

***MORRIS COUNTY APPRAISAL DISTRICT***

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

**Caver and Setser, Inc.**  
**Certified Public Accountants**

**MORRIS COUNTY APPRAISAL DISTRICT**  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2016

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## FINANCIAL SECTION



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UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS  
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION

**Independent Auditor's Report**

To the Members of the Board  
Morris County Appraisal District  
Daingerfield, Texas

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Proprietary Fund activities of the Morris County Appraisal District, Texas (the District) as of and for the year ended December 31, 2016, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the Proprietary Fund activities of the Morris County Appraisal District, Texas as of December 31, 2016, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 9 and 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consists mostly of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2017 on our consideration of the Morris County Appraisal District Proprietary Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the Morris County Appraisal District's internal control over financial reporting and compliance.

*Caver and Setser, Inc.*

Caver and Setser, Inc.  
Certified Public Accountants

January 18, 2017

**Management's Discussion and Analysis  
Morris County Appraisal District  
For the Fiscal Year Ended December 31, 2016**

**-UNAUDITED-**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

In this section of the Annual Financial and Compliance Report, we, the commissioners of Morris County Appraisal District, discuss and analyze the District's financial performance for the fiscal year ended December 31, 2016. Please read it in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements which begin on page 11.

**FINANCIAL HIGHLIGHTS**

The District's enterprise fund Net Position increased by \$25,764 as a result of this year's operations. Charges for services and program revenues accounted for \$561,385 or 93.82% of total revenue, and general revenues accounted for \$36,969 or 6.18%.

During the year, the District's enterprise fund had expenses that were \$25,764 less than the \$598,354 charges for services and miscellaneous revenue.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 11 and 12). These statements provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 13) report the District's enterprise operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 15) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

**Reporting the District as a Whole**

***The Statement of Activities***

The analysis of the District's overall financial condition and operations begins on page 11. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Activities includes all the revenues and expenses generated by the District's enterprise fund's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of

**Management's Discussion and Analysis  
Morris County Appraisal District  
For the Fiscal Year Ended December 31, 2016**

**-UNAUDITED-**

some programs and revenues provided by the taxpayers or by other non-grant sources (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

This statement reports the District's changes in Net Position. The District's Net Position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's Net Position are one indicator of whether its financial health is improving or deteriorating.

In the Statement of Net Position and the Statement of Activities, the District's activities are presented as:

Business-Type activities—the District's basic services are reported here. Contracts with the taxing entities in the County finance most of these activities.

### **Reporting the District's Most Significant Funds**

#### ***Fund Financial Statements***

A fund is a separate set of accounts used to control resources that have been segregated for a specific purpose. The District uses fund accounting to demonstrate compliance with legal and finance-related requirements. The District has one kind of fund—proprietary, which uses the accrual basis of accounting.

Proprietary Funds – The District's basic services are reported in the proprietary funds. Proprietary funds report the same functions presented as business-type activities in the government-wide financial statements, except in greater detail and begin on page 13 of this report.

#### **The District as Trustee**

#### ***Reporting the District's Fiduciary Responsibilities***

Our analysis focuses on the Net Position (Table I) and changes in Net Position (Table II) of the District's business-type activities.

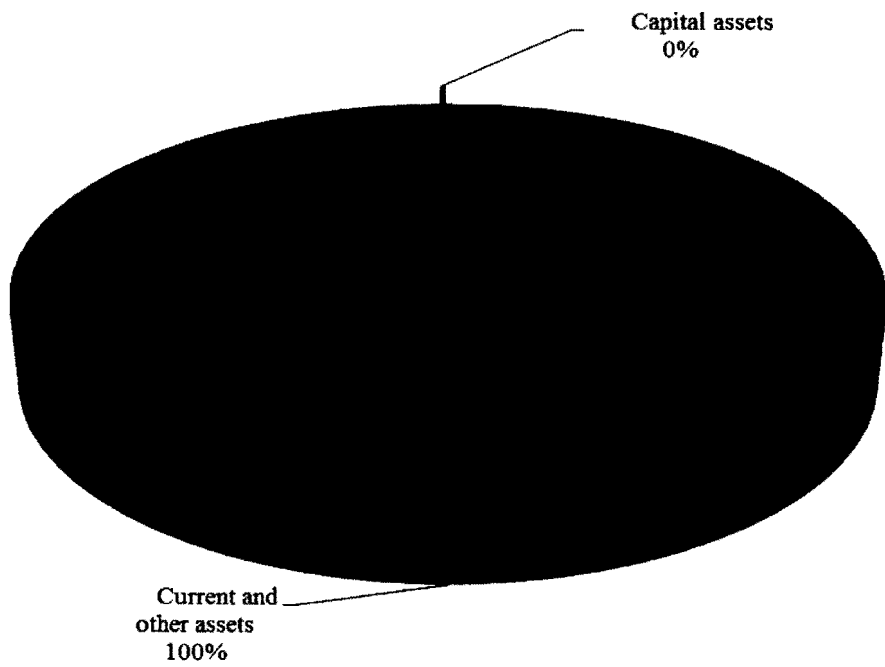
**Management's Discussion and Analysis  
Morris County Appraisal District  
For the Fiscal Year Ended December 31, 2016**

**-UNAUDITED-**

**Table I  
Morris County Appraisal District**

**NET POSITION**

	Business Type Activities 2016	Business Type Activities 2015
Current and other assets	\$1,802,134	\$1,743,213
Capital assets	4,761	5,568
Total assets	<u>1,806,895</u>	<u>1,748,781</u>
Long-term liabilities		
Other liabilities	1,705,489	1,673,139
Total liabilities	<u>1,705,489</u>	<u>1,673,139</u>
Net Position:		
Invested in capital assets net of related debt	4,761	5,568
Restricted	96,417	69,845
Unrestricted	228	229
Total Net Position	<u>\$ 101,406</u>	<u>\$ 75,642</u>





**Management's Discussion and Analysis  
Morris County Appraisal District  
For the Fiscal Year Ended December 31, 2016**

**-UNAUDITED-**

**Table II  
Morris County Appraisal District  
CHANGES IN NET POSITION**

	Governmental Activities 2016	Governmental Activities 2015
<b>Revenues:</b>		
<b>Program Revenues:</b>		
Charges for Services	\$ 561,385	\$ 543,007
<b>General Revenues:</b>		
Investment Earnings	386	397
Miscellaneous	36,583	10,238
<b>Total Revenue</b>	<b>598,354</b>	<b>553,642</b>
<b>Expenses:</b>		
Payroll Expenses	382,327	362,131
Appraisal Services	54,762	54,814
Computer and Software Expenses	38,250	32,722
Other	97,251	107,067
<b>Total Expenses</b>	<b>572,590</b>	<b>556,734</b>
Change in Net Position before transfers and special items	25,764	(3,092)
Net Position Beginning of Year	75,642	78,734
Net Position End of Year	<b>\$ 101,406</b>	<b>\$ 75,642</b>

Management's Discussion and Analysis  
Morris County Appraisal District  
For the Fiscal Year Ended December 31, 2016

-UNAUDITED-

TABLE II  
CHART A – REVENUES

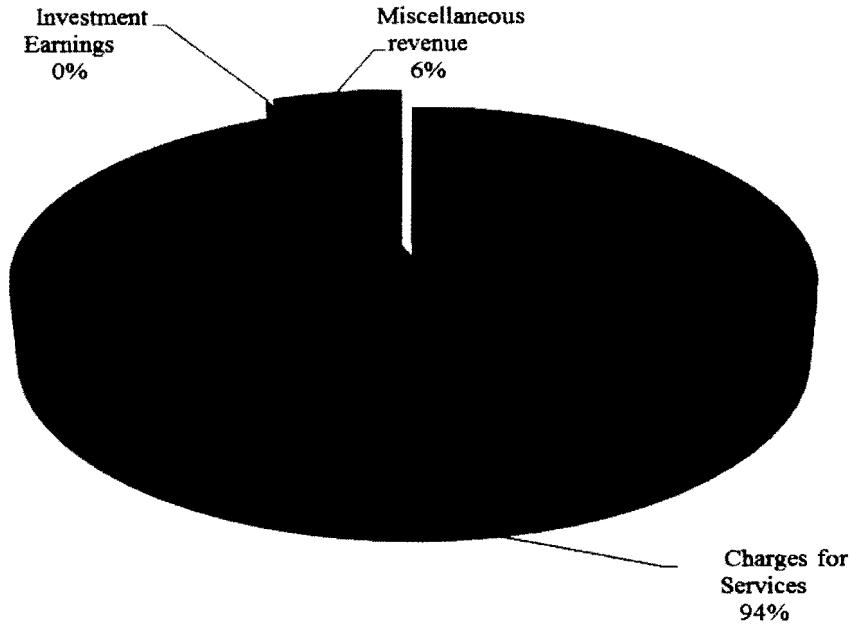
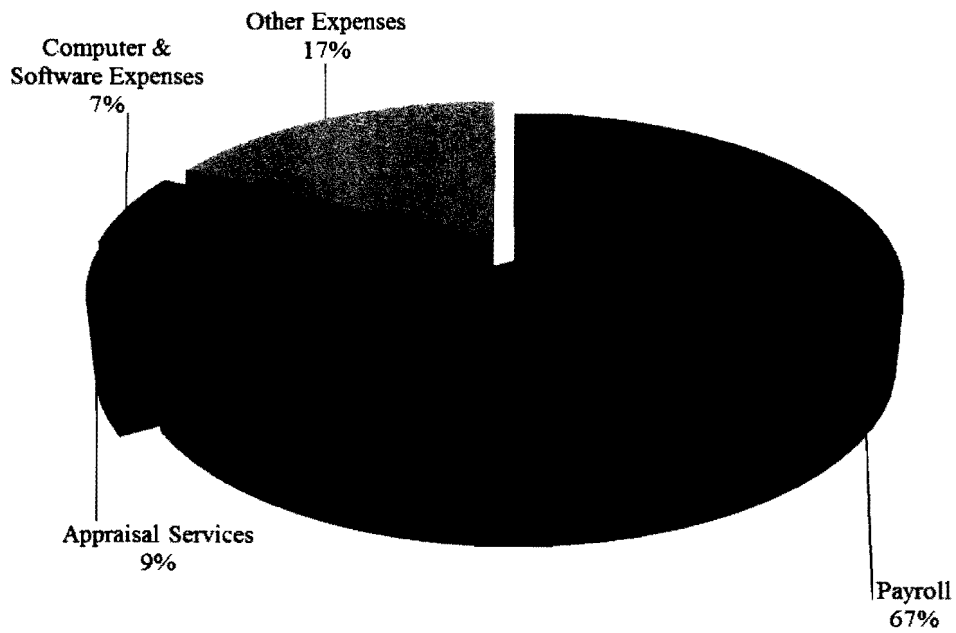


TABLE II  
CHART B – EXPENSES



**Management's Discussion and Analysis  
Morris County Appraisal District  
For the Fiscal Year Ended December 31, 2016**

**-UNAUDITED-**

The cost of all business type activities this year was \$572,590. However, as shown in the Statement of Activities on page 12, the amount that the taxing entities financed for these activities through District assessments was \$535,621 because some of the costs were paid by investment earnings and other revenues (\$36,969).

**CAPITAL ASSET**

*Capital Assets*

At the end of 2016, the District had \$31,467 invested in capital assets, including equipment.

More detailed information about the District's capital assets is presented in Note III-B to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The District's appointed officials considered many factors when setting the fiscal-year 2017 budget.

Certain indicators were taken into account when adopting the Enterprise Fund budget for 2017. Indicators and factors which materially influence the budget are amounts available for appropriation in the Enterprise Fund budget, budgeted expenditures and the District future capital expenditure needs.

If these estimates are realized, the District's Enterprise Fund balance is expected to remain unchanged at the close of 2017.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Morris County Appraisal District, P.O. Box 563, Daingerfield, Texas 75638.

## **BASIC FINANCIAL STATEMENTS**

**MORRIS COUNTY APPRAISAL DISTRICT**  
**STATEMENT OF NET POSITION**  
**AS OF DECEMBER 31, 2016**

	<u>Business Type Activities</u>
<b>ASSETS</b>	
<u>Current Assets:</u>	
Cash On Hand	\$ 100
Cash In Bank-Operations	242,461
Cash In Bank-Collections	1,559,473
Cash In Bank-Payroll	<u>100</u>
Total Current Assets	1,802,134
 <u>Capital Assets:</u>	
Equipment-Net	<u>4,761</u>
	<u>4,761</u>
Total Assets	<u>1,806,895</u>
 <b>LIABILITIES</b>	
<u>Current Liabilities:</u>	
Accounts Payable	-
Due to Taxing Entities/Others	1,559,473
Deferred Revenue	<u>146,016</u>
Total Liabilities	<u>1,705,489</u>
 <b>NET POSITION</b>	
Net Investment in Capital Assets	4,761
Restricted	96,417
Unrestricted	<u>228</u>
Total Net Position	<u>\$ 101,406</u>

**MORRIS COUNTY APPRAISAL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**GOVERNMENTAL PROPRIETARY FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

Primary Government:

GOVERNMENTAL ACTIVITIES	Expenses	Charges for Services	Grants and Contributions	Total
Governmental Expenses	\$ -	\$ -	\$ -	\$ -
Total Governmental Activities:	-	-	-	-
<b>BUSINESS-TYPE ACTIVITIES</b>				
Appraisal & Collection Expenses	572,590	561,385	-	(11,205)
Total Business-Type Activities:	572,590	561,385	-	(11,205)
<b>TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 572,590</b>	<b>\$ 561,385</b>	<b>\$ -</b>	<b>\$ (11,205)</b>

<b>General Revenues:</b>	
Investment Earnings	386
Miscellaneous Revenues	36,583
<b>Total General Revenue</b>	<b>36,969</b>
Change in Net Position	25,764
Net Position - Beginning	75,642
<b>Net Position - Ending</b>	<b>\$ 101,406</b>

**MORRIS COUNTY APPRAISAL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Proprietary Fund
<b>OPERATING REVENUES</b>	
District Assessments	\$ 561,385
Miscellaneous Revenue	36,969
<b>Total Operating Revenues</b>	<b>598,354</b>
<b>EXPENDITURES</b>	
Appraisal Board Expenses	3,814
Appraisal Services	54,762
Auditing Services	6,850
Capital/Mapping Project	3,500
Computer and Software Expenses	38,250
Contingency	4,234
Deed Records, Plats & Notices	2,030
Depreciation	3,300
Dues/Subscriptions/Publications	4,516
Insurance Expenses	1,976
Janitorial Expenses	2,120
Legal Services	518
Maintenance	1,218
Mapping Expenses	2,360
Office Expenses	7,616
Office Lease	9,600
Payroll Expenses	382,327
Postage	14,576
Telephone and Fax	5,587
Travel & Tuition Expenses	20,117
Utilities	3,319
<b>Total Expenditures</b>	<b>572,590</b>
Excess Revenue over Expenditures	25,764
Fund Net Position, January 1	75,642
Fund Net Position, December 31	<b>\$ 101,406</b>

**MORRIS COUNTY APPRAISAL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**AS OF DECEMBER 31, 2016**

	Business Type Activities
<u>Cash Flows from Operating Activities</u>	
Cash Received from Customers	539,733
Cash Payments to Employees	(382,327)
Cash Payments to Vendors	(202,522)
Net Cash Provided By (Used For) Operating Activities	\$ (45,116)
<u>Cash Flows from Non-Capital Financing Activities</u>	
Other	-
Transfers In	-
Net Cash Provided by (Used in) Non-Capital Financing Activities	-
<u>Cash Flow from Capital Activities:</u>	
Acquisition of Capital Assets	(2,493)
Net Cash Provided by (Used in) Capital Activities	(2,493)
Net Increase (Decrease) in Cash and Cash Equivalents	(47,609)
Cash and Cash Equivalents at Beginning of Year	290,270
Cash and Cash Equivalents at End of Year - Operations	\$ 242,661
Reconciliation of Net Income to Net Cash Provided by Operating Activities:	
Net Revenue over (Under) Expenses	\$ 25,764
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	3,300
Increase (Decrease) in:	
Deferred Revenue	(74,180)
Net Cash Provided by (Used in) Operating Activities:	\$ (45,116)



**MORRIS COUNTY APPRAISAL DISTRICT OPERATING FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Morris County Appraisal District operating fund was formed under a Senate Bill for the purpose of appraisal of all property in Morris County. The assessed valuation determined by the Appraisal District is used by all taxing entities in the County. These taxing entities provide funding for the District each year based on an approved budget.

**A. REPORTING ENTITY**

The District, for financial purposes, includes all of the funds and account groups relevant to the operations of Morris County Appraisal District. The financial statements presented herein includes agency funds which have been formed under applicable state laws or separate and distinct units of government apart from the Morris County Appraisal District.

At December 31, 2016, the District has collection agreements with nine taxing units to collect and remit their property taxes to them on a timely basis. This activity is transacted through a separate escrow collection account, which is included in these financial statements. This escrow account is used as a clearing account only and is audited separately.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Morris County Appraisal District's nonfiduciary activities with most of the interfund activities removed.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. If revenue is not program revenue, it is general revenue used to support all of the District's functions.

**Fund Financial Statements** - The fund financial statements provide reports on the financial condition and results of operations for the proprietary fund. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services. Other expenses are nonoperating.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

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

**MORRIS COUNTY APPRAISAL DISTRICT OPERATING FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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The accrual basis of accounting recognizes revenues in the accounting period in which they are earned and expenses in the accounting period in which the fund liability is incurred. The expense related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Deferred revenues from local sources consist primarily of charges to the taxing entities for appraisals prior to such time as the District has a legal claim to the amounts received.

Revenues from local sources consist primarily of charges to the taxing entities for appraisals and for collection of property tax.

**D. FUND ACCOUNTING**

The District reports the following major governmental fund:

**The Enterprise Fund** – The enterprise fund is the District's primary operating fund. It accounts for all financial resources.

**E. OTHER ACCOUNTING POLICIES**

**1. Investments and Cash Equivalents**

The District's Cash Management and Investment Policy requires all deposits to be fully collateralized with depository insurance; obligations of the United States of America or its agencies and instrumentalities (excluding those mortgaged backed securities prohibited by the Public Funds Investments Act); public fund investment pools; or in any manner and amount provided by law for deposits of the District. At all times, such securities are to have a fair value of not less than 110 percent of the amount of the deposits collateralized, adjusted by an amount of applicable depository insurance.

The District considers highly liquid investments to be cash equivalents if they have maturity of three months or less when purchased. All other monetary assets are treated as investments including certificate of deposit, investment pools, money market investments, and other securities defined under the Public Funds Investment Act.

**2. Inventories**

Inventories of supplies on the balance sheet are stated at FIFO cost and they include consumable maintenance, instructional, and office items. Supplies are recorded as expenditures when they are consumed. Inventories as of the balance sheet date are considered immaterial and not booked.

**3. Long-Term Debt**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

**4. Capital Assets**

Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical

**MORRIS COUNTY APPRAISAL DISTRICT OPERATING FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Equipment of the District is depreciated using the straight-line method over the following estimated useful lives:

Furniture	5 - 8 years
Computer Equipment	3 - 5 years

The District has no restriction on any assets.

#### **5. Fund Equity**

**Net Position** - Net position represents the difference between assets and deferred outflow of resources, and liabilities and deferred inflow of resources. Net investments in capital consists of cost of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvements if those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislature adopted by the district or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net position is reported unrestricted

As of December 31, 2016, Net Investment of Capital Assets included \$4,761, Restricted Net Position included \$96,417, and Unrestricted Net Position included \$228.

#### **6. Risk Management**

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

#### **7. Vacation and Sick Leave**

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying general-purpose financial statements.

Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying general-purpose financial statements.

#### **8. Application of FASB Pronouncements**

As to business-type funds, the District applies all applicable GASB pronouncements as well as FASB, APR and ARB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**MORRIS COUNTY APPRAISAL DISTRICT OPERATING FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**9. Estimates and Assumptions**

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

**NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. BUDGETARY DATA**

The Board of Directors adopts an "appropriated budget" for the Enterprise Fund. The District is required to present the adopted and final amended budgeted revenues and expenditures compared to actual revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The Enterprise Fund Budget reports appear in Exhibit E.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to September 20 the District prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to October 1, the Board legally enacts the budget through passage of a resolution after it is approved by the taxing entities. The budget can only be amended with the approval of all taxing entities. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at December 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. End-of-year outstanding encumbrances that were provided for in the subsequent year's budget are presented below:

General Fund	\$-0-
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**B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Expenditures exceeded final budget in several categories. Total expenditures were \$25,744 less than total budgetary allowance for expenditures.

**MORRIS COUNTY APPRAISAL DISTRICT OPERATING FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**NOTE III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. DEPOSITORY CONTRACT LAW**

Under Texas state law, a bank serving as the District depository must have a bond or in lieu thereof, deposited or pledged securities with the District or an independent third party agent, an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC insurance. The District's depository contract covers both the operations bank account and the escrow collection bank accounts, however the collections deposits are not part of this audit.

At December 31, 2016, the carrying amount of the District's deposits for operations (cash, certificates of deposit, and interest-bearing savings accounts) were \$1,802,034 and the bank balance was \$1,662,180. The District's combined cash deposits at year-end were entirely covered by FDIC insurance, or pledged collateral, held by the District's agency bank. The combined deposits were collateralized in accordance with Texas law and were secured at all times during the year as detailed below.

In addition, the following is disclosed regarding coverage of combined balances on the date of the highest deposit:

- a. Depository: First National Bank of Hughes Springs, Texas
- b. The combined highest cash balance was \$5,074,383, and occurred on February 4, 2016.
- c. The amount of FDIC coverage at the time of the highest balance was \$250,000.
- d. The amount of bonds and/or securities pledged at January 31, 2016 was \$5,575,356.
- e. Undersecured: \$-0-

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for 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. Authorized collateral to secure funds must be by eligible securities to the extent and in the manner required by the Public Funds Collateral Act. Securities pledged. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. The District complies with this law.

Foreign Currency Risk: The District does not invest in securities relating to foreign currencies.

District Policies and Legal and Contractual Provisions Governing Investments

**Compliance with the Public Funds Investment Act**

The **Public Funds Investments Act** (Government Code Chapter 2256) contains specific provisions in the area of investment practice, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy addresses the following areas: (1) safety of principal and liquidity, (2) portfolio diversification,

**MORRIS COUNTY APPRAISAL DISTRICT OPERATING FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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(3) allowable investments (4) acceptable risk levels, (5) expected rate of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity date for the portfolio, (8) investment staff quality and capability, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit; (3) certain municipal securities; (4) money market savings accounts; (5) repurchase agreements; (6) banker's acceptance notes; (7) mutual funds; (8) investments pools; (9) guaranteed investment contracts; and (10) common trust funds. The Act also requires the District to have an independent auditor perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing deposits and investments for the District are specified below:

The District's Investment Policy for Investments

Custodial Credit Risk for Investments: For an investment, this is the risk that, in the event of the failure of the counterpart, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Credit Risk: To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in (list investments covered by the District's credit risk policy, such as commercial paper, corporate bonds, mutual bond funds) to the top (or top 2 or 3) ratings issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of Credit Risk: To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District diversifies its investments. The District further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk: To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District invests only in paper that does not have an interest rate risk.

Foreign Currency Risk: The District does not invest in foreign currency.

Temporary investments are reported at cost, which approximates market, and are secured, when necessary, by the Federal Deposit Insurance Corporation (FDIC) or obligations of items 1-4 above at 102% of the investment's market value. The Act also requires the District to have an independent auditor perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Both cash deposits and investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

- Category 1 - Cash or investments that are insured, registered, or held by the District or its agent in the District's name.
- Category 2 - Cash or investments that are uninsured and unregistered held by the counter-party's trust department or agency in the District's name.
- Category 3 - Uninsured and unregistered held by the counter-party, its trust department, or its agency, but not in the District's name.

**MORRIS COUNTY APPRAISAL DISTRICT OPERATING FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

The District had no investments at December 31, 2016.

**B. CAPITAL ASSETS**

A summary of changes in general fixed assets follows:

	Balance 01/01/2016	Additions	Deletions	Balance 12/31/2016
Total Equipment	\$28,974	\$2,493	\$-0-	\$31,467
Less: Depreciation				

	Balance 01/01/2016	Additions	Deletions	Balance 12/31/2016
Equipment	\$23,406	\$3,300	\$-0-	\$26,706

**C. DEFERRED REVENUE**

Deferred revenue at year-end consisted of the following:

2017 Assessments paid in 2016	\$ 93,995
2016 Carryover to 2017	<u>52,021</u>
Total	<u>\$146,016</u>

**D. PENSION PLAN OBLIGATION**

The District contributes to the Morris County Appraisal District Money Purchase Pension Plan and Trust (the Plan), a defined contribution pension plan under section 401 of the Internal Revenue code, for all employees. Participation in the Plan is mandatory for all employees. The Plan is administered by the Trustees of Morris County Appraisal District. The Plan may be amended by the Trustees of the District at their discretion. The normal retirement age under the plan is age 62. After reaching normal retirement age and 100% vested, the member will be entitled to receive benefits in an amount equal to 100% of the member's total account balance. Regardless of the vesting schedule, a Participant will become fully vested upon death or total and permanent disability. The Plan may also loan money to a Participant from their own individual account.

Benefit terms, including contribution requirements, for the Plan are established and may be amended by the Trustees of Morris County Appraisal District. For each employee in the pension plan, the District is required to contribute 12 percent of each Participant's compensation to an individual employee account. Employees are required to contribute 8 percent of their compensation. The Plan also allows rollovers. For the year ended December 31, 2016, employee contributions totaled \$22,245, and the District recognized pension expense of \$33,367.

Vesting and forfeiture terms for the plan are established and may be amended by the Trustees of Morris County Appraisal District. Employees are immediately vested in their own contributions or rollover contributions and earnings on those contributions and become vested in District contributions after three years of service with the District. Nonvested District contributions are forfeited upon termination of employment. Such forfeitures are used to reduce the District's contributions. For the year ended December 31, 2016, there were no forfeitures in the Plan.

**MORRIS COUNTY APPRAISAL DISTRICT OPERATING FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**E. LOANS PAYABLE**

No loans were entered into during the year, nor were any balances outstanding at the beginning of the year.

**F. LONG-TERM DEBT**

There were no long-term debts.

**G. COMMITMENTS UNDER LEASES**

No capital leases were in effect at year-end.

No operating (noncapitalized) leases were in effect at year-end.

Rental expenditures in fiscal year 2016 were \$9,600.

**H. HEALTH CARE COVERAGE**

During the year ended December 31, 2016, eligible employees of the District were covered by a health insurance plan (the "plan"). The District contributed \$784.03 per month per employee to the plan January through August. Beginning September 1, contributions were \$768.39 per month per employee. All contributions were paid to a licensed insurer.

**I. LITIGATION AND CONTINGENCIES**

As of the report date, the District was not involved in any litigation that would have a material effect on the general-purpose financial statement.

**J. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES**

During the year, revenues from local and intermediate sources consisted of the following:

Contracts	\$561,385
Investments	386
Other	<u>36,583</u>
	<u>\$598,354</u>

**K. SUBSEQUENT EVENTS**

None noted.



## SUPPLEMENTAL INFORMATION

**MORRIS COUNTY APPRAISAL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**BUDGET AND ACTUAL - PROPRIETARY FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES</b>				
District Assessments	\$ 598,334	\$ 598,334	\$ 561,385	\$ (36,949)
Interest	-	-	386	386
Miscellaneous Revenue	-	-	36,583	36,583
<b>Total Revenues</b>	<b>598,334</b>	<b>598,334</b>	<b>598,354</b>	<b>20</b>
<b>EXPENDITURES</b>				
Appraisal Board Expenses	6,000	6,000	3,814	2,186
Appraisal Services	55,000	55,000	54,762	238
Auditing Services	6,500	6,500	6,850	(350)
Capital/Mapping Project	15,000	15,000	3,500	11,500
Computer and Software Expenses	33,653	33,653	38,250	(4,597)
Contingency	5,000	5,000	4,234	766
Deed Records, Plats & Notices	2,800	2,800	2,030	770
Depreciation	-	-	3,300	(3,300)
Dues/Subscriptions/Publications	6,800	6,800	4,516	2,284
Insurance Expenses	2,500	2,500	1,976	524
Janitorial Expenses	3,000	3,000	2,120	880
Legal Services	10,000	10,000	518	9,482
Maintenance	3,500	3,500	1,218	2,282
Mapping Expenses	2,600	2,600	2,360	240
Office Expenses	12,300	12,300	7,616	4,684
Office Lease	9,600	9,600	9,600	-
Payroll Expenses	380,351	380,351	382,327	(1,976)
Postage	14,630	14,630	14,576	54
Telephone and Fax	5,600	5,600	5,587	13
Travel & Tuition Expenses	19,000	19,000	20,117	(1,117)
Utilities	4,500	4,500	3,319	1,181
	<u>598,334</u>	<u>598,334</u>	<u>572,590</u>	<u>25,744</u>
Excess Revenues over Expenditures	-	-	25,764	25,764
Fund Net Position, January 1	75,642	75,642	75,642	75,642
Fund Net Position, December 31	<u>\$ 75,642</u>	<u>\$ 75,642</u>	<u>\$ 101,406</u>	<u>\$ 101,406</u>

**OVERALL COMPLIANCE AND  
INTERNAL CONTROLS SECTION**



**CAVER and SETSER, Inc.**

**Certified Public Accountants**

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Texas Society of CPAs  
Governmental Audit Quality Center

*N. Preston Caver, CPA*

*Jalyn L. Setser, CPA*

**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**

Independent Auditor's Report

To the Members of the Board  
Morris County Appraisal District  
Daingerfield, Texas

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the aggregate remaining fund information of the Proprietary Fund activities of the Morris County Appraisal District (the District) as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report on them dated January 18, 2017.

**Internal Control Over Financial Reporting**

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

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are considered to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morris County Appraisal District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

### Purpose of this report

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

This report is intended for the information of the District's governing body, the administration, the State of Texas and various state agencies and is not intended to be used and should not be used by anyone other than these specified parties.

*Caver and Setser, Inc.*

Caver and Setser, Inc.  
Certified Public Accountants

January 18, 2017

**MORRIS COUNTY APPRAISAL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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**I. Summary of Auditor's Results:**

1. Type of auditor's report issued on the financial statements: Unmodified
2. No internal control findings required to be reported in this schedule were disclosed in the audit of the financial statements.
3. Noncompliance which is material to the financial statements: None
4. Low risk auditee: Yes

**II. Findings Related to the Financial Statements:**

None

**MORRIS COUNTY APPRAISAL DISTRICT  
SCHEDULE OF STATUS OF PRIOR YEAR'S FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**PRIOR YEAR'S FINDINGS/NONCOMPLIANCE**

There were no findings in the prior year

***MORRIS COUNTY APPRAISAL DISTRICT***  
**CORRECTIVE ACTION PLAN**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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**CORRECTIVE ACTION PLAN**

No findings in current audit period.