170	86,170
Law Library	-	-	-	-	-	2,976	2,976
Fire Truck Stations	-	-	-	-	-	5,593	5,593
Community Facilities	-	-	-	-	-	3,810	3,810
Clerk's Technology	-	-	-	-	-	500	500
County Jail	-	-	-	-	-	13,109	13,109
Tourism Promotion	-	-	-	835,520	-	-	835,520
Debt Service	-	-	-	-	91,012	-	91,012
Total other restricted	-	-	-	835,520	91,012	447,207	1,373,739
Restricted for Grants:							
LEOSE Training	-	-	-	-	-	16,570	16,570
Total restricted for grants	-	-	-	-	-	16,570	16,570
Total restricted	-	-	-	835,520	91,012	463,777	1,390,309

(Continued)

BREWSTER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

	General Fund	Road & Bridge Fund	HIDTA - All Initiatives	Tourism Council	Debt Service	Other Funds	Total
Committed:							
Jail infrastructure	82,666	-	-	-	-	-	82,666
Total committed	82,666	-	-	-	-	-	82,666
Unassigned:	2,805,659	-	-	-	-	-	2,805,659
Fund deficits							
Infrastructure	-	(14,077)	-	-	-	-	(14,077)
HIDTA	-	-	(43,665)	-	-	-	(43,665)
Homeland	-	-	-	-	-	(31,469)	(31,469)
Crime Victims Grant	-	-	-	-	-	(9,946)	(9,946)
Borderstar	-	-	-	-	-	(17,136)	(17,136)
Total unassigned	2,805,659	(14,077)	(43,665)	-	-	(58,551)	2,689,366
Total fund balances	\$ 2,888,325	\$ (14,077)	\$ (43,665)	\$ 835,520	\$ 91,012	\$ 405,226	\$ 4,162,341

Deficits are expected to be liquidated upon receipt of outstanding reimbursements.

H. Retirement Plan Commitments

Plan Description: The County provides a pension benefit for all of its full-time and part-time non-temporary employees, regardless of the number of hours worked in a year, through an agent multiple-employer defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). TCDRS is an agency created by the State of Texas and administered in accordance with the TCDRS Act, Title 8, Subtitle F, Texas Government Code (the TCDRS Act). The Board of Trustees of the TCDRS is responsible for the administration of the statewide agent multiple-employer public retirement system consisting of 738 employers. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034 or online at:

<https://www.tcdrs.org/Employer/EmployerServices/Pages/Publications.aspx>.

Benefits Provided: TCDRS provides retirement, disability, and death benefits. The Plan provisions are adopted by the governing body of Brewster County, Texas, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the County within the actuarial constraints imposed by the TCDRS Act so that resulting benefits are expected to be adequately financed by the County's commitment to contribute. The employee's savings grow, by law, at a rate of seven percent (7%), compounded annually. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

(Continued)

BREWSTER COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

The employees and beneficiaries covered by the benefit terms at the December 31, 2016 valuation and measurement date were as follows:

Inactive employees or beneficiaries currently receiving benefits	43
Inactive employees entitled to but not yet receiving benefits	108
Active employees	<u>87</u>
Total covered employees and beneficiaries	<u><u>238</u></u>

Members can retire at age sixty (60) and above with eight (8) or more years of service, with thirty (30) years of service regardless of age, or when the sum of their age and years of service equals seventy-five (75) years or more. Members are vested after eight (8) years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer. There are no automatic post-employment benefit changes, including automatic COLAs.

Contributions: The contribution rates for employees are 7% of compensation, as adopted by the County's governing body and deposited monthly with TCDRS. Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer's plan. 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.

Under the TCDRS Act, the employer is legally required to make 100% of the contribution specified in the funding policy on an annual basis. Each employer has the opportunity to make additional contributions in excess of its annual required contribution rate either by adopting an elected rate that is higher than the required rate or by making additional contributions on an ad hoc basis. Employers may make additional contributions to pay down their liabilities faster, pre-fund benefit enhancements and/or buffer against future adverse experience.

The contribution rate payable by the employee members for the plan's calendar year 2016 and the County's fiscal year ending December 31, 2016 was seven percent (7%) as adopted by the governing body of the County. The County contributed using the actuarially determined rate of 10.43% for the fiscal year ending December 31, 2016. The employee contribution rate and the employer contribution rate may be amended by the governing body of the employer within the options available under the TCDRS Act. Based upon reporting to TCDRS, the County's contributions to TCDRS for the year ended December 31, 2016 were \$ 334,056 and were more than the required contributions of \$328,862.

(Continued)

BREWSTER COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

The County has included applicable disclosures as a result of *GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date* within the limitations of modified cash basis of accounting.

I. Tax Abatements

The County enters into property tax abatement agreements with local businesses under the state Property Redevelopment and Tax Abatement Act, Texas Tax Code Chapter 312. Under the Act, the commissioners court of a county may designate an area of the county as a reinvestment zone if it finds that the designation would contribute to the economic development of the county. The commissioners court may execute a tax abatement agreement with the owner of taxable real property or tangible personal property located in the reinvestment zone to exempt from taxation all or a portion of the value of the real and/or personal property. The abatements may be granted to businesses for new facilities and structures or for the expansion or modernization of existing facilities and structures. To be eligible for designation as a reinvestment zone and to receive tax abatement, the proposed project must be reasonably shown to have an estimated cost upon completion of at least \$50 million dollars. In circumstances where the agreement is terminated as a result of default by the business entity, the County shall have the right to recapture abated taxes.

The County has executed three property abatement agreements at December 31, 2016 under this program. However, there were no abated property taxes in the fiscal year ended December 31, 2016 related to these agreements as the tax abatements are to commence on January 1, 2017. The property tax abatements have been provided to solar energy generation facilities for constructing and installing their facilities within the reinvestment zone and remaining in place at least 20 years upon completion, creating jobs of 1 or more, and providing payments, including payments in lieu of taxes, to the County as scheduled. The County has elected to disclose all tax abatement agreements, which are as follows:

(Continued)

BREWSTER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

Name	Estimated Investment	Abatement Period	Specific taxes being abated and mechanism	Payments Received at 12/31/2016	Payments Committed
Solair Holman, LLC	\$160 million	10 years	60% of all County ad valorem taxes on the certified appraised value of all improvements and all otherwise taxable personal property	\$ -	Beginning first year of abatement, payments of \$30,000 (year 1), \$20,000 (year 2) and \$12,500 (years 3 to 10) in addition to any ad valorem tax obligations
Hecate Energy Brewster, LLC	\$65 million	10 years	70% of all County ad valorem taxes on the certified appraised value of all improvements and all otherwise taxable personal property	\$ 10,000	Payments of \$10,000 initially with annual payments of \$50,000 in lieu of property taxes for the first and second year, contingent upon constructing and installing the facility at the site. No other payments will be made in lieu of property taxes for years 3 through 10 of the term of the abatement.
River Rock Solar, LLC	\$75 million	10 years	70% of all County ad valorem taxes on the certified appraised value of all improvements and all otherwise taxable personal property	\$ 10,000	Payments of \$10,000 initially with annual payments of \$50,000 in lieu of property taxes for the first and second year, contingent upon constructing and installing the facility at the site. No other payments will be made in lieu of property taxes for years 3 through 10 of the term of the abatement.

J. Other Commitments and Contingencies

Leases - The County leases real property from the American Legion Big Bend Post 79 for purposes of additional parking for the Brewster County Courthouse Complex. In exchange, the County shall pave certain lots of the property and provide for maintenance and repairs during the term. Either party may terminate the lease by providing a 30 day written notice.

Litigation - During the normal course of business, the County was subject to various legal claims. As of December 31, 2016, the County was the subject of litigation. However, no amounts are presented on these modified cash basis financial statements. Such litigation will be defended vigorously. Management believes that any amount incurred would be covered by insurance.

(Continued)

BREWSTER COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

Federal and State Funding - The County receives Federal and State Grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the grantors for expenditures disallowed under the terms and conditions of the appropriate agency. Upon Texas Department of Agriculture's (Agency) review of the County's prior years' audit reports, the Agency allowed the County to finalize the open grants awarded under their agency upon certain conditions prescribed by the agency. As noted at the subsequent event note the County has been deemed ineligible for future grant awards by this agency.

Risk Management - The County is exposed to risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2016, Brewster County participated in a risk pool through the Texas Association of Counties as deemed necessary to protect against member losses. The County remains exposed to any losses, which would exceed the resources and commercial insurance of the association. There has been no significant reductions in insurance coverage from prior years and settlements have not exceeded coverage for the past year.

K. Related Party Transactions

As of December 31, 2016, the County had paid expenditures totaling \$81,943 involving transactions with County Officials. These transactions related to payments made to a vendor which is owned by the Chief Deputy of the Sheriff's Office, another vendor owned by a relative of the Chief Deputy of the Sheriff's office, another vendor which is owned by the Sheriff's spouse, another vendor which employs one of the County Commissioners and another vendor owned by one of the County Commissioners. County Officials abstained from voting when these expenditures were approved by Commissioners Court.

L. Prior Period Adjustments

The following is a summary of prior period adjustments and the effect on net position for fiscal year ending December 31, 2016:

	General Fund	Road & Bridge Fund	HIDTA - All Initiatives	Debt Service Fund	Other Funds	Total
Cash	\$ 68,828	\$ -	\$ -	\$ -	\$ -	\$ 68,828
Payroll Withholdings	(110,921)	(1,714)	1,703	-	2,679	(108,253)
Intergovernmental Payable	(90,788)	36,879	-	-	-	(53,909)
Tax Receipts reclassified to proper period	46,033	-	-	(12,156)	-	33,877
Expenditures from prior period reclassified to proper fund	28,112	-	-	-	(28,112)	-
Total Increase (Decrease)	\$ (58,736)	\$ 35,165	\$ 1,703	\$ (12,156)	\$ (25,433)	\$ (59,457)

(Continued)

BREWSTER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

M. Subsequent Events

Despite efforts by the County to reconsider, on September 1, 2017 the County received a letter from the Texas Department of Agriculture (TDA) notifying management that the County was deemed ineligible to receive grant awards from their agency for a period of five years, beginning September 30, 2016, and terminated the County's TxCDBG contract #721-6035 with an award of \$470,476. In recent years, award amounts have ranged from \$169,000 to \$454,000. The County is exploring any available channels to have the decision overturned.

SUPPLEMENTARY INFORMATION

BREWSTER COUNTY, TEXAS
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2016

	Records Management	County & Dist Attorney PTD Fund	Courthouse Security
ASSETS			
Cash and Cash Equivalents	\$ 125,014	\$ 70,926	\$ 8,696
Total Assets	<u>\$ 125,014</u>	<u>\$ 70,926</u>	<u>\$ 8,696</u>
LIABILITIES			
Payroll Withholdings	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Restricted Fund Balance:			
Federal or State Funds Grant Restriction	-	-	-
Other Restricted Fund Balance	125,014	70,926	8,696
Unassigned Fund Balance	-	-	-
Total Fund Balances	<u>125,014</u>	<u>70,926</u>	<u>8,696</u>
Total Liabilities and Fund Balances	<u>\$ 125,014</u>	<u>\$ 70,926</u>	<u>\$ 8,696</u>

The notes to the financial statements are an integral part of this statement.

EXHIBIT 6(Cont'd)

Marathon EMS	LEOSE Training	Brewster Cty Groundwater Conserv. Dist	Homeland Security All Initiatives	District Clerk Fund	Justice Court Bldg Security	Dist Attorney Crime Victims Comp Grant	Sheriff Awarded Account
\$ 72	\$ 16,570	\$ 23,800	\$ -	\$ 1,817	\$ 1,981	\$ -	\$ 73,753
<u>\$ 72</u>	<u>\$ 16,570</u>	<u>\$ 23,800</u>	<u>\$ -</u>	<u>\$ 1,817</u>	<u>\$ 1,981</u>	<u>\$ -</u>	<u>\$ 73,753</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	31,469	-	-	9,946	13,165
-	-	-	31,469	-	-	9,946	13,165
-	16,570	-	-	-	-	-	-
72	-	23,800	-	1,817	1,981	-	60,588
-	-	-	(31,469)	-	-	(9,946)	-
<u>72</u>	<u>16,570</u>	<u>23,800</u>	<u>(31,469)</u>	<u>1,817</u>	<u>1,981</u>	<u>(9,946)</u>	<u>60,588</u>
<u>\$ 72</u>	<u>\$ 16,570</u>	<u>\$ 23,800</u>	<u>\$ -</u>	<u>\$ 1,817</u>	<u>\$ 1,981</u>	<u>\$ -</u>	<u>\$ 73,753</u>

BREWSTER COUNTY, TEXAS
COMBINING BALANCE SHEET - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	Sheriff Abandoned Vehicles	Operation Borderstar Grants	CDBG 721-5049	County Attorney Special
ASSETS				
Cash and Cash Equivalents	\$ 22,930	\$ -	\$ -	\$ 6,682
Total Assets	<u>\$ 22,930</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,682</u>
LIABILITIES				
Payroll Withholdings	\$ -	\$ 379	\$ -	\$ -
Due to Other Funds	2,294	16,757	-	-
Total Liabilities	<u>2,294</u>	<u>17,136</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted Fund Balance:				
Federal or State Funds Grant Restriction	-	-	-	-
Other Restricted Fund Balance	20,636	-	-	6,682
Unassigned Fund Balance	-	(17,136)	-	-
Total Fund Balances	<u>\$ 20,636</u>	<u>\$ (17,136)</u>	<u>\$ -</u>	<u>\$ 6,682</u>
Total Liabilities and Fund Balances	<u>\$ 22,930</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,682</u>

The notes to the financial statements are an integral part of this statement.

EXHIBIT 6(Cont'd)

JP Technology Fund	Courthouse Preservation	Law Library	Fire Truck Fund	Community Facilities	Technology Fee for Clerks	CDBG 713-049	Inmate Commissary Fund
\$ 14,837	\$ 86,170	\$ 2,976	\$ 5,593	\$ 3,810	\$ 500	\$ -	\$ 13,109
<u>\$ 14,837</u>	<u>\$ 86,170</u>	<u>\$ 2,976</u>	<u>\$ 5,593</u>	<u>\$ 3,810</u>	<u>\$ 500</u>	<u>\$ -</u>	<u>\$ 13,109</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
14,837	86,170	2,976	5,593	3,810	500	-	13,109
-	-	-	-	-	-	-	-
<u>14,837</u>	<u>86,170</u>	<u>2,976</u>	<u>5,593</u>	<u>3,810</u>	<u>500</u>	<u>-</u>	<u>13,109</u>
<u>\$ 14,837</u>	<u>\$ 86,170</u>	<u>\$ 2,976</u>	<u>\$ 5,593</u>	<u>\$ 3,810</u>	<u>\$ 500</u>	<u>\$ -</u>	<u>\$ 13,109</u>

BREWSTER COUNTY, TEXAS
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2016

	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$ 479,236	\$ 479,236
Total Assets	<u>\$ 479,236</u>	<u>\$ 479,236</u>
LIABILITIES		
Payroll Withholdings	\$ 379	\$ 379
Due to Other Funds	73,631	73,631
Total Liabilities	<u>74,010</u>	<u>74,010</u>
FUND BALANCES		
Restricted Fund Balance:		
Federal or State Funds Grant Restriction	16,570	16,570
Other Restricted Fund Balance	447,207	447,207
Unassigned Fund Balance	(58,551)	(58,551)
Total Fund Balances	<u>405,226</u>	<u>405,226</u>
Total Liabilities and Fund Balances	<u>\$ 479,236</u>	<u>\$ 479,236</u>

The notes to the financial statements are an integral part of this statement.

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BREWSTER COUNTY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 MODIFIED CASH BASIS - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Records Management	County & Dist Attorney PTD Fund	Courthouse Security
REVENUES:			
Licenses and Permits	\$ -	\$ -	\$ -
Intergovernmental Revenue and Grants	-	-	-
Charges for Services	44,762	83,682	8,696
Fines	-	-	-
Forfeits	-	-	-
Special Assessments	-	-	-
Investment Earnings	-	-	-
Other Revenue	-	-	-
Total Revenues	<u>44,762</u>	<u>83,682</u>	<u>8,696</u>
EXPENDITURES:			
Current:			
General Government	24,500	-	-
Public Safety	-	-	-
Administration of Justice	-	18,445	-
Community and Economic Development	-	-	-
Capital Outlay:			
Capital Outlay	-	5,445	-
Total Expenditures	<u>24,500</u>	<u>23,890</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>20,262</u>	<u>59,792</u>	<u>8,696</u>
OTHER FINANCING SOURCES (USES):			
Transfers In	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	20,262	59,792	8,696
Fund Balance - January 1 (Beginning)	104,752	11,134	-
Prior Period Adjustment	-	-	-
Fund Balance - December 31 (Ending)	<u>\$ 125,014</u>	<u>\$ 70,926</u>	<u>\$ 8,696</u>

The notes to the financial statements are an integral part of this statement.

EXHIBIT 7 (Cont'd)

Marathon EMS	LEOSE Training	Brewster Cty Groundwater Conserv. Dist	Homeland Security All Initiatives	District Clerk Fund	Justice Court Bldg Security	Dist Attorney Crime Victims Comp Grant	Sheriff Awarded Account
\$ -	\$ -	\$ 7,067	\$ -	\$ -	\$ -	\$ -	\$ -
-	3,174	-	496,019	-	-	42,000	-
-	-	-	-	1,817	1,981	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	40,785
-	-	2	-	-	-	-	-
-	-	-	-	-	-	-	-
-	3,174	7,069	496,019	1,817	1,981	42,000	40,785
-	-	-	-	-	-	-	-
-	959	-	319,329	-	-	-	20,400
-	-	-	-	-	-	51,946	-
-	-	20,864	-	-	-	-	-
-	-	-	185,481	-	-	-	55,419
-	959	20,864	504,810	-	-	51,946	75,819
-	2,215	(13,795)	(8,791)	1,817	1,981	(9,946)	(35,034)
-	-	20,000	-	-	-	-	-
-	-	20,000	-	-	-	-	-
-	2,215	6,205	(8,791)	1,817	1,981	(9,946)	(35,034)
72	14,355	17,595	2,755	-	-	-	95,622
-	-	-	(25,433)	-	-	-	-
\$ 72	\$ 16,570	\$ 23,800	\$ (31,469)	\$ 1,817	\$ 1,981	\$ (9,946)	\$ 60,588

BREWSTER COUNTY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 MODIFIED CASH BASIS - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Sheriff Abandoned Vehicles	Operation Borderstar Grants	CDBG 721-5049	County Attorney Special
REVENUES:				
Licenses and Permits	\$ -	\$ -	\$ -	\$ -
Intergovernmental Revenue and Grants	-	12,740	9,275	-
Charges for Services	1,873	-	-	-
Fines	-	-	-	781
Forfeits	26,270	-	-	-
Special Assessments	-	-	-	-
Investment Earnings	-	-	-	15
Other Revenue	-	-	-	35
Total Revenues	<u>28,143</u>	<u>12,740</u>	<u>9,275</u>	<u>831</u>
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Public Safety	17,542	19,815	-	-
Administration of Justice	-	-	-	302
Community and Economic Development	-	-	9,275	-
Capital Outlay:				
Capital Outlay	<u>35,080</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>52,622</u>	<u>19,815</u>	<u>9,275</u>	<u>302</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(24,479)</u>	<u>(7,075)</u>	<u>-</u>	<u>529</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(24,479)	(7,075)	-	529
Fund Balance - January 1 (Beginning)	45,115	(10,061)	-	6,153
Prior Period Adjustment	-	-	-	-
Fund Balance - December 31 (Ending)	<u>\$ 20,636</u>	<u>\$ (17,136)</u>	<u>\$ -</u>	<u>\$ 6,682</u>

The notes to the financial statements are an integral part of this statement.

EXHIBIT 7 (Cont'd)

JP Technology Fund	Courthouse Preservation	Law Library	Fire Truck Fund	Community Facilities	Technology Fee for Clerks	CDBG 713-049	Inmate Commissary Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	31,877	-
-	-	2,976	-	-	-	-	13,921
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
7,942	-	-	-	-	-	-	-
-	426	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>7,942</u>	<u>426</u>	<u>2,976</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,877</u>	<u>13,921</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	9,303
632	-	-	-	-	-	-	-
-	-	53	-	-	-	1,855	-
-	-	-	-	-	-	18,772	-
<u>632</u>	<u>-</u>	<u>53</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,627</u>	<u>9,303</u>
<u>7,310</u>	<u>426</u>	<u>2,923</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,250</u>	<u>4,618</u>
-	47,608	-	-	-	-	-	-
-	<u>47,608</u>	-	-	-	-	-	-
7,310	48,034	2,923	-	-	-	11,250	4,618
7,527	38,136	53	5,593	3,810	500	(11,250)	8,491
-	-	-	-	-	-	-	-
<u>\$ 14,837</u>	<u>\$ 86,170</u>	<u>\$ 2,976</u>	<u>\$ 5,593</u>	<u>\$ 3,810</u>	<u>\$ 500</u>	<u>\$ -</u>	<u>\$ 13,109</u>

BREWSTER COUNTY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 MODIFIED CASH BASIS - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES:		
Licenses and Permits	\$ 7,067	\$ 7,067
Intergovernmental Revenue and Grants	595,085	595,085
Charges for Services	159,708	159,708
Fines	781	781
Forfeits	67,055	67,055
Special Assessments	7,942	7,942
Investment Earnings	443	443
Other Revenue	35	35
Total Revenues	<u>838,116</u>	<u>838,116</u>
EXPENDITURES:		
Current:		
General Government	24,500	24,500
Public Safety	387,348	387,348
Administration of Justice	71,325	71,325
Community and Economic Development	32,047	32,047
Capital Outlay:		
Capital Outlay	<u>300,197</u>	<u>300,197</u>
Total Expenditures	<u>815,417</u>	<u>815,417</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>22,699</u>	<u>22,699</u>
OTHER FINANCING SOURCES (USES):		
Transfers In	<u>67,608</u>	<u>67,608</u>
Total Other Financing Sources (Uses)	<u>67,608</u>	<u>67,608</u>
Net Change in Fund Balance	90,307	90,307
Fund Balance - January 1 (Beginning)	340,352	340,352
Prior Period Adjustment	<u>(25,433)</u>	<u>(25,433)</u>
Fund Balance - December 31 (Ending)	<u>\$ 405,226</u>	<u>\$ 405,226</u>

The notes to the financial statements are an integral part of this statement.

BREWSTER COUNTY, TEXAS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - MODIFIED CASH BASIS
 ALL AGENCY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2016

	BALANCE JANUARY 1 2016	ADDITIONS	DEDUCTIONS	BALANCE DECEMBER 31 2016
HISTORICAL COMMISSION				
Assets:				
Cash and Cash Equivalents	\$ 1,848	\$ 4,409	\$ -	\$ 6,257
Liabilities:				
Due to Others	\$ 1,848	\$ 4,409	\$ -	\$ 6,257
COUNTY ATTORNEY				
Assets:				
Cash and Cash Equivalents	\$ 7,353	\$ 12,602	\$ 10,835	\$ 9,120
Liabilities:				
Due to Others	\$ 7,353	\$ 12,602	\$ 10,835	\$ 9,120
INMATE TRUST FUND				
Assets:				
Cash and Cash Equivalents	\$ -	\$ 14,218	\$ 3,572	\$ 10,646
Due From Other Funds	2,401	-	2,401	-
Total Assets	\$ 2,401	\$ 14,218	\$ 5,973	\$ 10,646
Liabilities:				
Due to Others	\$ -	\$ 14,218	\$ 3,572	\$ 10,646
DISTRICT CLERK CHILD SUPPORT				
Assets:				
Cash and Cash Equivalents	\$ 3,189	\$ 8	\$ -	\$ 3,197
Liabilities:				
Due to Others	\$ 3,189	\$ 8	\$ -	\$ 3,197
DISTRICT CLERK BONDS				
Assets:				
Cash and Cash Equivalents	\$ 32,750	\$ 44,000	\$ 4,367	\$ 72,383
Liabilities:				
Due to Others	\$ 32,750	\$ 44,000	\$ 4,367	\$ 72,383
DISTRICT CLERK OTHER				
Assets:				
Cash and Cash Equivalents	\$ 10,060	\$ 25,048	\$ -	\$ 35,108
Liabilities:				
Due to Others	\$ 10,060	\$ 25,048	\$ -	\$ 35,108

The notes to the financial statements are an integral part of this statement.

BREWSTER COUNTY, TEXAS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - MODIFIED CASH BASIS
 ALL AGENCY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2016

	BALANCE JANUARY 1 2016	ADDITIONS	DEDUCTIONS	BALANCE DECEMBER 31 2016
COUNTY CLERK BONDS				
Assets:				
Cash and Cash Equivalents	\$ 70,581	\$ 18,792	\$ 19,894	\$ 69,479
Liabilities:				
Due to Others	\$ 70,581	\$ 18,792	\$ 19,894	\$ 69,479
TRI COUNTY JUVENILE PROBATION				
Assets:				
Cash and Cash Equivalents	\$ 120,323	\$ 303,085	\$ 318,994	\$ 104,414
Liabilities:				
Due to Other Governments	\$ 253	\$ -	\$ -	\$ 253
Due to Others	120,070	303,085	318,994	104,161
Total Liabilities	\$ 120,323	\$ 303,085	\$ 318,994	\$ 104,414
COUNTY CLERK OTHER				
Assets:				
Cash and Cash Equivalents	\$ -	\$ 46,486	\$ 9,254	\$ 37,232
Liabilities:				
Due to Others	\$ -	\$ 46,486	\$ 9,254	\$ 37,232
CHILD WELFARE BOARD				
Assets:				
Cash and Cash Equivalents	\$ -	\$ 11,412	\$ 2,000	\$ 9,412
Liabilities:				
Due to Others	\$ -	\$ 11,412	\$ 2,000	\$ 9,412
PASSPORTS				
Assets:				
Cash and Cash Equivalents	\$ -	\$ 6,950	\$ 6,175	\$ 775
Liabilities:				
Due to Others	\$ -	\$ 6,950	\$ 6,175	\$ 775
COUNTY CLERK CHILD SUPPORT				
Assets:				
Cash and Cash Equivalents	\$ -	\$ 2,353	\$ -	\$ 2,353
Liabilities:				
Due to Others	\$ -	\$ 2,353	\$ -	\$ 2,353

The notes to the financial statements are an integral part of this statement.

BREWSTER COUNTY, TEXAS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - MODIFIED CASH BASIS
 ALL AGENCY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2016

	BALANCE JANUARY 1 2016	ADDITIONS	DEDUCTIONS	BALANCE DECEMBER 31 2016
TOTAL AGENCY FUNDS				
Assets:				
Cash and Cash Equivalents	\$ 246,104	\$ 489,363	\$ 375,091	\$ 360,376
Due From Other Funds	2,401	-	2,401	-
Total Assets	<u>\$ 248,505</u>	<u>\$ 489,363</u>	<u>\$ 377,492</u>	<u>\$ 360,376</u>
Liabilities:				
Due to Other Governments	\$ 253	\$ -	\$ -	\$ 253
Due to Others	245,851	489,363	375,091	360,123
Total Liabilities	<u>\$ 246,104</u>	<u>\$ 489,363</u>	<u>\$ 375,091</u>	<u>\$ 360,376</u>

The notes to the financial statements are an integral part of this statement.

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OTHER INFORMATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

**COUNTY OF BREWSTER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2016**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the County's financial performance provides an overview of the County's financial activities for the fiscal year ended December 31, 2016. We encourage readers to consider the information presented herein with the County's financial statements, which follow this section.

BASIS OF ACCOUNTING

The financial statements are prepared on the modified cash basis of accounting which is a comprehensive basis of accounting other than Generally Accepted Accounting Principles (GAAP). Management budgets on a cash basis and records receipts and disbursements on a modified cash basis because it believes this comprehensive basis of accounting is more suitable to the efficient administration of a smaller government.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position (in Exhibit 1) and the Statement of Activities (in Exhibit 2) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements (in Exhibits 3, 4 & 5) for governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the county's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

The notes to the financial statements (starting on page 17) provides narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

FINANCIAL HIGHLIGHTS

As of December 31, 2016, the general fund reported a fund balance of \$2,888,325 as compared to \$2,709,993 at December 31, 2015. The net change in excess of revenue over expenses in 2016, \$237,068, resulted in the increase in fund balance mainly due to conservative budgeting during the 2016 budget compilation process, an increase in property tax collections due to an increase in the property tax rate and an increase in delinquent tax collections, and receipt of a health insurance surplus rebate.

REPORTING THE COUNTY AS A WHOLE

The analysis of the County's overall financial condition and operations begins in Exhibit 1. Its primary purpose is to show whether the accounts accounted for by the County are better off or worse off as a result of the year's activities. The Statement of Net Position and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. The County's financial reporting policy is to use the modified cash basis of accounting, also

referred to as the cash basis of accounting, where revenues are recognized when received and expenditures when paid. Therefore tax receivables and accounts payable are not reported in the County's financial statements. Such information is disclosed to the extent the information is deemed relevant to the financial statements.

These two statements report the County's net position and changes in it. One can think of the County's net position (the difference between assets and liabilities) as one way to measure the County's financial health, or financial position. Over time, increases or decreases in the County's net position are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors, however, such as changes in the County's property tax base and the condition of the County's roads and bridges and facilities, must be considered to assess the overall financial health of the County.

In the Statement of Net Position and the Statement of Activities, we report the County into one kind of activity:

- Governmental activities – Most of the County's basic services are reported here, including law enforcement, courts, emergency management, Road and Bridge, jail, and general administration. Property taxes, licenses and fees, and state and federal grants finance most of these activities.

Reporting the County's Most Significant Funds

Our analysis of the County's major funds begins in Exhibit 3. The fund financial statements provide detailed information about the most significant funds and not the County as a whole. Some funds are required to be established by State or Federal law and by debt covenants. However, the Commissioners Court may establish many other funds to help it control and manage money for particular purposes (such as the Road & Bridge Department, or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money such as grants received from the U.S. Department of Housing and Urban Development).

- Governmental funds – Most of the County's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified cash basis of accounting, which measures cash (and cash equivalents) and items that involve the receipt of disbursement of cash (or cash equivalents) except for modifications described in the notes to the financial statements (Note I-F). The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation provided in the notes to the financial statements.

The County as Trustee

The County is responsible for assets, which because of a trust arrangement can be used only for the trust beneficiaries. All of the County's fiduciary activities are reported in separate Statement of

Fiduciary Net Position in Exhibit 5. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The county's agency accounts mostly relate to certain inmate accounts and appearance bonds.

THE COUNTY AS A WHOLE

The County's combined net position increased by \$108,323. The increase is the result of conservative budgeting during the 2016 budget compilation process, an increase in property tax collections and receipt of a health insurance surplus rebate.

The County does not budget for amounts needed to pay for unused vacation and sick days. The County will continue to account for accrued vacation and sick leave as incurred since the amounts related to sick leave incurred each year are not predictable.

A substantial portion of Brewster County's yearly budget does not derive from ad valorem taxes. Brewster County receives a substantial payment from the U.S. Government for Payment in Lieu of taxes (PILT). This has been a yearly payment meant to compensate the County for lands removed from ad valorem tax rolls by the U.S. Government's acquisition of Big Bend National Park. The County has historically allocated a portion of the PILT to the two school districts that have land in Big Bend National Park.

Brewster County also houses prisoners for the U.S. Marshal's Service. While the U.S. Marshal's service has, in the past, kept the Brewster County Jail operating at near capacity, the Marshal's service does not and will not guarantee that it will house any specific number of prisoners in the Brewster County Jail.

Given that both these payments are not guaranteed, but constitute a substantial part of the County's Budget, Commissioner's Court strives to maintain reserves which would be adequate to provide for ongoing County operations in the event that either or both these payments declined substantially or ceased.

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the balance sheet in Exhibit 3) reported a combined fund balance of \$4,162,341 as compared with \$3,991,790 at the end of 2015. The increase is the result of conservative budgeting during the 2016 budget compilation process, an increase in property tax collections due to an increase in the property tax rate and an increase in delinquent tax collections, and receipt of a health insurance surplus rebate.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the County had approximately \$9.8 million investment in capital assets including the jail facility, courthouse, Alpine Emergency Response Center, South Brewster Emergency Response Center and Marathon Justice Center. Infrastructure assets consist primarily of paved and unpaved roads.

Debt

At the year-end, the County had outstanding \$2,490,000 in certificates of obligations compared to \$2,645,000 in 2015. All payments were made in accordance with the terms of the financial instruments.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2016 budget, tax rates, and fees. Unemployment in the County is 3.7% compared to 3.8% a year ago, this is due to the upswing in the oil and gas business. This compares with the State's unemployment rate of 4.2% and the national rate of 5.5% at year-end. Total property tax rate decreased. The pipeline and reappraised values is expected to increase tax collections overall for 2017. The County intends to continue to finance and offer programs we currently offer, keeping in mind that the County is dealing with increased costs, just as are all of our individual citizens and businesses.

If these estimates are realized, the County's budgetary General fund balance is expected to realize a slight increase over the current year.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Judge's Office at P.O. Drawer 1630, Alpine, Texas 79831.

Eleazar Cano
County Judge
Brewster County, Texas

BREWSTER COUNTY, TEXAS

BUDGETARY COMPARISON SCHEDULE - TEXAS DEPARTMENT OF AGRICULTURE
 COMMUNITY DEVELOPMENT BLOCK GRANT
 WATER FACILITIES IMPROVEMENTS

DECEMBER 31, 2016

Federal Financial Assistance

Federal Grantor: U.S. Department of Housing and Urban Development (HUD)

Pass Through Grantor: Texas Department of Agriculture

Community Development Block Grant

CFDA Number: 14.228

Contract Number: 713-049

Contract Period: 11/1/13 to 10/31/15

	FEDERAL			Local	Total	Variance
	Budget	Prior Years	Current Year			
REVENUE						
Federal and State	\$ 168,637	\$ 133,101	\$ 31,877	\$ -	\$ 164,978	\$ (3,659)
Local-Brewster County	23,113	24,893	-	-	24,893	1,780
Total Revenue	191,750	157,994	31,877	-	189,871	(1,879)
EXPENDITURES						
Federal and State						
Administration	18,550	14,840	1,855	-	16,695	(1,855)
Water facilities	127,587	107,011	18,772	-	125,783	(1,804)
Engineering	22,500	22,500	-	-	22,500	-
Local						
Administration	-	-	-	-	-	-
Water facilities	23,113	24,893	-	-	24,893	1,780
Engineering	-	-	-	-	-	-
Total Expenditures	191,750	169,244	20,627	-	189,871	(1,879)
Excess Revenue Over (Under) Expenditures	\$ -	\$ (11,250)	\$ 11,250	\$ -	\$ -	\$ -

BREWSTER COUNTY, TEXAS

BUDGETARY COMPARISON SCHEDULE - TEXAS DEPARTMENT OF AGRICULTURE
 COMMUNITY DEVELOPMENT BLOCK GRANT
 WATER FACILITIES IMPROVEMENTS

DECEMBER 31, 2016

Federal Financial Assistance
 Federal Grantor: U.S. Department of Housing and Urban Development (HUD)
 Pass Through Grantor: Texas Department of Agriculture
 Community Development Block Grant
 CFDA Number: 14.228
 Contract Number: 721-5049
 Contract Period: 10/15/15 to 10/14/17

	FEDERAL		Local	Total	Variance
	Budget	Prior Years			
REVENUE					
Federal and State	\$ 168,638	\$ -	\$ 9,275	\$ 9,275	\$ (159,363)
Local-Brewster County	-	-	-	-	-
Total Revenue	168,638	-	9,275	9,275	(159,363)
EXPENDITURES					
Federal and State					
Administration	18,550	-	9,275	9,275	(9,275)
Water facilities	127,088	-	-	-	(127,088)
Engineering	23,000	-	-	-	-
Local					
Administration	-	-	-	-	-
Water facilities	-	-	-	-	-
Engineering	-	-	-	-	-
Total Expenditures	168,638	-	9,275	9,275	(136,363)
Excess Revenue Over (Under) Expenditures	\$ -	\$ -	\$ -	\$ -	\$ (23,000)

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FEDERAL FINANCIAL ASSISTANCE SECTION

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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 Eleazar Cano and
Members of the Commissioners Court of the
Brewster 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 modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brewster County, Texas, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Brewster County, Texas's basic financial statements and have issued our report thereon dated September 25, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Brewster 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*.

Brewster County, Texas's Response to Findings

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

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Ch. Rudderick Patten" followed by three stylized loops.

El Paso, Texas
September 25, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Judge Eleazar Cano and
Members of the Commissioners Court of the
Brewster County, Texas

Report on Compliance for Major Federal Program

We have audited Brewster County, Texas's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Brewster County, Texas's major federal programs for the year ended December 31, 2016. Brewster County, Texas's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Brewster County, Texas's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Brewster County, Texas's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Brewster County, Texas's compliance.

Opinion on Major Federal Program

In our opinion, Brewster County, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

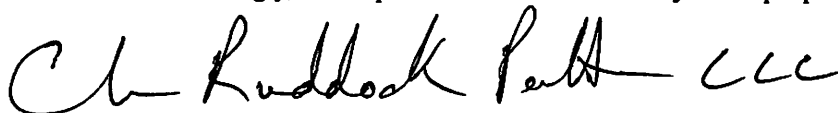
Report on Internal Control Over Compliance

Management of Brewster County, Texas, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Brewster County, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Brewster County, Texas' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Ch Ruddock", followed by three stylized "C"s.

El Paso, Texas
September 25, 2017

BREWSTER COUNTY, TEXAS

SCHEDULE OF FINDINGS & QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2016

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's Report Issued:	Qualified - Governmental Activities Unmodified - Each Major Fund and Aggregate Remaining Fund Information
---	---

Internal control over financial reporting:

Were significant deficiencies in internal control disclosed?	Yes, findings 2016-001 and 2016-002.
---	--------------------------------------

Were material weaknesses in internal control disclosed?	No
--	----

Was any noncompliance disclosed that is material to the financial statements of the auditee, which would be required to be reported in accordance with Government Auditing Standards?	No
--	----

Federal Awards

Internal control over major federal award programs:

Were significant deficiencies in internal control over major programs disclosed?	None reported
---	---------------

Were material weaknesses in internal control over major programs disclosed?	No
--	----

Type of auditor's report issued on compliance for federal award major programs:	Unmodified
--	------------

Were there any audit findings that the auditor is required to disclose under Title 2 CFR 200.516 Audit findings paragraph (a)?	No
---	----

Major Federal Programs:	<u>Homeland Security Grant Program:</u> CFDA 97.067
--------------------------------	---

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

Did auditee qualify as a low-risk auditee under 2 CFR 200.520 Criteria for a low-risk auditee?	No
---	----

(Continued)

BREWSTER COUNTY, TEXAS

SCHEDULE OF FINDINGS & QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2016

FINANCIAL STATEMENT FINDING

2016-001 - Internal Control Over Financial Reporting - Documentation

Criteria: The County is required to maintain internal controls over financial reporting to provide a high level of assurance that the financial records are recorded properly and that adequate documentation is maintained to support all transactions recorded.

Condition Found: Some but not all individual personnel files have been updated to reflect changes in compensation and employee information. The County implemented a purchase order process during 2015; however, the process continues to be refined and improvements are needed. For example, there were instances where the purchase order was completed after the fact. Duplicate payments of immaterial amounts were noted during the audit. Based upon our review of journal entries, documentation and explanations could be improved.

Effect: The lack of maintaining adequate documentation and lack of internal controls increases the risk of misappropriation of assets and potential misreporting of financial statement amounts due to error or fraud.

Cause: Job responsibilities not clearly defined and communicated were the reasons for not updating all of the personnel files. Learning on the job, workload constraints and a fairly new purchase order process were the reasons PO's were completed after the fact, duplicate payments were processed and journal entry documentation needed improvement.

Recommendation: We recommend the County utilize the designated area located on the personnel files to indicate the pay rate and authorization of the pay rate. In refining the purchase order process, we recommend the County clarify, in writing, which transactions will not require a purchase order before purchased. Subsequent to year-end, the County hired an assistant to the Treasurer with County experience and who previously worked with Brewster County. Her role includes assisting with accounts payable and she has been able to review transactions more closely and reduce the potential for errors. We believe this change, along with clarifications provided to the Treasurer's office regarding the types of documentation that should be maintained, will reduce similar oversights and improve documentation maintained in the future and we have no further recommendation.

Repeat Finding: Yes. A similar finding has been reported during the last two years as 2014-002 and 2013-002.

Management Response: See Corrective Action Plan

(Continued)

BREWSTER COUNTY, TEXAS

SCHEDULE OF FINDINGS & QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2016

FINANCIAL STATEMENT FINDINGS (Continued)

2016-002 - Internal Control over Financial Reporting - Capital Assets

Criteria: The County is required to maintain internal controls over financial reporting to provide a high level of assurance that the financial records are recorded properly, and that related financial reports are presented properly.

Condition Found: A physical inventory was not taken at December 31, 2016 and additions and disposals were not consistently maintained in the accounting software, Net Data. The last known inventory was taken by a third party during the first half of 2015; however, the results of the inventory have not been fully merged and updated with the financial system records. The depreciation schedule continues to not be maintained and updated.

Effect: We were unable to completely verify the existence and accuracy of capital assets reported on the financial statements. The lack of defined procedures over capital assets could potentially result in material misstatement in future financial statements; misappropriation of assets, noncompliance with grant provisions and additional outlay of County funding to replace misappropriated assets.

Cause: Procedures over capital assets, including procedures related to the financial closing and reporting process, are not thoroughly documented and streamlined. In addition, workload constraints and repeated turnover in key personnel contributed to capital assets to not be properly inventoried, tracked and depreciated.

Recommendation: We recommend management conduct a complete inventory of capital assets and update the capital asset listing on a regular basis to ensure that the data is correct and properly reported. We recommend management review all contracts/agreements to ensure that any capital assets purchased with grant funds are properly tracked, capitalized and depreciated.

Repeat Finding: Yes. A similar finding has been reported during the last three years as 2015-003, 2014-003 and 2013-003.

Management Response: See Corrective Action Plan

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no current year findings or questioned costs.

BREWSTER COUNTY, TEXAS

AUDITEE CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED DECEMBER 31, 2016

FINANCIAL STATEMENT FINDINGS

2016-001 - Internal Control Over Financial Reporting - Documentation

Corrective Action Plan: Documentation and maintaining all disbursements accurately as well as proper filing of documents related. We have made several changes in procedure of processing claims, disbursements and maintaining the backup of all disbursements. The Counties records of disbursements are filed by Vendor Name, includes invoices, PO and copy of check issued for payment. Research of all claims prior to processing for payment is to determine if a PO was issued and that payment has not already been issued. I know this should eliminate duplicate payments. We also found duplicate vendor information in the accounts payable file and this did cause a duplicate payment. The vendor files will be cleaned up by December 2017. Employee files will be properly completed and salary, position, etc. will be recorded.

Responsible Party: County Treasurer – Babett Mann and County Auditor – Treva Watson

Estimated Date of Completion: – Maintaining documentation has been corrected during 2017. Vendor files will be cleaned up by December 2017. County expects to have all personnel files updated by December 2017.

2016-002 - Internal Control over Financial Reporting - Capital Assets

Corrective Action Plan: Inventory of capital assets belonging to Brewster County shall be properly reported and maintained in the Inventory and Capital Assets Listing program by the Emergency Management Coordinator (EMC). Information on new equipment or other capital assets valued at over \$1,000 shall be provided to the EMC to update the capital asset listing. Immediately following approval of capital assets, the Accounts Payable Clerk shall provide all necessary information needed to the EMC for updating the Capital Asset listing. Reconciliation and review procedures will also be implemented which will consist of reconciliations between the listing and the general ledger and reviewing specific general ledger accounts susceptible to misclassification to ensure all additions are captured timely.

Responsible Party: County Treasurer – Babett Mann, County Auditor – Treva Watson and County Judge – Eleazar R. Cano

Estimated Date of Completion: December 30, 2017.

BREWSTER COUNTY, TEXAS

AUDITOR SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2016

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

2015-001/2014-001/2013-001 - Internal Control over Financial Reporting - Inadequate Segregation of Duties

Status: Resolved. Corrective action was taken. See Auditee Summary Schedule of Prior Audit findings for management status.

2015-002/2014-002/2013-002 - Internal Control over Financial Reporting - Inadequate Documentation

Status: Partially resolved. See current year finding 2016-001. Although some progress has been made, a portion of the finding has been repeated in the current year and is now considered a significant deficiency instead of a material weakness due to compensating controls implemented. See Auditee Summary Schedule of Prior Audit findings for management status.

2015-003/2014-003/2013-003 - Internal Control over Financial Reporting - Capital Assets

Status: Partially resolved. See current year finding 2016-002. See Auditee Summary Schedule of Prior Audit findings for management status.

2015-004/2014-004/2013-004 - Internal Control over Financial Reporting - Due to/from Other Funds and Interfund Transfers

Status: Resolved. Corrective action was taken. See Auditee Summary Schedule of Prior Audit findings for management status.

2015-005/2014-005 - Internal Control over Financial Reporting - Budgetary Controls

Status: Resolved. Corrective action was taken. However, year-end budget transfers were improperly entered and corrections of the line item transfers were posted as year-end adjusting entries. We believe clarifications provided to the Treasurer's and Auditor's office regarding the posting of year-end transfers and entering budget amounts for the debt service fund, will eliminate a similar error in the future. See Auditee Summary Schedule of Prior Audit findings for management status.

(Continued)

BREWSTER COUNTY, TEXAS

AUDITOR SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2016

2015-006/2014-006 - Internal Control over Financial Reporting - Account Reconciliations

Status: Resolved. Corrective action was taken. See Auditee Summary Schedule of Prior Audit findings for management status.

2015-007/2014-007 - Internal Control over Financial Reporting - Schedule of Expenditures of Federal Awards

Status: Resolved. Corrective action was taken. See Auditee Summary Schedule of Prior Audit findings for management status.

2015-008 - Internal Control over Financial Reporting - IT General Computer Controls

Status: Resolved. Corrective action was taken. See Auditee Summary Schedule of Prior Audit findings for management status.

2015-009/2014-009/2013-005 - State Compliance - Public Funds Investment Act

Status: Resolved. Corrective action was taken. See Auditee Summary Schedule of Prior Audit findings for management status.

2015-010 - State Compliance - Procurement

Status: Resolved. Corrective action was taken. See Auditee Summary Schedule of Prior Audit findings for management status.

2015-011/2014-011 - Federal Compliance - Form 941 Filings

Status: Resolved. Corrective action was taken. See Auditee Summary Schedule of Prior Audit findings for management status.

2015-012 - State Compliance - Apportionment of Taxes

Status: Resolved. Corrective action was taken. See Auditee Summary Schedule of Prior Audit findings for management status.

(Continued)

BREWSTER COUNTY, TEXAS

AUDITOR SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2016

2015-013 - Compliance -Newly Elected Treasurer

Status: Resolved. Corrective action was taken. See Auditee Summary Schedule of Prior Audit findings for management status.

2015-014/2014-012 - Homeland Security Grant Program (CFDA 97.067) & High Intensity Drug Trafficking Area (CFDA 95.001) - Internal Control over Compliance - Inadequate Segregation of Duties

Status: Resolved. Corrective action was taken. See Auditee Summary Schedule of Prior Audit findings for management status.

2015-015/2014-014/2013-008 - Homeland Security Grant Program (CFDA 97.067) - Internal Control over Compliance - Equipment and Real Property Management

Status: Resolved. Corrective action was taken. See Auditee Summary Schedule of Prior Audit findings for management status.

BREWSTER COUNTY, TEXAS

AUDITEE SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2016

FINANCIAL STATEMENT FINDINGS

2015-001/2014-001/2013-001 - Internal Control over Financial Reporting - Inadequate Segregation of Duties

Status: Resolved. Corrective action was taken. The County has implemented segregation of duties over payroll, journal entries and cash receipts. However, there were still instances in which the Treasurer prepared, entered and posted journal entries. In these instances, the County has implemented compensating controls to reduce the risk of fraud and error. Compensating controls include the County Auditor monitoring the transaction ledger, reviewing journal entries after they have been posted by the Treasurer and approving all bank transfers. When grant awards are involved, the grant administrator/designee is provided with a transaction ledger for their review and reconciled with the Treasurer to ensure amounts agree to underlying accounting and grant records and have been properly approved.

2015-002/2014-002/2013-002 - Internal Control over Financial Reporting - Inadequate Documentation

Status: Partially resolved. Subsequent to year-end, the County has developed and adopted a credit card policy. In addition, the County cancelled all of the old credit cards and moved over to the State Credit Card purchasing program. With the new credit cards, limits were set dependent on needs, cash advances cannot be obtained and online access has been provided to monitor activity. The County Auditor is monitoring the use of the new credit cards and will determine if the County will continue with County owned credit cards or eliminate participation in the program and require employees to submit reimbursement instead. See current year finding 2016-001.

2015-003/2014-003/2013-003 - Internal Control over Financial Reporting - Capital Assets

Status: Partially resolved. During the November 13, 2014 Commissioners Court meeting, the Court approved vendor RCI to complete the County inventory. Inventory was completed on May 1, 2015; however, these records were not integrated with the financial system. The capital asset records were not maintained for several months in 2014, 2015 and 2016. The County converted to a new financial system in 2016 and will use this as an opportunity to clear the slate and clean up capital assets. See current year finding 2016-002.

2015-004/2014-004/2013-004 - Internal Control over Financial Reporting - Due to/from Other Funds and Interfund Transfers

Status: Resolved. Corrective action was taken. Accounts have been reconciled as of December 31, 2016.

(Continued)

BREWSTER COUNTY, TEXAS

AUDITEE SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2016

2015-005/2014-005 - Internal Control over Financial Reporting - Budgetary Controls

Status: Resolved. Corrective action was taken. The County implemented a purchase order process during 2015 which has assisted in properly monitoring the budget and presenting amendments for approval when necessary. The amendments are being entered into the financial system and Commissioners Court, department heads and officials monitor their budget using a budget and analysis report. Also, budgeted amounts were properly entered for the special revenue funds.

2015-006/2014-006 - Internal Control over Financial Reporting - Account Reconciliations

Status: Resolved. Corrective action was taken. The County converted to a new financial accounting software familiar to the County Auditor. However, the conversion and a clearing process implemented during 2016 required further research by the County Auditor and Treasurer and adjustments to clean up the trial balance. Accounts have been reconciled as of December 31, 2016.

2015-007/2014-007 - Internal Control over Financial Reporting - Schedule of Expenditures of Federal Awards

Status: Resolved. Corrective action was taken. For larger awards, the grant administrator prepared grant worksheets reporting the amount spent within each grant award allowing for reconciliation of grant activity to funds where multiple award years were maintained. For the smaller grant awards, the transaction ledger and reports available in eGrants were sufficient to determine the award year and source of funding. The County is seeking to fill a grant administrator position by either contracting with a third party or creating the position in house to provide technical support and grant administrator services over all County grants to ensure accurate grant reporting, including during periods of turnover in key positions either due to newly elected officials or resignations. The County will also modify its chart of accounts structure in 2017 to assist in more easily identifying federal and state grant awards.

2015-008 - Internal Control over Financial Reporting - IT General Computer Controls

Status: Resolved. Corrective action was taken. IT policies have been drafted and are expected to be finalized and approved by Commissioner's Court by December 31, 2017. The County converted its accounting system to another vendor as of January 1, 2016. The new vendor has procedures to avoid loss of data, including proper backup by way of cloud technology, and proper ventilation, cooling and power supply.

(Continued)

BREWSTER COUNTY, TEXAS

AUDITEE SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2016

2015-009/2014-009/2013-005 - State Compliance - Public Funds Investment Act

Status: Resolved. Corrective action was taken. The investment officer has been able to remedy material non-compliance such as obtaining training, annual review of the policy and obtaining commissioner's court approval for the list of authorized brokers. The County will incorporate missing elements in the 2017 quarterly reports.

2015-010 - State Compliance - Procurement

Status: Resolved. Corrective action was taken. Commissioner's court adopted the order identifying the vendors as sole source at the August 5, 2016 meeting.

2015-011/2014-011 - Federal Compliance - Form 941 Filings

Status: Resolved. Corrective action was taken. Form 941 filings were caught up to date for the year ended December 31, 2016. The County Auditor deposited the withholdings from the October 30, 2015 payroll in 2016. The County Auditor filed all Form 941 filings for 2016. The County Auditor has also developed a calendar of deadlines for all required filings to avoid future late filing and penalties.

2015-012 - State Compliance - Apportionment of Taxes

Status: Resolved. Corrective action was taken. Property tax accounts for fiscal year 2016 were reconciled and taxes were apportioned appropriately.

2015-013 - Compliance -Newly Elected Treasurer

Status: Resolved. Corrective action was taken. The Treasurer resigned January 2016.

(Continued)

BREWSTER COUNTY, TEXAS

AUDITEE SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2016

FEDERAL AWARD FINDINGS

2015-014/2014-012 - Homeland Security Grant Program (CFDA 97.067) & High Intensity Drug Trafficking Area (CFDA 95.001) - Internal Control over Compliance - Inadequate Segregation of Duties

Status: Resolved. Corrective action was taken. The County has implemented segregation of duties over payroll and journal entries. However, there were still instances in which the Treasurer prepared, entered and posted journal entries. In these instances, the County has implemented compensating controls to reduce the risk of fraud and error. Compensating controls include the County Auditor monitoring the transaction ledger, reviewing journal entries after they have been posted by the Treasurer and approving all bank transfers. When grant awards are involved, the grant administrator/designee is provided with a transaction ledger for their review and reconciled with the Treasurer to ensure amounts agree to underlying accounting and grant records and have been properly approved.

2015-015/2014-014/2013-008 - Homeland Security Grant Program (CFDA 97.067) - Internal Control over Compliance - Equipment and Real Property Management

Status: Resolved. Corrective action was taken. Equipment purchased with Homeland Security grant monies have been tagged Federal-Homeland Security. However, the County still needs to fully integrate and streamline capital asset policies and procedures to ensure capital assets purchased with federal funds are ultimately reflected in the master capital assets listing and financial books of records, which is expected to be completed by December 30, 2017.

BREWSTER COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>EXECUTIVE OFFICE OF THE PRESIDENT</u>			
<u>Passed Thru Office of National Drug Control Policy</u>			
HIDTA - Operation Lone Star	95.001	G14SW0004A	\$ 4,714
HIDTA - Operation Lone Star	95.001	G15SW0004A	57,000
HIDTA - Operation Lone Star	95.001	G16SW0004A	270
HIDTA - Alpine Multi-Agency Task Force	95.001	G15SW0004A	140,315
HIDTA - Alpine Multi-Agency Task Force	95.001	G16SW0004A	67,514
Total CFDA Number 95.001			<u>269,813</u>
Total Passed Thru Office of National Drug Control Policy			<u>269,813</u>
TOTAL EXECUTIVE OFFICE OF THE PRESIDENT			<u>269,813</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
<u>Direct Programs</u>			
State Criminal Alien Assistance Program (SCAAP)	16.xx	n/a	<u>5,334</u>
Total Direct Programs			<u>5,334</u>
<u>Passed Through Teaxs Office of the Governor - CJD</u>			
E. Byrne Memorial Justice Assist - Op. Borderstar	16.738	2817302	12,740
E. Byrne Memorial Justice Assist - Op. Borderstar	16.738	2817303	7,075
Total CFDA Number 16.738			<u>19,815</u>
Total Passed Through Teaxs Office of the Governor - CJD			<u>19,815</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>25,149</u>
<u>HOMELAND SECURITY</u>			
<u>Passed Through Texas Office of the Governor - HSGD</u>			
Homeland Security Grant Program (MCSC)	97.067	2950001	31,160
Homeland Security Grant Program (MJIC)	97.067	2949901	30,839
Homeland Security Grant Program (OPSG)	97.067	EMW201555-00080	187,965
Total CFDA Number 97.067			<u>249,964</u>
Total Passed Through Texas Office of the Governor - HSGD			<u>249,964</u>
<u>Passed Through Texas Department of Public Safety</u>			
Homeland Security Grant Program (OPSG)	97.067	14-GA 48043-02	246,135
Homeland Security Grant Program (SHSP)	97.067	13-SR-48043-03	8,711
Total CFDA Number 97.067			<u>254,846</u>
Total Passed Through Texas Department of Public Safety			<u>254,846</u>
TOTAL HOMELAND SECURITY			<u>504,810</u>

BREWSTER COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
<u>Passed Through Texas Department of Agriculture</u>			
CDBG - Water Facilities	14.228	713-049	\$ 20,627
CDBG - Water Facilities	14.228	721-5049	9,275
Total CFDA Number 14.228			<u>29,902</u>
Total Passed Through Texas Department of Agriculture			<u>29,902</u>
TOTAL DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			<u>29,902</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 829,674</u></u>

BREWSTER COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2016

1. GENERAL

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal awards of the Brewster County, Texas' federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies are included on the Schedule of Expenditures of Federal Awards for the year ended December 31, 2016.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared based upon when expenditures are paid in accordance with the modified cash basis of accounting. Federal and state grants are considered to be earned when received. Advance funding(s) are recorded as deferred revenue until the related expenditures are paid. Capital expenditures are expended in the Schedule of Federal Awards in the period when the purchase is paid; however, for government-wide financial reporting purposes such expenditures are capitalized and depreciated over the period of economic benefit.

The format for the Schedule of Expenditures of Federal Awards has been prescribed by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

3. SINGLE AUDIT MAJOR PROGRAM DETERMINATION

The Uniform Guidance prescribes a risk-based approach to determining which federal programs are major programs. The approach includes consideration of current and prior audit experience, oversight by federal or state agencies and pass-through entities, and the inherent risk of the program.

4. MATCHING REQUIREMENTS

Certain Federal programs require the Government to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Government has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

5. DE MINIMIS RATE ELECTION

The County did not elect to use the 10% de minimis indirect cost rate.

(Continued)

BREWSTER COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2016

6. RECONCILIATION

A reconciliation of intergovernmental revenue and grants to federal expenditures of federal awards is presented below.

Intergovernmental Revenue and Grants reported at Exhibit 4	\$ 2,177,571
Less Payment in Lieu of Taxes (PILOT)	(1,207,832)
Less State Supplements and Other	(184,758)
Plus Timing Difference and Other	<u>44,693</u>
Federal expenditures of federal awards reported at Exhibit 10	<u>\$ 829,674</u>

7. FUNDS PASSED THROUGH TO SUBRECIPIENTS

The County passed funds through to subrecipients from Federal programs as follows:

<u>Program Name</u>	<u>CFDA#</u>	<u>Amount Provided</u>
Homeland Security Grant Program (SHSP)	97.067	\$15,490

8. SUBSEQUENT EVENT

Despite efforts by the County to reconsider, on September 1, 2017 the County received a letter from the Texas Department of Agriculture (TDA) notifying management that the County was deemed ineligible to receive grant awards from their agency for a period of five years, beginning September 30, 2016, and terminated the County's TxCDBG contract #721-6035 with an award of \$470,476. In recent years, award amounts have ranged from \$169,000 to \$454,000. The County is exploring any available channels to have the decision overturned.