



McCULLOCH COUNTY, TEXAS

Annual Financial Report

For the Year Ended
September 30, 2017

MCCULLOCH COUNTY, TEXAS
Annual Financial Report
For the Year Ended September 30, 2017
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FINANCIAL SECTION



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Judge and
Members of the Commissioners' Court
McCulloch County, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of McCulloch County, Texas (the County), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison information, Schedule of Change in Net Pension Asset and Related Ratios, and Schedule of Employer Contributions on pages 3 through 9 and 41 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County’s basic financial statements. The combining nonmajor fund financial statements and combining statement of fiduciary assets and liabilities are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and combining statement of fiduciary assets and liabilities 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 nonmajor fund financial statements and combining statement of fiduciary assets and liabilities are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2018, on our consideration of the County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County’s internal control over financial reporting and compliance.



Abilene, Texas
March 22, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of McCulloch County's annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year ended September 30, 2017. Please read it in conjunction with the County's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The County's total combined net position was \$13,770,145 at September 30, 2017. Of this amount, \$8,238,949 is invested in capital assets, net of related debt, \$60,987 is restricted for debt service, and \$1,709,501 is restricted for other purposes. Unrestricted net position is \$3,760,708.
- During the year, the County's expenses were \$519,587 more than the \$4,810,903 generated in taxes and other revenues for governmental activities.
- The general fund reported a fund balance this year of \$2,765,298.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

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

The two government-wide statements report the County's net position and how it has changed. Net position, the difference between the County's assets and liabilities, is one way to measure the County's financial health or position.

- Over time, increases or decreases in the County's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the County, one needs to consider additional nonfinancial factors such as changes in the County's tax base.

The government-wide financial statements of the County include the governmental activities. Most of the County's basic services are included here, such as general administration, judicial, public safety, and facilities. Property taxes and charges for services finance most of these activities.

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The Commissioners' Court establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

Fund Financial Statements – continued

The County has the following types of funds:

- Governmental funds - Most of the County's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that help the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- Fiduciary funds - The County is the trustee, or fiduciary, for certain funds. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All the County's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the County's government-wide financial statements because the County cannot use these assets to finance its operation.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

As noted earlier, net position can serve over time as a useful indicator of a government's financial position. In the case of McCulloch County, assets exceeded liabilities by \$13,770,145 at the close of the fiscal year ended September 30, 2017.

A portion of the County's net position (59.8%) comprises capital assets (for example, land, infrastructure, and buildings), net of the outstanding debt issued to finance their acquisition. The County uses these capital assets to provide services to citizens, and consequently, the assets are not available for future spending. Although, as mentioned, the County's investment in capital assets is reported net of related debt, it should be noted that the resources to re-pay this debt must be provided from other sources since the capital assets themselves cannot be used to do so. Total restricted net position is \$1,770,488 of which \$60,987 is restricted for repaying long term debt, \$1,695 is restricted for CETRZ grant road projects, \$86,538 is restricted for special ad valorem road projects, \$1,030,439 is restricted for the library, \$35,418 is restricted for the law library, \$2,429 is restricted for hot check reimbursement, \$139,889 is restricted for specially designated road repair projects, \$78,023 is restricted for archive fees, \$8,127 is restricted for court records preservation, \$52,946 is restricted for covering courthouse security cost, \$31,423 is restricted for pre-trial diversion programs, \$118,411 is restricted for records management, \$21,208 is restricted for restoration and preservation of County property, \$44,669 is restricted for County technology fees, \$4,033 is restricted for County video fees, \$18,000 is restricted for dam maintenance, \$8,561 is restricted for probate training, \$1,842 is restricted for a salary supplement excess for the county judge received from the state, and \$25,850 is restricted for renting voting equipment. The remaining balance of net position, \$3,760,708, is unrestricted and available to meet the government's ongoing obligations to citizens and creditors.

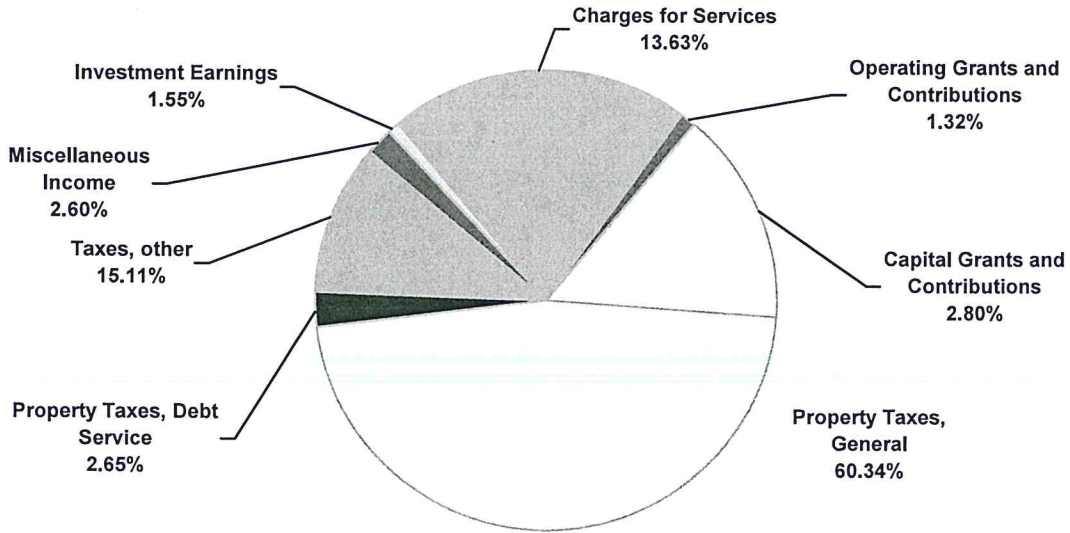
FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE – continued

| | Governmental Activities | |
|--|-------------------------|----------------------|
| | 2017 | 2016 |
| Current assets | | |
| Cash and cash equivalents | \$ 2,766,942 | \$ 3,716,764 |
| Investments | 460,000 | 460,000 |
| Prepaid expenses | 68,387 | 66,170 |
| Receivables (net of allowance for uncollectibles) | | |
| Taxes | 98,864 | 80,303 |
| Fines, fees, and court costs | 303,802 | 699,824 |
| Other | 70,799 | 44,095 |
| Net pension asset (proportionate share) | 28,280 | 39,278 |
| Total current assets | 3,797,074 | 5,106,434 |
| Capital assets | | |
| Land | 200,615 | 200,615 |
| Construction in progress | 1,842,624 | 19,434 |
| Infrastructure | 1,928,955 | 1,928,955 |
| Buildings and improvements | 8,093,299 | 8,093,299 |
| Furniture and equipment | 2,312,327 | 2,250,849 |
| Vehicles | 446,706 | 376,144 |
| Less: accumulated depreciation | (3,796,845) | (3,366,148) |
| Total capital assets | 11,027,681 | 9,503,148 |
| Restricted assets: | | |
| Cash and cash equivalents | 10,098,543 | 1,116,236 |
| Total noncurrent assets | 21,126,224 | 10,619,384 |
| Total assets | 24,923,298 | 15,725,818 |
| Deferred outflows of resources - pension | 434,058 | 517,469 |
| Total assets and deferred outflows of resources | \$ 25,357,356 | \$ 16,243,287 |
| Current liabilities | | |
| Accounts payable and other current liabilities | \$ 164,487 | \$ 75,629 |
| Payroll liabilities | 20,233 | 15,684 |
| Accrued interest payable | 145,285 | 18,602 |
| Due to other governments | 78,990 | 181,955 |
| Total current liabilities | 408,995 | 291,870 |
| Noncurrent liabilities | | |
| Due within one year | 486,288 | 291,788 |
| Due in more than one year | 10,655,113 | 1,314,675 |
| Total noncurrent liabilities | 11,141,401 | 1,606,463 |
| Total liabilities | 11,550,396 | 1,898,333 |
| Deferred inflows of resources - pension | 36,815 | 55,222 |
| Net position | | |
| Net investment in capital assets | 8,238,949 | 7,911,809 |
| Restricted | 1,770,488 | 1,927,956 |
| Unrestricted | 3,760,708 | 4,449,967 |
| Total net position | 13,770,145 | 14,289,732 |
| Total liabilities, deferred inflows of resources and net position | \$ 25,357,356 | \$ 16,243,287 |

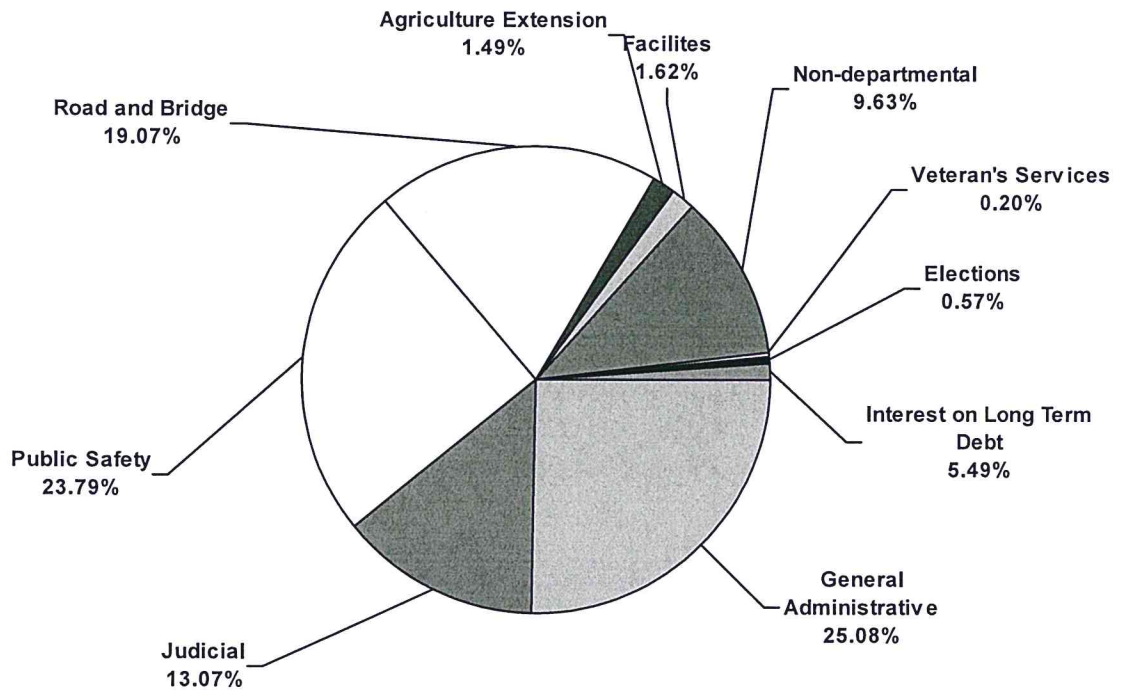
FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE – continued

The County's net position decreased by \$519,587. Since the County presently engages in no business-type activities, governmental activities account for all of the changes in net position at the government-wide reporting level.

Governmental Activities: The County's total revenues were \$4,810,903. A significant portion, 62.99%, of the County's revenue comes from property taxes. 13.63% comes from charges for services, and 4.12% comes from operating and capital grants and contributions.



The total cost of all County programs and services was \$5,330,490. 13.07% of these costs are for judicial services, 23.79% are for public safety, and 19.07% are for public transportation.



FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE – continued

| | Governmental Activities | |
|---|-------------------------|----------------------|
| | 2017 | 2016 |
| Program revenues: | | |
| Charges for services | \$ 655,958 | \$ 1,269,183 |
| Operating grants and contributions | 63,482 | 74,797 |
| Capital grants and contributions | 134,889 | 907,294 |
| General revenues: | | |
| Property taxes, levied for general purposes | 2,902,681 | 2,841,109 |
| Property taxes, levied for debt service | 127,532 | 136,995 |
| Taxes, other | 727,032 | 642,854 |
| Miscellaneous income | 107,417 | 121,182 |
| Investment income | 74,682 | 48,954 |
| Gain on disposal of assets | 17,230 | 1,108 |
| Total revenues | 4,810,903 | 6,043,476 |
| Expenses: | | |
| General administrative | 1,337,150 | 1,175,374 |
| Judicial | 696,433 | 635,801 |
| Public safety | 1,268,054 | 1,155,587 |
| Road and bridge | 1,016,439 | 892,199 |
| Ag extension | 79,187 | 82,034 |
| Facilities | 86,360 | 82,632 |
| Non-departmental | 513,429 | 529,656 |
| Veteran's service office | 10,447 | 9,891 |
| Elections | 30,529 | 19,037 |
| Debt service - interest on long-term debt | 292,462 | 55,834 |
| Total expenses | 5,330,490 | 4,638,045 |
| Change in net position | (519,587) | 1,405,431 |
| Beginning balance, net position | 14,289,732 | 12,884,301 |
| Ending balance, net position | <u>\$ 13,770,145</u> | <u>\$ 14,289,732</u> |

The cost of each of the County's largest functions includes:

- The cost of all governmental activities this year was \$5,330,490.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$3,030,213.
- Some of the cost was paid by those who directly benefited from the programs (\$655,958) or by grants and contributions (\$198,371).

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

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

Governmental funds: The general governmental functions are reported in the general, capital projects, debt service, and special revenue funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's annual financing and budgeting requirements. In particular, unassigned fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$13,338,035, an increase of \$7,979,055 in comparison with the prior year. The cause of this increase in fund balances was due to the issuance of a bond in current year. Of the total ending fund balances, \$2,696,911 constitutes unassigned fund balance, \$68,387 constitutes nonspendable fund balance, \$476,737 constitutes assigned fund balance, and \$10,096,000 constitutes restricted fund balance. Unassigned fund balance is available for spending at the County's discretion, assigned fund balance represents amounts that may only be used for special revenue fund purposes, committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by the Commissioners' Court, and restricted fund balance represents amounts that can be used only for the specific purposes of debt service, permanent improvements, and special road projects.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,696,911. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 69.43% of total general fund expenditures, and the total fund balance also represents 71.19% of that same amount.

The fund balance of the County's general fund decreased by \$33,727 during the current fiscal year. Key factors in this decline are as follows:

- Expending more money than produced through revenue activities.

General Fund Budgetary Highlights

The County budget is prepared in accordance with accounting principles generally accepted in the United States. The budget is prepared by the County Judge and approved by the Commissioners' Court. The approved budget is used as a management control device during the year, and appropriations are set at the expenditure type level. Budgetary transfers between expenditure types must be approved by the Commissioners' Court.

During the year, revenues were less than budgetary estimates and expenditures were less than budgetary estimates. Major variances include:

- Intergovernmental and grants were less than budget by 8.27% (\$5,000).
- Total general fund expenditures were 95.35% of the amended budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. At the end of 2017, the County had invested \$11,027,681 in a broad range of capital assets, including land, equipment, buildings, and vehicles. More detailed information about the County's capital assets is presented in Note 5 to the financial statements on page 26.

| | Governmental Activities | |
|--------------------------------|----------------------------|---------------------|
| | 2017 | 2016 |
| Land | \$ 200,615 | \$ 200,615 |
| Construction in progress | 1,842,624 | 19,434 |
| Infrastructure | 1,928,955 | 1,928,955 |
| Buildings and improvements | 8,093,299 | 8,093,299 |
| Furniture and equipment | 2,312,327 | 2,250,849 |
| Vehicles | 446,706 | 376,144 |
| Total at historical cost | <u>14,824,526</u> | <u>12,869,296</u> |
| Total accumulated depreciation | <u>(3,796,845)</u> | <u>(3,366,148)</u> |
| Net capital assets | <u>\$ 11,027,681</u> | <u>\$ 9,503,148</u> |

LONG-TERM DEBT

Long-Term Debt. At year-end, the County had \$11,141,401 in notes payable, capital leases, compensated absences, and bonds payable outstanding, as shown in the table below. More detailed information about the County's debt is presented in Note 8 to the financial statements on pages 27 through 31.

| | Governmental Activities | |
|-----------------------|----------------------------|---------------------|
| | 2017 | 2016 |
| Notes payable | \$ 456,141 | \$ 394,593 |
| Capital lease payable | 289,994 | 376,746 |
| Compensated absences | 27,156 | 15,124 |
| Bonds payable | <u>10,368,110</u> | <u>820,000</u> |
| Total long-term debt | <u>\$ 11,141,401</u> | <u>\$ 1,606,463</u> |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The County should maintain its financial health during the 2018 fiscal year. Taxable values for the County have increased, and budgeted expenditures for next fiscal year are approximately the same as they were for the 2017 fiscal year.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Treasurer's Office at: County Treasurer, 199 Courthouse Square RM 301, Brady, Texas 76825.

BASIC FINANCIAL STATEMENTS

McCULLOCH COUNTY, TEXAS
Statement of Net Position
September 30, 2017

| | Governmental Activities |
|---|----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 2,766,942 |
| Investments | 460,000 |
| Prepaid expenses | 68,387 |
| Receivables (net of allowances) | |
| Taxes | 98,864 |
| Fines and fees | 303,802 |
| Other | 70,799 |
| Net pension asset | 28,280 |
| Capital assets (net of accumulated depreciation) | 11,027,681 |
| Restricted assets: | |
| Pooled cash and cash equivalents | 10,098,543 |
| Total assets | 24,923,298 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows - pensions | 434,058 |
| Total assets and deferred outflows of resources | 25,357,356 |
| LIABILITIES | |
| Accounts payable and other current liabilities | 164,487 |
| Payroll liabilities | 20,233 |
| Accrued interest payable | 145,285 |
| Due to other governments | 78,990 |
| Noncurrent liabilities | |
| Due within one year | 486,288 |
| Due in more than one year | 10,655,113 |
| Total liabilities | 11,550,396 |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows - pensions | 36,815 |
| Total liabilities and deferred inflows of resources | 11,587,211 |
| NET POSITION | |
| Net investment in capital assets | 8,238,949 |
| Restricted for long term debt | 60,987 |
| Restricted for other purposes | 1,709,501 |
| Unrestricted | 3,760,708 |
| Total net position | \$ 13,770,145 |

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

McCULLOCH COUNTY, TEXAS
Statement of Activities
For the Year Ended September 30, 2017

| FUNCTIONS/PROGRAMS | Expenses | Program Revenues | |
|---|---------------------|----------------------|------------------------------------|
| | | Charges for Services | Operating Grants and Contributions |
| PRIMARY GOVERNMENT | | | |
| Governmental activities | | | |
| General administrative | \$ 1,337,150 | \$ 37,970 | \$ 63,482 |
| Judicial | 696,433 | 261,161 | - |
| Public safety | 1,268,054 | 21,404 | - |
| Road and bridge | 1,016,439 | 335,423 | - |
| Ag extension | 79,187 | - | - |
| Facilities | 86,360 | - | - |
| Non-departmental | 513,429 | - | - |
| Veteran's service office | 10,447 | - | - |
| Elections | 30,529 | - | - |
| Debt service - interest on long-term debt | 292,462 | - | - |
| Total governmental activities | <u>5,330,490</u> | <u>655,958</u> | <u>63,482</u> |
| TOTAL PRIMARY GOVERNMENT | <u>\$ 5,330,490</u> | <u>\$ 655,958</u> | <u>\$ 63,482</u> |

General revenues:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Taxes, other
- Miscellaneous income
- Investment income
- Gain on retirement of assets
- Total general revenues

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR

NET POSITION AT END OF YEAR

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

| Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position | |
|--|--|----------------------|
| | Primary Government | |
| | Governmental Activities | Total |
| \$ 134,889 | \$ (1,100,809) | \$ (1,100,809) |
| - | (435,272) | (435,272) |
| - | (1,246,650) | (1,246,650) |
| - | (681,016) | (681,016) |
| - | (79,187) | (79,187) |
| - | (86,360) | (86,360) |
| - | (513,429) | (513,429) |
| - | (10,447) | (10,447) |
| - | (30,529) | (30,529) |
| - | (292,462) | (292,462) |
| <u>134,889</u> | <u>(4,476,161)</u> | <u>(4,476,161)</u> |
| \$ <u>134,889</u> | <u>(4,476,161)</u> | <u>(4,476,161)</u> |
| | 2,902,681 | 2,902,681 |
| | 127,532 | 127,532 |
| | 727,032 | 727,032 |
| | 107,417 | 107,417 |
| | 74,682 | 74,682 |
| | 17,230 | 17,230 |
| | <u>3,956,574</u> | <u>3,956,574</u> |
| | (519,587) | (519,587) |
| | <u>14,289,732</u> | <u>14,289,732</u> |
| \$ <u>13,770,145</u> | <u>\$ 13,770,145</u> | <u>\$ 13,770,145</u> |

McCULLOCH COUNTY, TEXAS
 Balance Sheet
 Governmental Funds
 September 30, 2017

| | General Fund | Road and Bridge Fund | Law Enforcement Center Fund |
|--|---------------------|----------------------------|-----------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 2,354,310 | \$ 411,482 | \$ - |
| Investments | 400,000 | 60,000 | - |
| Prepaid expenses | 68,387 | - | - |
| Receivables (net of allowances) | | | |
| Taxes | 96,816 | - | - |
| Fines and fees | 303,802 | - | - |
| Other | 50,655 | 18,618 | - |
| Restricted Assets | | | |
| Cash and cash equivalents | - | - | 8,130,280 |
| Total assets | <u>\$ 3,273,970</u> | <u>\$ 490,100</u> | <u>\$ 8,130,280</u> |
| LIABILITIES | | | |
| Accounts payable and other current liabilities | \$ 150,177 | \$ 10,920 | \$ 597 |
| Payroll related liabilities | 15,961 | 3,593 | - |
| Due to other governments | 78,990 | - | - |
| Total liabilities | 245,128 | 14,513 | 597 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue - property taxes | 38,732 | - | - |
| Unavailable revenue - fines and fees | 224,812 | - | - |
| Total deferred inflows of resources | 263,544 | - | - |
| FUND BALANCES | | | |
| Nonspendable fund balance: | | | |
| Prepaid items | 68,387 | - | - |
| Restricted fund balance: | | | |
| Debt service | - | - | - |
| Construction | - | - | 8,129,683 |
| Other restricted fund balance | - | - | - |
| Assigned fund balance: | | | |
| Road and bridge | - | 475,587 | - |
| Other assigned fund balance | - | - | - |
| Unassigned fund balance | 2,696,911 | - | - |
| Total fund balances | <u>2,765,298</u> | <u>475,587</u> | <u>8,129,683</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | <u>\$ 3,273,970</u> | <u>\$ 490,100</u> | <u>\$ 8,130,280</u> |

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

| <u>Nonmajor</u> | | <u>Total</u> | |
|---------------------|------------------|---------------------|-------------------|
| <u>Governmental</u> | | <u>Governmental</u> | |
| <u>Funds</u> | | <u>Funds</u> | |
| \$ | 1,150 | \$ | 2,766,942 |
| | - | | 460,000 |
| | - | | 68,387 |
| | 2,048 | | 98,864 |
| | - | | 303,802 |
| | 1,526 | | 70,799 |
| | <u>1,968,263</u> | | <u>10,098,543</u> |
| \$ | <u>1,972,987</u> | \$ | <u>13,867,337</u> |
| | | | |
| \$ | 2,793 | \$ | 164,487 |
| | 679 | | 20,233 |
| | - | | 78,990 |
| | <u>3,472</u> | | <u>263,710</u> |
| | 2,048 | | 40,780 |
| | - | | 224,812 |
| | <u>2,048</u> | | <u>265,592</u> |
| | - | | 68,387 |
| | 60,987 | | 60,987 |
| | 195,829 | | 8,325,512 |
| | 1,709,501 | | 1,709,501 |
| | - | | 475,587 |
| | 1,150 | | 1,150 |
| | - | | 2,696,911 |
| | <u>1,967,467</u> | | <u>13,338,035</u> |
| \$ | <u>1,972,987</u> | \$ | <u>13,867,337</u> |

McCULLOCH COUNTY, TEXAS
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Position
 September 30, 2017

| | |
|---|-------------------|
| <hr/> <hr/> | |
| Total Fund Balances - Governmental Funds Balance Sheet | \$ 13,338,035 |
| Amounts reported for governmental activities in the statement of net position (A-1) are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds balance sheet. The net effect is to increase net position. | |
| Governmental capital assets | \$ 14,824,526 |
| Accumulated depreciation | (3,796,845) |
| | 11,027,681 |
| Certain assets, such as property taxes receivable and imposed fines receivable, are not available to pay for current-period expenditures and are not recognized as revenue in the governmental funds. Deferred inflows of resources recognized in the government-wide financial statements results in a net increase to net position. | |
| | 265,592 |
| Long-term liabilities, including bonds payable and compensated absences and other postemployment benefits, are not due and payable in the current period and, therefore, are not reported in the governmental funds. The net effect is a decrease in net position. | |
| | (11,141,401) |
| Payables for bond interest which are not due in the current period are not reported in the funds. The net effect is a decrease in net position. | |
| | (145,285) |
| Included in the items related to debt is the recognition of the County's net pension asset in the amount of \$28,280, a deferred outflow of resources of \$434,058, and a deferred inflow of resources of \$36,815. The net effect is to increase net position | |
| | 425,523 |
| Net Position of Governmental Activities - Statement of Net Position | \$ 13,770,145 |

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

McCULLOCH COUNTY, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2017

| | General Fund | Road and Bridge Fund | Law Enforcement Center Fund |
|---|---------------------|----------------------------|-----------------------------------|
| REVENUES | | | |
| Property taxes | \$ 2,878,476 | \$ - | \$ - |
| Other taxes | 727,032 | - | - |
| Fines and fees | 392,044 | 485,278 | - |
| Intergovernmental, grants, and contributions | 55,457 | - | - |
| Investment earnings | 30,687 | 5,258 | 12,229 |
| Miscellaneous | 101,840 | 5,551 | - |
| Total revenues | <u>4,185,536</u> | <u>496,087</u> | <u>12,229</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General administrative | 853,076 | - | - |
| Judicial | 674,471 | - | - |
| Public safety | 1,124,135 | - | 44,072 |
| Road and Bridge | - | 749,000 | - |
| Agriculture extension service | 77,810 | - | - |
| Facilities | 86,360 | - | - |
| Non-departmental | 497,145 | - | - |
| Veteran's service office | 10,447 | - | - |
| Elections | 30,529 | - | - |
| Debt service: | | | |
| Principal | 85,792 | 127,354 | - |
| Interest and fiscal charges | 9,180 | 22,354 | 118,800 |
| Capital outlay | 435,478 | 107,861 | 1,388,474 |
| Total expenditures | <u>3,884,423</u> | <u>1,006,569</u> | <u>1,551,346</u> |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES | <u>301,113</u> | <u>(510,482)</u> | <u>(1,539,117)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Issuance of debt | 167,942 | 20,000 | 9,355,000 |
| Bond premium | - | - | 313,800 |
| Sale of property | 663 | 23,265 | - |
| Transfers in (out) | (503,445) | 310,152 | - |
| Total other financing sources (uses) | <u>(334,840)</u> | <u>353,417</u> | <u>9,668,800</u> |
| NET CHANGE IN FUND BALANCES | <u>(33,727)</u> | <u>(157,065)</u> | <u>8,129,683</u> |
| FUND BALANCES AT BEGINNING OF YEAR | <u>2,799,025</u> | <u>632,652</u> | <u>-</u> |
| FUND BALANCES AT END OF YEAR | <u>\$ 2,765,298</u> | <u>\$ 475,587</u> | <u>\$ 8,129,683</u> |

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

| Nonmajor Governmental Funds | Total Governmental Funds |
|-----------------------------------|--------------------------------|
| \$ 144,232 | \$ 3,022,708 |
| - | 727,032 |
| 71,694 | 949,016 |
| 142,914 | 198,371 |
| 26,508 | 74,682 |
| 83 | 107,474 |
| <u>385,431</u> | <u>5,079,283</u> |
| 295,825 | 1,148,901 |
| - | 674,471 |
| - | 1,168,207 |
| - | 749,000 |
| - | 77,810 |
| - | 86,360 |
| - | 497,145 |
| - | 10,447 |
| - | 30,529 |
| 105,000 | 318,146 |
| 31,135 | 181,469 |
| <u>106,600</u> | <u>2,038,413</u> |
| <u>538,560</u> | <u>6,980,898</u> |
| <u>(153,129)</u> | <u>(1,901,615)</u> |
| - | 9,542,942 |
| - | 313,800 |
| - | 23,928 |
| <u>193,293</u> | <u>-</u> |
| <u>193,293</u> | <u>9,880,670</u> |
| 40,164 | 7,979,055 |
| <u>1,927,303</u> | <u>5,358,980</u> |
| <u>\$ 1,967,467</u> | <u>\$ 13,338,035</u> |

McCULLOCH COUNTY, TEXAS
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended September 30, 2017

| | |
|---|--------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 7,979,055 |
| Amounts reported for governmental activities in the statement of activities (A-2) are different because: | |
| Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The net effect of including capital outlays is to increase net position. | 2,038,413 |
| Depreciation expense is not reflected in the governmental funds but is recorded in the government-wide financial statements as an expense and an increase to accumulated depreciation. The net effect of recording current year depreciation expense is to decrease net position. | (507,182) |
| Gain or loss on the disposal of capital assets is not recorded to the fund financial statements but must be realized on the statement of activities. This results in a decrease in net position of \$6,698. | (6,698) |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds. The current year increase in revenue recognized in the government-wide financial statements results in a decrease in net position. | (285,553) |
| Current year long-term debt principal payments on long-term debt are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements. This results in an increase in net position. | 318,146 |
| The net increase in compensated absences payable is a decrease to net position. | (12,032) |
| Governmental funds report the effect of bond proceeds and issuance of other long-term debt, including capital leases, when debt is first issued. These amounts are deferred and amortized in the statement of activities which results in a decrease in net position. | (9,856,742) |
| The net increase in accrued interest payable of \$126,683 decreases net position. | (126,683) |
| Bond premiums are recorded as expenditures when paid in the fund financial statements but are capitalized and amortized in the government-wide financial statements. This is the current year amortization. | 15,690 |
| Certain expenditures for the pension that are recorded to the fund financial statements must be recorded as deferred outflows of resources. Increase in contributions made after the measurement date caused the change in net position to increase in the amount of \$2,307. The County's share of the unrecognized deferred inflows and outflows for TCDRS as of the measurement date must be amortized and the County's proportionate share of the pension expense must be recognized. These cause the change in net position to decrease in the amount of \$78,308. The net effect is a decrease in net position. | (76,001) |
| Change in Net Position of Governmental Activities - Statement of Activities | \$ (519,587) |

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

McCULLOCH COUNTY, TEXAS
Statement of Fiduciary Net Position - Fiduciary Funds
September 30, 2017

| | <u>Agency Funds</u> |
|---------------------------|-------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 700,190 |
| Accounts receivable | <u>2,648</u> |
| Total assets | <u>\$ 702,838</u> |
| LIABILITIES | |
| Accounts Payable | \$ 46,418 |
| Due to others | <u>656,420</u> |
| Total liabilities | <u>\$ 702,838</u> |

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

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 1: Summary of Significant Accounting Policies

The financial statements of McCulloch County, Texas (the County) included in the accompanying basic financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following notes to the financial statements are an integral part of the County's basic financial statements.

A. Reporting Entity

The County is a public Corporation and political subdivision of the State of Texas. The Commissioners' Court, which is made up of four commissioners and the County Judge, is the general governing body of the County in accordance with Article 5, Paragraph 18 of the Texas Constitution. The County provides the following services as authorized by the statutes of the State of Texas: general administration, tax and recording (e.g. tax collection), judicial (courts, juries, etc.), legal (County attorney, county attorney, etc.), public safety (sheriff, jail, etc.), and transportation.

The County's basic financial statements include the accounts of all its operations. The County evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the County's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

1. the organization is legally separate (can sue and be sued in its name)
2. the County holds the corporate powers of the organization
3. the County appoints a voting majority of the organization's board
4. the County is able to impose its will on the organization
5. the organization has the potential to impose a financial benefit/burden on the County
6. there is fiscal dependency by the organization on the County
7. the exclusion of the organization would result in misleading or incomplete financial statements

The County also evaluated each legally separate tax-exempt organization whose resources are used principally to provide support to the County to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) the economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the County, its component units, or its constituents, 2) the County or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization, and 3) such economic resources are significant to the County.

Based on these criteria, the County has no component units. Additionally, the County is not a component unit of any other reporting entity as defined by the GASB Statement.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

- **Basis of Presentation**

Government-wide financial statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The County does not allocate indirect expenses in the statement of activities.

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 1: Summary of Significant Accounting Policies - continued

Program revenues include: (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund financial statements: The fund financial statements provide information about the County's funds with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds with each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Proprietary funds operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The County reports the following major governmental funds:

General fund: This is the County's primary operating fund. It accounts for all financial resources of the County except those required to be accounted for in another fund.

Road and bridge fund: This fund accounts for financial resources to be used in the operations of the four county precincts.

Law enforcement center fund: This fund accounts for financial resources to be used in the construction of a law enforcement center.

In addition, the County reports the following nonmajor governmental funds:

Special revenue funds: These funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt service fund: This fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Permanent improvement fund: This fund accounts for financial resources to be used for the acquisition or construction of road and bridge projects.

- **Fiduciary Fund Types:**

Agency funds: These funds are used to report funds of the County's fee offices and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. Fees are generated and retained by the fee offices until notification is received to disburse funds to the proper individual or entity. Fees generated include fines, restitution, bail bond deposits, and inmate trust funds.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because the assets are held in a trustee or agent capacity and are, therefore, not available to support County programs, these funds are not included in the government-wide statements.

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 1: Summary of Significant Accounting Policies - continued

- Measurement Focus and Basis of Accounting

Government-wide, proprietary, and fiduciary fund financial statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property taxes revenue and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are both measurable and available at that time. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the County incurs expenditures or expenses for which both restricted and unrestricted resources may be used, it is the County's policy to use restricted resources first, then unrestricted resources.

C. Assets, Liabilities, and Net Position or Equity

- Cash and Cash Equivalents

The County considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

- Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. The appraisal of property within the County is the responsibility of the McCulloch County Appraisal County as required by legislation passed by the Texas Legislature. The Appraisal County is required under such legislation to assess all property with the County on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The assessed value upon which the fiscal 2016-2017 levy was based was approximately \$574,831,375. The combined tax rate to finance general governmental services, including debt service, for the year ended September 30, 2017 was \$0.523 per \$100 of assessed valuation.

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 1: Summary of Significant Accounting Policies - continued

Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available 1) when they become due or past due and receivable within the current period and 2) when they are expected to be collected during a 60-day period after the close of the fiscal year. Current tax collections for the year were 97.32% of the tax levy.

Allowances for uncollectible tax receivables within the general and debt service funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the County is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

- **Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. A capitalization threshold of \$7,500 is used.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction is included as part of the capitalized value of the assets constructed. There was no capitalized interest during the current fiscal year.

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

| <u>Asset</u> | <u>Years</u> |
|----------------------------|--------------|
| Buildings and Improvements | 20-50 |
| Infrastructure | 5-50 |
| Vehicles | 5 |
| Equipment | 2-15 |

- **Receivables and Payable Balances**

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

Reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as deferred revenue.

The County expects that the following receivables will not be collected within one year:

| | |
|----------------|--------------------------|
| Property taxes | \$ 40,780 |
| Fines and fees | <u>224,812</u> |
| | <u><u>\$ 265,592</u></u> |

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 1: Summary of Significant Accounting Policies - continued

- **Compensated Absences**

A liability for unused vacation and comp time for all full-time employees is calculated and reported in the government-wide statements. For financial reporting, the following criteria must be met to be considered as compensated absences:

1. Leave or compensation is attributable to services already rendered
2. Leave or compensation is not contingent on a specific event (such as illness)

Per GASB Interpretation No. 6, liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e. are due for payment). Compensated absences are accrued as long-term debt in the government-wide statements.

Upon termination from County employment, an employee shall be entitled to payment for total accrued but unused days of vacation not accumulated beyond 80 hours. Comp time earned, but not taken, is paid at termination. Unused sick leave is not paid at termination.

- **Pensions**

The fiduciary net position of the Texas County County Retirement System (TCDRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TCERS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

- **Interfund Activity**

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

- **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 1: Summary of Significant Accounting Policies - continued

- Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. On new bond issues, bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed during the current period.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

- Deferred Inflows/Outflows of Resources

The County reports deferred inflows of resources on its governmental funds balance sheet. Deferred inflows of resources arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred inflows of resources also arise when resources are received by the County before it has legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the County has a legal claim to the resources, the balance of deferred inflows of resources is removed from the balance sheet and revenue is recognized.

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County has deferred outflows of resources for the difference between projected and actual earnings for its pension plan and contributions made to the pension plan after the measurement date, but before the end of the fiscal year.

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has deferred inflows of resources for the differences between expected and actual experience related to its pension plan. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

- Fair Value Measurements

Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into three-level fair value hierarchy as follows:

Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.

Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 1: Summary of Significant Accounting Policies - continued

Level 3 inputs are observable inputs that reflect the entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

Market approach – uses prices generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Income approach – uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Note 2: Restricted Assets

Restricted cash and cash equivalents consisted of the following at September 30, 2017:

| <u>Description</u> | <u>Amount</u> |
|-------------------------------------|----------------------|
| Law Enforcement Center construction | \$ 8,130,280 |
| Library donations | 1,032,953 |
| Special Road Repairs Precinct 1 & 3 | 139,889 |
| Enabling legislation | 795,421 |
| Total | <u>\$ 10,098,543</u> |

Note 3: Deposits and Investments

The County’s funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the County’s agent bank approved pledged securities 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.

A. Cash Deposits:

The County’s cash deposits at September 30, 2017 were entirely covered by FDIC insurance or by pledged collateral held by the County’s bank in the County’s name.

On February 1, 2011, the County placed \$100,000 with West Texas Rural Counties Association (WTRCA) in the Designated Member Equity Fund. An additional \$5,000, \$10,000 and \$11,500 was deposited in May 2014, April 2015 and March 2016, respectively, with an additional \$12,650 deposited April 2017, bringing the total to \$139,150. The funds remain the property of McCulloch County and are subject to the Designated Member Equity Fund Regulations established by the Board of Directors. Monies on deposit in this fund are designated member equity in a self-insurance pool, as allowed by statute. Monies on deposit in this fund are not an investment. An annual dividend of 10% was approved for McCulloch County on this equity fund for the current fiscal year by the WTRCA Board of Directors. Withdrawals of Designated Member Equity can be made with twelve (12) months written notice, or with WTRCA Board of Directors approval in the event of a financial emergency within the Member County.

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 3: Deposits and Investments - continued

B. Investments:

The County is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written, primarily emphasize safety of principal and liquidity, address investment diversification, yield and maturity, and the quality and capability of investment management, include a list of the types of authorized investments in which the investing entity's funds may be invested, and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act (the Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports an establishment of appropriate policies and that the County adhered to the requirements of the Act. Additionally, investment practices of the County were in accordance with local policies.

The Act determines the types of investments which are allowable for the County. These include, with certain restrictions, obligations of the U.S. Treasury, certain U.S. agencies and the State of Texas, certificates of deposit, certain municipal securities, money market savings accounts, repurchasing agreements, bankers acceptance, mutual funds, investment pools, guaranteed investment contracts, and common trust funds.

The County's investments at September 30, 2017 are shown below.

| Investment or Investment Type | Maturity | Amount |
|-------------------------------|--------------------|-------------------|
| Certificates of Deposit | less than one year | \$ 460,000 |
| Total certificates of deposit | | \$ <u>460,000</u> |

C. Interest Rate Risk

In accordance with its investment policy, the County manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to less than 365 days.

D. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. County policy limits investments in public funds investment pools to those rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. At year end, the County was not significantly exposed to credit risk.

E. Concentration of Credit Risk

The County's investment policy does not limit investments in any one issuer except that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity, or specific issuer.

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 3: Deposits and Investments - continued

F. Investment Accounting Policy

The County's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Note 4: Receivables

Receivables at year end, including the applicable allowances for uncollectible accounts, are as follows:

| | Governmental | | | | Total Governmental Funds |
|------------------------------------|--------------------|-----------------------------|-----------------------------------|--------------------------------|--------------------------------|
| | General Fund | Road and Bridge Funds | Law Enforcement Center Fund | Other Governmental Funds | |
| Receivables | | | | | |
| Taxes | | | | | |
| Property | \$ 84,494 | \$ - | \$ - | \$ 4,074 | \$ 88,568 |
| Sales | 58,084 | - | - | - | 58,084 |
| Fines and fees | 1,990,166 | - | - | - | 1,990,166 |
| Other receivables | 50,655 | 18,618 | - | 1,526 | 70,799 |
| Total gross receivables | <u>2,183,399</u> | <u>18,618</u> | <u>-</u> | <u>5,600</u> | <u>2,207,617</u> |
| Less: Allowance for uncollectibles | | | | | |
| Taxes | (45,762) | | | (2,026) | (47,788) |
| Fines and fees | <u>(1,686,364)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,686,364)</u> |
| Net total receivables | <u>\$ 451,273</u> | <u>\$ 18,618</u> | <u>\$ -</u> | <u>\$ 3,574</u> | <u>\$ 473,465</u> |

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 5: Capital Assets

Capital asset activity for the period ended September 30, 2017 was as follows:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|---|-----------------------|---------------------|-------------------|----------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 200,615 | \$ - | \$ - | \$ 200,615 |
| Construction in progress - jail | 19,434 | 1,388,474 | - | 1,407,908 |
| Construction in progress - library | - | 434,716 | - | 434,716 |
| | <u>220,049</u> | <u>1,823,190</u> | <u>-</u> | <u>2,043,239</u> |
| Total capital assets not being depreciated | | | | |
| Capital assets being depreciated | | | | |
| Infrastructure | 1,928,955 | - | - | 1,928,955 |
| Buildings and improvements | 8,093,299 | - | - | 8,093,299 |
| Furniture and equipment | 2,250,849 | 119,661 | (58,183) | 2,312,327 |
| Vehicles | 376,144 | 95,562 | (25,000) | 446,706 |
| | <u>12,649,247</u> | <u>215,223</u> | <u>(83,183)</u> | <u>12,781,287</u> |
| Total capital assets being depreciated | | | | |
| Less accumulated depreciation for: | | | | |
| Infrastructure | (270,521) | (96,448) | - | (366,969) |
| Buildings and improvements | (1,733,001) | (163,982) | - | (1,896,983) |
| Furniture and equipment | (1,154,513) | (169,539) | 51,485 | (1,272,567) |
| Vehicles | (208,113) | (77,213) | 25,000 | (260,326) |
| | <u>(3,366,148)</u> | <u>(507,182)</u> | <u>76,485</u> | <u>(3,796,845)</u> |
| Total accumulated depreciation | | | | |
| Total capital assets being depreciated, net | <u>9,283,099</u> | <u>(291,959)</u> | <u>(6,698)</u> | <u>8,984,442</u> |
| Governmental activities capital assets, net | <u>\$ 9,503,148</u> | <u>\$ 1,531,231</u> | <u>\$ (6,698)</u> | <u>\$ 11,027,681</u> |

Amortization expense on assets under capital lease is included in depreciation expense. Depreciation was charged to functions as follows:

| | |
|----------------------------|-------------------|
| General administrative | \$ 168,303 |
| Public safety | 73,401 |
| Road and Bridge | 252,234 |
| Library | 9,170 |
| Non-departmental | 4,074 |
| | <u>507,182</u> |
| Total depreciation expense | <u>\$ 507,182</u> |

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 6: Interfund Balances and Activity

A. Due to and from Other Funds

There were no balances to and from other funds at September 30, 2017.

B. Transfers to and from Other Funds

Transfers to and from other funds during year ended September 30, 2017, consisted of the following:

| <u>Transfers from</u> | <u>Transfers to</u> | <u>Amount</u> | <u>Purpose</u> |
|-----------------------|-----------------------------|-------------------|--|
| General fund | Road and bridge funds | \$ 310,152 | Transfer tax revenue allocated to and supplement other funds |
| General fund | Nonmajor governmental funds | 57,553 | Transfer tax revenue allocated to other funds |
| General fund | governmental funds | <u>135,740</u> | Supplement other funds |
| | Total | <u>\$ 503,445</u> | |

Note 7: Lease Commitments

The County has several operating lease obligations as of September 30, 2017 for copiers leased for the District Clerk, County Clerk, Sheriff's office, Justice of the Peace, and a copier split between the Treasurer and Judge. These lease obligations have been recorded in the General Fund. The County's future minimum lease commitments on these operating leases are shown as follows:

| <u>Year Ending September 30</u> | | |
|-------------------------------------|----|--------------|
| 2018 | \$ | 4,334 |
| 2019 | | <u>3,341</u> |
| Total | \$ | <u>7,675</u> |

The County also rents a copier for the Library and Courtroom. These rentals are on a month to month basis with no rental commitment.

Note 8: Long-Term Obligations

The County's long-term debt consists of general obligation certificates of obligations, notes payable, and capital leases. Other long-term obligations consist of the accrued liability for employee vested compensated absences.

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 8: Long-Term Obligations - continued

A. Bonds Payable

On May 1, 2008, the County issued the McCulloch County Certificates of Obligation, Series 2008 in the amount of \$1,525,000 for restoration of the McCulloch County Courthouse. Principal amounts on these certificates are due and payable annually beginning June 1, 2009. Interest is due and payable semi-annually beginning December 1, 2008 at a rate of 3.797%. These certificates will be paid in full on June 1, 2023.

On March 15, 2017, the County issued the McCulloch County General Obligation Bonds, Series 2017 in the amount of \$9,355,000 for construction of the McCulloch County Law Enforcement Center. Principal amounts on these certificates are due and payable annually beginning February 15, 2018. Interest is due and payable semi-annually beginning February 15, 2018, at a rate of 2.99%. These bonds will be paid in full on February 15, 2037.

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

| Year Ending September 30, | Governmental Activities | | |
|---------------------------|-------------------------|---------------------|----------------------|
| | Principal | Interest | Total |
| 2018 | \$ 260,000 | \$ 417,286 | \$ 677,286 |
| 2019 | 385,000 | 293,722 | 678,722 |
| 2020 | 395,000 | 282,456 | 677,456 |
| 2021 | 410,000 | 269,538 | 679,538 |
| 2022 | 425,000 | 256,132 | 681,132 |
| 2023-2027 | 2,330,000 | 1,061,836 | 3,391,836 |
| 2028-2032 | 2,710,000 | 681,450 | 3,391,450 |
| 2033-2037 | 3,155,000 | 242,325 | 3,397,325 |
| Totals | \$ 10,070,000 | \$ 3,504,745 | \$ 13,574,745 |

B. Notes Payable

On August 4, 2011, the County entered into a note agreement with Commercial National Bank of Brady, TX in the amount of \$117,022 at an annual interest rate of 4.70% for a period of 5 years for the purpose of purchasing a tractor and rock crusher. Payments are due annually at an amount of \$26,151 with a final maturity in fiscal year 2017.

On October 23, 2014, the County entered into a note agreement with Caterpillar Financial Services Corporation in the amount of \$169,465 at an annual interest rate of 2.7% for a period of five years for the purpose of purchasing a Caterpillar 140M3 ARO motor grader. Payments are due annually at an amount of \$17,500 with a final balloon payment of 82,624 for a maturity in fiscal year 2020.

On October 27, 2014, the County entered into a note agreement with Government Capital Corporation in the amount of \$63,132 at an annual interest rate of 3.438% for a period of three years for the purpose of purchasing vehicles for the Sheriff's office. Payments are due annually at an amount of \$22,491 with a final maturity in fiscal year 2018.

On October 30, 2014, the County entered into a note agreement with Caterpillar Financial Services Corporation in the amount of \$151,601 at an annual interest rate of 2.7% for a period of five years for the purpose of purchasing a Caterpillar 140M3 ARO motor grader. Payments are due annually at an amount of \$21,645 with a final balloon payment of 97,762 for a maturity in fiscal year 2020.

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 8: Long-Term Obligations - continued

On February 3, 2016, the County entered into a note agreement with Commercial National Bank of Brady, TX in the amount of \$48,540 at an annual interest rate of 4.50% for a period of 2 years for the purpose of purchasing a compacting machine. Payments are due annually at an amount of \$25,960 with a final maturity in fiscal year 2018.

On November 29, 2016, the County entered into a note agreement with Commercial National Bank of Brady, TX in the amount of \$20,000 at an annual interest rate of 4.50% for a period of 12 year for the purpose of purchasing a wheel loader. Payments are due annually at an amount of \$20,000 with a final maturity in fiscal year 2018.

On June 12, 2017, the County entered into a note agreement with Government Capital Corporation in the amount of \$72,380 at an annual interest rate of 4.121% for a period of three years for the purpose of purchasing vehicles for the Sheriff's office. Payments are due annually at an amount of \$26,099 with a final maturity in fiscal year 2020.

On December 23, 2015, the County entered into a note agreement with First State Bank of Hemphill, TX in the amount of \$95,562 at an annual interest rate of 3.788% for a period of 3 years for the purpose of purchasing vehicles for the Sheriff's office. Payments are due annually at an amount of \$34,297 with a final maturity in fiscal year 2019.

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

| Year Ending September 30, | Governmental Activities | | |
|---------------------------|-------------------------|------------|------------|
| | Principal | Interest | Total |
| 2018 | \$ 150,988 | \$ 35,171 | \$ 186,159 |
| 2019 | 86,156 | 32,313 | 118,469 |
| 2020 | 137,834 | 111,701 | 249,535 |
| 2021 | 81,163 | 81,163 | 162,326 |
| Totals | \$ 456,141 | \$ 260,348 | \$ 716,489 |

C. Capital Leases

On February 1, 2013, the County entered into a long-term capital lease agreement with Welsh State Bank in the amount of \$95,869 at an annual imputed rate of interest of 2.72% for a period of six years for the purpose of acquiring a John Deere tractor and boom mower, which is jointly held by Precincts #1, #2, and #3. Payments are due annually at an amount of \$17,070 with a final maturity in fiscal year 2018.

On January 13, 2014, the County entered into a long-term capital lease agreement with Government Capital Corporation in the amount of \$99,572 at an annual imputed rate of interest of 3.81% for a period of three years for the purpose of acquiring four Chevrolet Tahoes for the Sheriff's office. Payments are due annually at an amount of \$35,385 with a final maturity in fiscal year 2017.

On August 7, 2014, the County entered into a note agreement with John Deere Financial in the amount of \$99,010 at an annual imputed rate of interest of 3.04% for a period of five years for the purpose of acquiring a 2014 John Deere motor grader. Payments are due annually at an amount of \$21,645 with a final maturity in fiscal year 2019.

On February 18, 2016, the County entered into a note agreement with John Deere Financial in the amount of \$248,810 at an annual imputed rate of interest of 2.97% for a period of five years for the purpose of acquiring a 2016 John Deere motor grader. Payments are due annually at an amount of \$24,289 with a final balloon payment of \$160,000 maturing in fiscal year 2021.

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 8: Long-Term Obligations – continued

Future minimum lease payments under capital leases are as follows:

| | | |
|---|----|-----------------------|
| Year Ending September 30, | | |
| 2018 | \$ | 63,004 |
| 2019 | | 45,934 |
| 2020 | | 24,289 |
| 2021 | | <u>184,289</u> |
| Total minimum lease payments | | <u>317,516</u> |
| Less amount representing interest | | <u>27,522</u> |
| Present value of minimum lease payments | \$ | <u><u>289,994</u></u> |

Total interest expense on capital leases for the year ended September 30, 2017 was \$14,457.

The following is an analysis of the leased assets:

| | | |
|-------------------------------|----|-----------------------|
| Equipment | \$ | 543,679 |
| Less accumulated depreciation | | <u>(147,565)</u> |
| Net value of leased assets | \$ | <u><u>396,114</u></u> |

D. Compensated Absences

County employees are entitled certain compensated absences based on their length of employment. Accrued compensated absences at September 30, 2017 totaled \$27,156.

E. Long-Term Obligation Activity

Long-Term Obligations include debt and other long-term liabilities. Changes in long-term obligations for the period ended September 30, 2017, are as follows on the next page:

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 8: Long-Term Obligations - continued

| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|------------------------------|----------------------|---------------------|---------------------|----------------------|------------------------|
| Note payable - Commercial | | | | | |
| National Bank - Brady | \$ 24,586 | \$ - | \$ (24,586) | \$ - | \$ - |
| Note payable - Caterpillar | | | | | |
| Financial Services Corp. | 138,477 | - | (13,761) | 124,716 | 14,133 |
| Note payable - Government | | | | | |
| Capital Corporation | 42,696 | - | (21,021) | 21,675 | 21,675 |
| Note payable - Caterpillar | | | | | |
| Financial Services Corp. | 140,294 | - | (13,769) | 126,525 | 14,141 |
| Note payable - Commercial | | | | | |
| National Bank - Brady | 48,540 | - | (22,580) | 25,960 | 25,960 |
| Note payable - Commercial | | | | | |
| National Bank - Brady | - | 20,000 | - | 20,000 | 20,000 |
| Note payable - Government | | | | | |
| Capital Corporation | - | 72,380 | - | 72,380 | 23,240 |
| Note payable - First State | | | | | |
| Bank | - | 95,562 | (30,677) | 64,885 | 31,839 |
| Total notes payable | <u>394,593</u> | <u>187,942</u> | <u>(126,394)</u> | <u>456,141</u> | <u>150,988</u> |
| Bonds payable - | | | | | |
| Bond Series 2008 | 820,000 | - | (105,000) | 715,000 | 110,000 |
| Bonds payable - | | | | | |
| Bond Series 2017 | - | 9,355,000 | - | 9,355,000 | 150,000 |
| Bonds payable - | | | | | |
| Bond Premium | - | 313,800 | (15,690) | 298,110 | 15,690 |
| Total bonds payable | <u>820,000</u> | <u>9,668,800</u> | <u>(120,690)</u> | <u>10,368,110</u> | <u>275,690</u> |
| Capital lease - Welsh State | | | | | |
| Bank | 32,665 | - | (16,176) | 16,489 | 16,489 |
| Capital lease - Government | | | | | |
| Capital Corporation | 34,094 | - | (34,094) | - | - |
| Capital lease - John Deere | | | | | |
| Financial | 61,177 | - | (19,784) | 41,393 | 20,386 |
| Capital lease - John Deere | | | | | |
| Financial | 248,810 | - | (16,698) | 232,112 | 17,304 |
| Total capital leases payable | <u>376,746</u> | <u>-</u> | <u>(86,752)</u> | <u>289,994</u> | <u>54,179</u> |
| Compensated absences | <u>15,124</u> | <u>12,032</u> | <u>-</u> | <u>27,156</u> | <u>5,431</u> |
| Total Governmental | | | | | |
| Activities | <u>\$ 1,606,463</u> | <u>\$ 9,868,774</u> | <u>\$ (333,836)</u> | <u>\$ 11,141,401</u> | <u>\$ 486,288</u> |

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 9: Pension Plan

Plan Description. The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the state-wide Texas County and County Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the state-wide agent multiple-employer public employee retirement system consisting of 738 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Benefits Provided. The plan provisions are adopted by the governing body of the County, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service or with 20 years of service regardless of age or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years 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.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the District's Board within certain guidelines.

Membership. County membership in the TCDRS plan at December 31, 2016, consisted of the following:

| | |
|--|----|
| Inactive employees: | |
| Receiving benefits | 37 |
| Entitled to but not receiving benefits | 19 |
| Active employees | 43 |

Contributions. The County has elected the annually determined contribution rate (Variable-Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the County based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the County is actuarially determined annually. The employee contribution rate and the employer contribution rate may be changed by the governing body of the County within the options available in the TCDRS Act.

| | <u>2016</u> | <u>2017</u> |
|------------------------|-------------|-------------|
| Member | 7.0% | 7.0% |
| Employers | 7.0% | 7.0% |
| Employer Contributions | | \$ 103,981 |
| Member Contributions | | \$ 103,981 |

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 9: Pension Plan - continued

Actuarial Assumptions. The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|-------------------------------------|
| Valuation Date | December 31, 2016 |
| Actuarial Cost Method | Entry age normal |
| Amortization Method | Level percentage of payroll, closed |
| Remaining Amortization Period | 0.9 years |
| Asset Valuation Method | 5 year smoothed market |
| Discount Rate | 8.10% |
| Long-term expected Investment Rate of Return* | 8.10% |
| Salary Increases* | 4.90%, average |
| Payroll Growth Rate | 3.5% |
| <i>*Includes Inflation of 3.0%</i> | |

Except for the mortality assumptions, the actuarial assumptions were developed from an actuarial experience investigation of TCDRS over the years 2009 - 2012. Assumptions were recommended by Milliman, Inc., adopted by the TCDRS Board of Trustees in 2013 and first used in the December 31, 2013 actuarial valuation. The mortality assumptions were developed by Milliman, Inc. and adopted by the TCDRS Board of Trustees in 2015, and first used in the December 31, 2015 actuarial valuation.

There were no changes in assumptions reflected in the December 31, 2016 actuarial valuation, but there were changes in methods.

The asset valuation method for the December 31, 2016 actuarial valuation is to smooth each year's actuarial investment gains and losses. First, to the extent that there is a loss for the year and there are unrecognized gains from previous years, or to the extent that there is a gain for the year and there are unrecognized losses from previous years, the gain or loss for the year shall be used to offset unrecognized gains or losses from previous years in the order of the oldest to most recent. Any remaining gain or loss for the year is recognized over a five-year period. For the prior valuation, there was no offsetting of unrecognized gains and unrecognized losses, and all asset gains and losses for a year were recognized over a five-year period.

There was also a change in how extra plan contributions are treated effective with the December 31, 2016 actuarial valuation. For the current valuation, if extra lump-sum contributions are made to a plan during the year, the extra contributions are used to offset the unfunded actuarial accrued liability increase, if any, related to plan changes elected during the current year. Extra contributions over the required amount due to an elected rate and any remaining lump-sum contribution amounts are then used to pay down existing loss bases, in the order of the oldest to the most recent. For the prior valuation, extra contributions were first used to offset increases to the unfunded actuarial accrued liability, if any, related to plan changes elected during the year. Any remaining extra contributions were then incorporated into the actuarial gains or losses for the current year.

Refer to the most recent CAFR issued by TCDRS for a complete discussion of all assumptions.

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 9: Pension Plan - continued

Discount Rate. The discount rate used to measure the total pension liability was 8.1%. There was no change in the discount rate since the previous year.

In order to determine the discount rate to be used, we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. This alternative method reflects the funding requirements under our funding policy and the legal requirements under the TCDRS Act:

- 1) TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
- 2) Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
- 3) The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
- 4) Any increased cost due to the adoption of a cost-of-living adjustment is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses. Therefore, we have used a discount rate of 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.0%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2017 information for a 7 – 10 year time horizon.

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 9: Pension Plan - continued

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is based on a 30-year time horizon; the most recent analysis was performed in 2013 based on the period January 1, 2009 – December 31, 2013. Best estimates of geometric real rates of return for each major asset class included in the target asset allocation are summarized below:

| Asset Class | Benchmark | Target Allocation ¹ | Geometric Real Rate of Return (Expected minus Inflation) ² |
|------------------------------------|--|--------------------------------|---|
| US Equities | Dow Jones U.S. Total Stock Market Index | 13.50% | 4.70% |
| Private Equity | Cambridge Associates Global Private Equity & Venture Capital Index ³ | 16.00% | 7.70% |
| Global Equities | MSCI World (net) Index | 1.50% | 5.00% |
| International Equities – Developed | MSCI World Ex USA (net) | 10.00% | 4.70% |
| International Equities – Emerging | MSCI EM Standard (net) Index | 7.00% | 5.70% |
| Investment-Grade Bonds | Bloomberg Barclays U.S. Aggregate Bond Index | 3.00% | 0.60% |
| High-Yield Bonds | Citigroup High-Yield Cash-Pay Capped Index | 3.00% | 3.70% |
| Opportunistic Credit | Citigroup High-Yield Cash-Pay Capped Index | 2.00% | 3.83% |
| Direct Lending | S&P/LSTA Leveraged Loan Index | 10.00% | 8.15% |
| Distressed Debt | Cambridge Associates Distressed Securities Index ⁴ | 3.00% | 6.70% |
| REIT Equities | 67% FTSE NAREIT Equity REITs Index + 33% FTSE EPRA/NAREIT Global Real Estate Index | 2.00% | 3.85% |
| Master Limited Partnerships (MLPs) | Alerian MLP Index | 3.00% | 5.60% |
| Private Real Estate Partnerships | Cambridge Associates Real Estate Index ⁵ | 6.00% | 7.20% |
| Hedge Funds | Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index | 20.00% | 3.85% |

¹ Target asset allocation adopted at the April 2017 TCDRS Board meeting.

² Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.0%, per Cliffwater's 2017 capital market assumptions.

³ Includes vintage years 2006 – present of Quarter Pooled Horizon IRRs.

⁴ Includes vintage years 2005 – present of Quarter Pooled Horizon IRRs.

⁵ Includes vintage years 2007 – present of Quarter Pooled Horizon IRRs.

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 9: Pension Plan - continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At September 30, 2017 the County reported a net pension asset of \$28,280 measured at December 31, 2016. For the year ended September 30, 2017, the County recognized pension expense of \$182,290.

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

There were changes in plan provisions that are reflected in the December 31, 2016 actuarial valuation. State legislation passed in 2015 and effective January 1, 2017, alters fund accounting related to annuitants. Note that these changes do not impact benefit amounts but do affect the actuarial valuation.

Prior to the 2015 legislation, when a member retired, the member's account balance in the ESF plus an equal amount from the employer's subdivision accumulation fund (SAF) account was transferred to the current service annuity reserve fund (CSARF), a system-wide fund. This transfer funded a portion of the retiree's benefit, with monthly payments for this portion being paid from the CSARF, and the remainder of the retiree's monthly benefit being paid from the employer's SAF account.

The 2015 legislation changed this structure. Effective with 2017 retirements, there is no transfer of funds to the CSARF at retirement. Instead the member's account balance in the employees saving fund (ESF) is transferred to the employer's SAF at retirement. Also effective January 1, 2017, each employer received a percentage of the total January 1, 2017 CSARF balance. This percentage was equal to the CSARF liabilities related to retirements from each employer divided by the total CSARF liabilities for the system as a whole, determined using the assumptions and methods previously described. Subsequently, all monthly benefit payments for each employer's retirees are paid from that employer's SAF account. These changes were reflected in the December 31, 2016 actuarial valuation.

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 9: Pension Plan - continued

Changes in the net pension asset for the measurement year ended December 31, 2016 are as follows:

| Changes in Net Pension Liability / (Asset) | Increase (Decrease) | | |
|--|--------------------------------|-------------------------------|---|
| | Total Pension Liability (a) | Fiduciary Net Position (b) | Net Pension Liability / (Asset) (a) - (b) |
| Balances at December 31, 2015 | \$ 4,826,300 | \$ 4,865,578 | \$ (39,278) |
| Changes for the year: | | | |
| Service cost | 199,000 | - | 199,000 |
| Interest on total pension liability ⁶ | 384,485 | - | 384,485 |
| Effect of plan changes ⁷ | - | - | - |
| Effect of economic/demographic gains or losses | 19,422 | - | 19,422 |
| Effect of assumptions changes or inputs | - | - | - |
| Refund of contributions | (28,387) | (28,387) | - |
| Benefit payments | (332,919) | (332,919) | - |
| Administrative expenses | - | (3,915) | 3,915 |
| Member contributions | - | 103,981 | (103,981) |
| Net investment income | - | 359,990 | (359,990) |
| Employer contributions | - | 103,981 | (103,981) |
| Other ⁸ | - | 27,872 | (27,872) |
| Balances as of December 31, 2016 | \$ 5,067,901 | \$ 5,096,181 | \$ (28,280) |

⁶ Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

⁷ Reflects new annuity purchase rates applicable to all TCDRS employers effective January 1, 2018.

⁸ Relates to the allocation of system-wide items.

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 9: Pension Plan - continued

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

| | 1% Decrease (7.10%) | Current Discount Rate (8.10%) | 1% Increase (9.10%) |
|---------------------------------|------------------------|-------------------------------------|------------------------|
| Total pension liability | \$ 5,678,567 | \$ 5,067,901 | \$ 4,559,266 |
| Fiduciary net position | 5,096,181 | 5,096,181 | 5,096,181 |
| Net pension liability / (asset) | \$ 582,386 | \$ (28,280) | \$ (536,915) |

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

| | Deferred Inflows of <u>Resources</u> | Deferred Outflows of <u>Resources</u> |
|---|--|---|
| Differences between expected and actual economic experience | \$ 36,815 | \$ 28,682 |
| Changes in actuarial assumptions | - | 26,716 |
| Net difference between projected and actual investment earnings | - | 297,995 |
| Contributions paid to TCDRS subsequent to the measurement date | - | 80,665 |
| Total | <u>\$ 36,815</u> | <u>\$ 434,058</u> |

\$80,665 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as an increase of the net pension asset for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows or resources related to pensions, will be recognized in pension expense as follows:

| <u>Year ended September 30:</u> | <u>Pension Expense Amount</u> |
|---------------------------------|-------------------------------|
| 2018 | \$ 115,717 |
| 2019 | 101,602 |
| 2020 | 93,463 |
| 2021 | 5,796 |
| 2022 | - |
| Thereafter | - |

Note 10: Commitments and Contingencies

A. Contingencies

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

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 10: Commitments and Contingencies - continued

B. Litigation

The County Attorney has indicated that there are no threatened litigation, claims, or assessments or unasserted claims and assessments against the County.

Note 11: Fund Balance

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

1. *Nonspendable*, such as fund balance associated with inventories, prepaid expenditures, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned).
2. *Restricted* fund balance category includes amounts that can be spent for only the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
3. *Committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Commissioners' Court (the County's highest level of decision-making authority).
4. *Assigned* fund balance classification includes amounts intended to be used by the County for specific purposes but that do not meet the criteria to be classified as restricted or committed.
5. *Unassigned* fund balance is the residual classification for the County's general fund and includes all spendable amounts not contained in the other classifications.

Nonspendable Fund Balance

At September 30, 2017, the nonspendable fund balance is composed of the following:

| | | |
|---------------|----|--------|
| Prepaid items | \$ | 68,387 |
|---------------|----|--------|

McCULLOCH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2017

Note 11: Fund Balance - continued

Restricted Fund Balance

At September 30, 2017, the restricted fund balance is composed of the following:

| | | |
|---|----|-------------------|
| Law enforcement center | \$ | 8,129,683 |
| Debt service | | 60,987 |
| Permanent improvement | | 195,829 |
| Special ad valorem | | 86,538 |
| Library | | 1,030,439 |
| Law library | | 35,418 |
| Hot check | | 2,429 |
| Special road repairs precinct 1 & 3 | | 139,889 |
| Archive fees | | 78,023 |
| Court record preservation | | 8,127 |
| Courthouse security | | 52,946 |
| Pre-trial diversion | | 31,423 |
| Records management | | 118,411 |
| Restoration and preservation | | 21,208 |
| Technology fees | | 44,669 |
| Video fees | | 4,033 |
| Conservation dam maintenance | | 18,000 |
| Probate training | | 8,561 |
| Salary supplement excess – county judge | | 1,842 |
| CETRZ grant | | 1,695 |
| Voting equipment rental | | <u>25,850</u> |
| | \$ | <u>10,096,000</u> |

Committed Fund Balance

The County's committed fund balance is the portion of the fund balance that may only be established and modified by a formal action of the Commissioners' Court. At September 30, 2017, the following amounts of fund balance are committed by a formal action of the Commissioners' Court:

None in the current year

Assigned Fund Balance

The Commissioners' Court has the authority to assign fund balance to each of the four road & bridge precincts. At September 30, 2017, the following amounts of fund balance have been assigned:

| | | |
|------------------------------|----|----------------|
| Road and bridge operations | \$ | 475,587 |
| Conservation dam maintenance | | 1,000 |
| Child Abuse Prevention | | 100 |
| Truancy Court | | <u>50</u> |
| | \$ | <u>476,737</u> |

Order of Fund Balance Spending Policy

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: 1) Restricted; 2) Committed; 3) Assigned; and 4) Unassigned.

Minimum Fund Balance Policy

The County does not have a minimum fund balance policy.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

McCULLOCH COUNTY, TEXAS
 Required Supplementary Information
 General Fund Budgetary Comparison Schedule
 For the Year Ended September 30, 2017

| | 2017 | | | |
|---|---------------------|---------------------|---------------------|-------------------------------|
| | Original Budget | Final Budget | Actual | Variance from Final Budget |
| REVENUES | | | | |
| Property taxes | \$ 2,429,204 | \$ 2,533,156 | \$ 2,878,476 | \$ 345,320 |
| Other taxes | 663,000 | 709,992 | 727,032 | 17,040 |
| Fines and fees | 501,100 | 391,659 | 392,044 | 385 |
| Intergovernmental and grants | 61,086 | 60,457 | 55,457 | (5,000) |
| Investment earnings | 36,000 | 30,687 | 30,687 | - |
| Miscellaneous | 46,220 | 71,693 | 101,840 | 30,147 |
| Total revenues | <u>3,736,610</u> | <u>3,797,644</u> | <u>4,185,536</u> | <u>387,892</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General administrative | 853,607 | 860,702 | 853,076 | 7,626 |
| Judicial | 664,661 | 689,275 | 674,471 | 14,804 |
| Public safety | 1,177,250 | 1,206,176 | 1,124,135 | 82,041 |
| Agriculture extension service | 89,603 | 89,604 | 77,810 | 11,794 |
| Facilities | 82,954 | 86,360 | 86,360 | - |
| Non-departmental | 587,258 | 982,283 | 497,145 | 485,138 |
| Veteran's service office | 11,076 | 11,076 | 10,447 | 629 |
| Elections | 35,000 | 35,000 | 30,529 | 4,471 |
| Debt service: | | | | |
| Principal | 92,200 | 94,972 | 85,792 | 9,180 |
| Interest and fiscal charges | - | - | 9,180 | (9,180) |
| Capital outlay | 17,000 | 18,354 | 435,478 | (417,124) |
| Total expenditures | <u>3,610,609</u> | <u>4,073,802</u> | <u>3,884,423</u> | <u>189,379</u> |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES | <u>126,001</u> | <u>(276,158)</u> | <u>301,113</u> | <u>577,271</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Loan/capital lease proceeds | - | 72,380 | 167,942 | 95,562 |
| Sale of property | - | 663 | 663 | - |
| Transfers in (out) | (132,720) | (132,720) | (503,445) | (370,725) |
| Total other financing sources (uses) | <u>(132,720)</u> | <u>(59,677)</u> | <u>(334,840)</u> | <u>(275,163)</u> |
| NET CHANGE IN FUND BALANCES | (6,719) | (335,835) | (33,727) | 302,108 |
| FUND BALANCES AT BEGINNING OF YEAR | <u>2,799,025</u> | <u>2,799,025</u> | <u>2,799,025</u> | <u>-</u> |
| FUND BALANCES AT END OF YEAR | <u>\$ 2,792,306</u> | <u>\$ 2,463,190</u> | <u>\$ 2,765,298</u> | <u>\$ 302,108</u> |

McCULLOCH COUNTY, TEXAS
 Required Supplementary Information
 Road and Bridge Fund Budgetary Comparison Schedule
 For the Year Ended September 30, 2017

| | 2017 | | | |
|---|--------------------|-------------------|-------------------|-------------------------------|
| | Original Budget | Final Budget | Actual | Variance From Final Budget |
| REVENUES | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Other taxes | - | - | - | - |
| Fines and fees | 545,200 | 511,863 | 485,278 | (26,585) |
| Intergovernmental and grants | - | - | - | - |
| Investment earnings | 4,050 | 4,947 | 5,258 | 311 |
| Miscellaneous | - | 5,551 | 5,551 | - |
| Total revenues | 549,250 | 522,361 | 496,087 | (26,274) |
| EXPENDITURES | | | | |
| Current: | | | | |
| General administrative | - | - | - | - |
| Judicial | - | - | - | - |
| Public safety | - | - | - | - |
| Road and Bridge | 816,378 | 929,974 | 749,000 | 180,974 |
| Agriculture extension service | - | - | - | - |
| Facilities | - | - | - | - |
| Non-departmental | - | - | - | - |
| Veteran's service office | - | - | - | - |
| Elections | - | - | - | - |
| Debt service: | | | | |
| Principal | 144,111 | 145,754 | 127,354 | 18,400 |
| Interest and fiscal charges | - | - | 22,354 | (22,354) |
| Capital outlay | 60,000 | 93,000 | 107,861 | (14,861) |
| Total expenditures | 1,020,489 | 1,168,728 | 1,006,569 | 162,159 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES | (471,239) | (646,367) | (510,482) | 135,885 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Loan/capital lease proceeds | - | 20,000 | 20,000 | - |
| Sale of property | - | 36,265 | 23,265 | (13,000) |
| Transfers in (out) | 297,724 | 297,724 | 310,152 | 12,428 |
| Total other financing sources (uses) | 297,724 | 353,989 | 353,417 | (572) |
| NET CHANGE IN FUND BALANCES | (173,515) | (292,378) | (157,065) | 135,313 |
| FUND BALANCES AT BEGINNING OF YEAR | 632,652 | 632,652 | 632,652 | - |
| FUND BALANCES AT END OF YEAR | \$ 459,137 | \$ 340,274 | \$ 475,587 | \$ 135,313 |

McCULLOCH COUNTY, TEXAS
Schedule of Changes in Net Pension Asset and Related Ratios
Texas County & District Retirement System
For the Year Ended September 30, 2017

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 | Year Ended December 31, 2014 |
|---|------------------------------------|------------------------------------|------------------------------------|
| Total Pension Liability | | | |
| Service cost | \$ 199,000 | \$ 177,841 | \$ 161,983 |
| Interest on total pension liability | 384,485 | 371,113 | 347,265 |
| Effect of plan changes | - | (27,594) | - |
| Effect of assumption changes or inputs | - | 53,432 | - |
| Effect of economic/demographic (gains) or losses | 19,422 | (73,629) | 56,461 |
| Benefit payments/refunds of contributions | (361,306) | (307,312) | (276,740) |
| Net change in total pension liability | <u>241,601</u> | <u>193,851</u> | <u>288,969</u> |
| Total pension liability, beginning | <u>4,826,300</u> | <u>4,632,449</u> | <u>4,343,480</u> |
| Total pension liability, ending (a) | <u>\$ 5,067,901</u> | <u>\$ 4,826,300</u> | <u>\$ 4,632,449</u> |
| Fiduciary Net Position | | | |
| Employer contributions | \$ 103,981 | \$ 103,900 | \$ 94,570 |
| Member contributions | 103,981 | 103,900 | 94,570 |
| Investment income net of investment expenses | 359,990 | (9,338) | 322,177 |
| Benefit payments/refunds of contributions | (361,306) | (307,312) | (276,740) |
| Administrative expenses | (3,915) | (3,561) | (3,781) |
| Other | 27,872 | (49,121) | 12,949 |
| Net change in fiduciary net position | <u>230,603</u> | <u>(161,532)</u> | <u>243,745</u> |
| Fiduciary net position, beginning | <u>4,865,578</u> | <u>5,027,110</u> | <u>4,783,365</u> |
| Fiduciary net position, ending (b) | <u>\$ 5,096,181</u> | <u>\$ 4,865,578</u> | <u>\$ 5,027,110</u> |
| Net pension liability / (asset), ending = (a) - (b) | <u>\$ (28,280)</u> | <u>\$ (39,278)</u> | <u>\$ (394,661)</u> |
| Fiduciary net position as a percentage of total pension liability | 100.56 % | 100.81 % | 108.52 % |
| Pensionable covered payroll | \$ 1,485,448 | \$ 1,484,285 | \$ 1,351,003 |
| Net pension liability as a percentage of covered payroll | (1.90) % | (2.65) % | (29.21) % |

McCULLOCH COUNTY, TEXAS
Schedule of Employer Contributions
Texas County & District Retirement System
For the Year Ended September 30, 2017

| Year Ending September 30, | Actuarially Determined Contribution | Actual Employer Contribution | Contribution Deficiency (Excess) | Pensionable Covered Payroll | Actual Contribution as a Percentage of Covered Payroll |
|------------------------------|---|------------------------------------|--|-----------------------------------|--|
| 2007 | \$ 34,985 | \$ 67,839 | \$ (32,854) | \$ 969,121 | 7.0 % |
| 2008 | 30,129 | 69,150 | (39,021) | 987,851 | 7.0 |
| 2009 | 29,141 | 71,076 | (41,935) | 1,015,374 | 7.0 |
| 2010 | 43,737 | 74,856 | (31,119) | 1,069,374 | 7.0 |
| 2011 | 41,632 | 77,713 | (36,081) | 1,110,187 | 7.0 |
| 2012 | 52,215 | 81,585 | (29,370) | 1,165,505 | 7.0 |
| 2013 | 62,969 | 84,441 | (21,472) | 1,206,298 | 7.0 |
| 2014 | 80,114 | 94,570 | (14,456) | 1,351,003 | 7.0 |
| 2015 | 84,011 | 103,900 | (19,889) | 1,484,285 | 7.0 |
| 2016 | 84,225 | 103,981 | (19,756) | 1,485,448 | 7.0 |

McCULLOCH COUNTY, TEXAS
Notes to Required Supplementary Information
For the Year Ended September 30, 2017

Budgetary Information

The budget is prepared in accordance with accounting principles generally accepted in the United States of America by the County Judge with the assistance of the County Treasurer's Office and approved by the Commissioners' Court following a public hearing. The County maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the County's governing body and, as such, is a good management control device.

The budget law of the State of Texas provides that "the amounts budgeted for current expenditures from the various funds of the County shall not exceed the balances in said funds plus the anticipated revenues for the current year for which the budget is made as estimated by the County Auditor." In addition, the law provides that the Commissioners' Court "may, upon proper application, transfer an existing budget surplus during the year to a budget of like kind and fund but no such transfer shall increase the total budget."

The County's legal level of control for appropriations is at the category level (i.e., salaries and fringe benefits, contract services, general operating, etc.) for each department/project within the general fund. Administrative control is maintained through the establishment of more detailed accounts within each category. Appropriation transfers and budget increases may be made between categories or departments only with the approval of the Commissioners' Court. The original budgets presented in the report are the approved budgets before amendments and transfers. The final budgets presented in this report reflect the budgets as amended for all appropriation transfers and increases processed during the fiscal year.

The following General Fund expenditures exceeded budgeted amounts:

| | 2017 | | | |
|----------------|--------------------|-----------------|------------|-------------------------------|
| | Original Budget | Final Budget | Actual | Variance from Final Budget |
| Capital outlay | \$ 17,000 | \$ 18,354 | \$ 435,478 | \$ (417,124) |

The following Road and Bridge Fund expenditures exceeded budgeted amounts:

| | 2017 | | | |
|----------------|--------------------|-----------------|------------|-------------------------------|
| | Original Budget | Final Budget | Actual | Variance from Final Budget |
| Capital outlay | \$ 60,000 | \$ 93,000 | \$ 107,861 | \$ (14,861) |

McCULLOCH COUNTY, TEXAS
Notes to Required Supplementary Information
For the Year Ended September 30, 2017

Net Pension Liability – Texas County & District Retirement System

Assumptions

The following methods and assumptions were used to determine contribution rates:

| | |
|--------------------------------------|--|
| Valuation date | Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported. |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 0.9 years |
| Asset valuation method | 5-year smoothed market |
| Inflation | 3.0% |
| Salary increases | 4.9%, average, including inflation |
| Investment rate of return | 8.00%, including inflation |
| Cost-of-living adjustments | Cost-of-living adjustments for the County are not considered to be substantively automatic. Therefore, no assumption for cost-of-living adjustments is included in the calculations. No assumption for future cost-of-living adjustments is included in the funding valuation. |
| Mortality | Assumed life expectancies are based on the RP-2000 Active Employee Mortality Table for depositing members, the RP-2000 Combined Mortality Table for service retirees and the RP-2000 Disabled Mortality Table for disabled retirees. |

Changes of Benefit Terms

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

Changes in the Size or Composition of the Population Covered by the Benefit Terms

There were no changes in the size or composition of the population covered by the benefit terms during the measurement period.

Changes of Assumptions

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

COMBINING STATEMENTS AS SUPPLEMENTARY INFORMATION

The supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

McCULLOCH COUNTY, TEXAS

Nonmajor Governmental Funds

Combining Balance Sheet

September 30, 2017

| | <u>Special Ad Valorem</u> | <u>Law Library</u> | <u>Hot Check</u> | <u>Special Road Repairs Precinct 1 & 3</u> |
|--|-------------------------------|------------------------|------------------|--|
| ASSETS | | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - | \$ - |
| Receivables (net of allowances) | | | | |
| Taxes | 236 | - | - | - |
| Other | 49 | - | 210 | - |
| Restricted Assets | | | | |
| Cash and cash equivalents | <u>86,489</u> | <u>35,558</u> | <u>2,305</u> | <u>139,889</u> |
| Total assets | <u>\$ 86,774</u> | <u>\$ 35,558</u> | <u>\$ 2,515</u> | <u>\$ 139,889</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ - | \$ 140 | \$ 86 | \$ - |
| Payroll related liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total liabilities | - | 140 | 86 | - |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue - property taxes | <u>236</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total deferred inflows of resources | 236 | - | - | - |
| FUND BALANCES | | | | |
| Restricted | 86,538 | 35,418 | 2,429 | 139,889 |
| Assigned | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total fund balance | <u>86,538</u> | <u>35,418</u> | <u>2,429</u> | <u>139,889</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | <u>\$ 86,774</u> | <u>\$ 35,558</u> | <u>\$ 2,515</u> | <u>\$ 139,889</u> |

| <u>Archive Fees</u> | <u>Court Record Preservation</u> | <u>Courthouse Security</u> | <u>Pre-Trial Diversion</u> | <u>Records Management</u> | <u>Restoration and Preservation</u> |
|---------------------|----------------------------------|----------------------------|----------------------------|---------------------------|-------------------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| <u>78,023</u> | <u>8,127</u> | <u>52,946</u> | <u>31,423</u> | <u>118,411</u> | <u>21,208</u> |
| <u>\$ 78,023</u> | <u>\$ 8,127</u> | <u>\$ 52,946</u> | <u>\$ 31,423</u> | <u>\$ 118,411</u> | <u>\$ 21,208</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| <u>78,023</u> | <u>8,127</u> | <u>52,946</u> | <u>31,423</u> | <u>118,411</u> | <u>21,208</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>78,023</u> | <u>8,127</u> | <u>52,946</u> | <u>31,423</u> | <u>118,411</u> | <u>21,208</u> |
| <u>\$ 78,023</u> | <u>\$ 8,127</u> | <u>\$ 52,946</u> | <u>\$ 31,423</u> | <u>\$ 118,411</u> | <u>\$ 21,208</u> |

| | Technology Fees | Video Fees | Conservation Dam Maintenance | Probate Training |
|--|--------------------|-----------------|------------------------------------|---------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ 1,000 | \$ - |
| Receivables (net of allowances) | | | | |
| Taxes | - | - | - | - |
| Other | - | - | - | - |
| Restricted Assets | | | | |
| Cash and cash equivalents | <u>44,669</u> | <u>4,033</u> | <u>18,000</u> | <u>8,561</u> |
| Total assets | <u>\$ 44,669</u> | <u>\$ 4,033</u> | <u>\$ 19,000</u> | <u>\$ 8,561</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - |
| Payroll related liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total liabilities | - | - | - | - |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue - property taxes | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total deferred inflows of resources | - | - | - | - |
| FUND BALANCES | | | | |
| Restricted | 44,669 | 4,033 | 18,000 | 8,561 |
| Assigned | <u>-</u> | <u>-</u> | <u>1,000</u> | <u>-</u> |
| Total fund balance | <u>44,669</u> | <u>4,033</u> | <u>19,000</u> | <u>8,561</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | | |
| | <u>\$ 44,669</u> | <u>\$ 4,033</u> | <u>\$ 19,000</u> | <u>\$ 8,561</u> |

| Salary Supp. Excess Co. Judge | Voting Equipment Rental | Child Abuse Prevention | Truancy Court | CETRZ Grant Fund | Library Fund |
|-------------------------------------|-------------------------------|------------------------------|------------------|------------------------|---------------------|
| \$ - | \$ - | \$ 100 | \$ 50 | \$ - | \$ - |
| - | - | - | - | - | - |
| - | - | - | - | - | 732 |
| <u>1,842</u> | <u>25,850</u> | <u>-</u> | <u>-</u> | <u>1,695</u> | <u>1,032,953</u> |
| <u>\$ 1,842</u> | <u>\$ 25,850</u> | <u>\$ 100</u> | <u>\$ 50</u> | <u>\$ 1,695</u> | <u>\$ 1,033,685</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,567 |
| - | - | - | - | - | 679 |
| - | - | - | - | - | 3,246 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 1,842 | 25,850 | - | - | 1,695 | 1,030,439 |
| - | - | 100 | 50 | - | - |
| <u>1,842</u> | <u>25,850</u> | <u>100</u> | <u>50</u> | <u>1,695</u> | <u>1,030,439</u> |
| <u>\$ 1,842</u> | <u>\$ 25,850</u> | <u>\$ 100</u> | <u>\$ 50</u> | <u>\$ 1,695</u> | <u>\$ 1,033,685</u> |

McCULLOCH COUNTY, TEXAS
Nonmajor Governmental Funds
Combining Balance Sheet
September 30, 2017

| | Total Nonmajor Special Revenue Funds | Debt Service Fund | Permanent Improvement Fund | Total Nonmajor Governmental Funds |
|--|--|-------------------------|----------------------------------|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,150 | \$ - | \$ - | \$ 1,150 |
| Receivables (net of allowances) | | | | |
| Taxes | 236 | 1,812 | - | 2,048 |
| Other | 991 | 369 | 166 | 1,526 |
| Restricted Assets | | | | |
| Cash and cash equivalents | 1,711,982 | 60,618 | 195,663 | 1,968,263 |
| Total assets | \$ 1,714,359 | \$ 62,799 | \$ 195,829 | \$ 1,972,987 |
| LIABILITIES | | | | |
| Accounts payable | \$ 2,793 | \$ - | \$ - | \$ 2,793 |
| Payroll related liabilities | 679 | - | - | 679 |
| Total liabilities | 3,472 | - | - | 3,472 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue - property taxes | 236 | 1,812 | - | 2,048 |
| Total deferred inflows of resources | 236 | 1,812 | - | 2,048 |
| FUND BALANCES | | | | |
| Restricted | 1,709,501 | 60,987 | 195,829 | 1,966,317 |
| Assigned | 1,150 | - | - | 1,150 |
| Total fund balance | 1,710,651 | 60,987 | 195,829 | 1,967,467 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | \$ 1,714,359 | \$ 62,799 | \$ 195,829 | \$ 1,972,987 |

McCULLOCH COUNTY, TEXAS
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended September 30, 2017

| | Special Ad Valorem | Law Library | Hot Check | Special Road Repairs Precinct 1 & 3 |
|--|-----------------------|------------------|-----------------|---|
| REVENUES | | | | |
| Property taxes | \$ 16,900 | \$ - | \$ - | \$ - |
| Fines and fees | - | 3,745 | 810 | - |
| Intergovernmental, grants, and contributions | | | | |
| Investment earnings | 740 | 321 | 18 | 12,682 |
| Miscellaneous | - | - | - | - |
| | <u>17,640</u> | <u>4,066</u> | <u>828</u> | <u>12,682</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | - | 2,936 | - | - |
| Debt service: | | | | |
| Principal | - | - | - | - |
| Interest and fiscal charges | - | - | - | - |
| Capital outlay | - | - | - | - |
| | <u>-</u> | <u>2,936</u> | <u>-</u> | <u>-</u> |
| Total expenditures | - | 2,936 | - | - |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | | | | |
| | 17,640 | 1,130 | 828 | 12,682 |
| OTHER FINANCING SOURCES | | | | |
| Transfers in (out) | - | (279) | - | - |
| | <u>-</u> | <u>(279)</u> | <u>-</u> | <u>-</u> |
| Total other financing sources (uses) | - | (279) | - | - |
| NET CHANGE IN FUND BALANCES | | | | |
| | 17,640 | 851 | 828 | 12,682 |
| FUND BALANCES AT BEGINNING OF YEAR | | | | |
| | <u>68,898</u> | <u>34,567</u> | <u>1,601</u> | <u>127,207</u> |
| FUND BALANCES AT END OF YEAR | | | | |
| | <u>\$ 86,538</u> | <u>\$ 35,418</u> | <u>\$ 2,429</u> | <u>\$ 139,889</u> |

| Archive Fees | Court Record Preservation | Courthouse Security | Pre-Trial Diversion | Records Management | Restoration and Preservation |
|--------------|---------------------------|---------------------|---------------------|--------------------|------------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 17,905 | 1,911 | 8,314 | 8,577 | 17,201 | 1,238 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 17,905 | 1,911 | 8,314 | 8,577 | 17,201 | 1,238 |
| 46,074 | 149 | 1,595 | 3,436 | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 46,074 | 149 | 1,595 | 3,436 | - | - |
| (28,169) | 1,762 | 6,719 | 5,141 | 17,201 | 1,238 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| (28,169) | 1,762 | 6,719 | 5,141 | 17,201 | 1,238 |
| 106,192 | 6,365 | 46,227 | 26,282 | 101,210 | 19,970 |
| \$ 78,023 | \$ 8,127 | \$ 52,946 | \$ 31,423 | \$ 118,411 | \$ 21,208 |

McCULLOCH COUNTY, TEXAS
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended September 30, 2017

| | Technology Fees | Video Fees | Conservation Dam Maintenance | Probate Training |
|--|--------------------|-----------------|------------------------------------|---------------------|
| REVENUES | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Fines and fees | 7,234 | 382 | - | 145 |
| Intergovernmental, grants, and contributions | | | | |
| Investment earnings | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Total revenues | 7,234 | 382 | - | 145 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 902 | - | - | 170 |
| Debt service: | | | | |
| Principal | - | - | - | - |
| Interest and fiscal charges | - | - | - | - |
| Capital outlay | - | - | - | - |
| Total expenditures | 902 | - | - | 170 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 6,332 | 382 | - | (25) |
| OTHER FINANCING SOURCES | | | | |
| Transfers in (out) | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - |
| NET CHANGE IN FUND BALANCES | 6,332 | 382 | - | (25) |
| FUND BALANCES AT BEGINNING OF YEAR | 38,337 | 3,651 | 19,000 | 8,586 |
| FUND BALANCES AT END OF YEAR | \$ 44,669 | \$ 4,033 | \$ 19,000 | \$ 8,561 |

| Salary Supp. Excess Co. Judge | Voting Equipment Rental | Child Abuse Prevention | Truancy Court | CETRZ Grant Fund | Library Fund |
|-------------------------------------|-------------------------------|------------------------------|------------------|------------------------|---------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | 4,232 |
| - | - | - | - | - | 142,914 |
| 83 | - | - | - | 16 | 10,087 |
| <u>83</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 83 | - | - | - | 16 | 157,233 |
| - | - | - | - | - | 142,343 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | 106,600 |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>248,943</u> |
| 83 | - | - | - | 16 | (91,710) |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>136,019</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>136,019</u> |
| 83 | - | - | - | 16 | 44,309 |
| <u>1,759</u> | <u>25,850</u> | <u>100</u> | <u>50</u> | <u>1,679</u> | <u>986,130</u> |
| \$ <u>1,842</u> | \$ <u>25,850</u> | \$ <u>100</u> | \$ <u>50</u> | \$ <u>1,695</u> | \$ <u>1,030,439</u> |

McCULLOCH COUNTY, TEXAS
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended September 30, 2017

| | Total Nonmajor Special Revenue Funds | Debt Service Fund | Permanent Improvement Fund | Total Nonmajor Governmental Funds |
|--|--|-------------------------|----------------------------------|---|
| REVENUES | | | | |
| Property taxes | \$ 16,900 | \$ 127,332 | \$ - | \$ 144,232 |
| Fines and fees | 71,694 | - | - | 71,694 |
| Intergovernmental, grants, and contributions | 142,914 | | | 142,914 |
| Investment earnings | 23,864 | 856 | 1,788 | 26,508 |
| Miscellaneous | 83 | - | - | 83 |
| | <u>255,455</u> | <u>128,188</u> | <u>1,788</u> | <u>385,431</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 197,605 | - | 98,220 | 295,825 |
| Debt service: | | | | |
| Principal | - | 105,000 | - | 105,000 |
| Interest and fiscal charges | - | 31,135 | - | 31,135 |
| Capital outlay | 106,600 | - | - | 106,600 |
| | <u>304,205</u> | <u>136,135</u> | <u>98,220</u> | <u>538,560</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (48,750) | (7,947) | (96,432) | (153,129) |
| OTHER FINANCING SOURCES | | | | |
| Transfers in (out) | 135,740 | - | 57,553 | 193,293 |
| | <u>135,740</u> | <u>-</u> | <u>57,553</u> | <u>193,293</u> |
| NET CHANGE IN FUND BALANCES | 86,990 | (7,947) | (38,879) | 40,164 |
| FUND BALANCES AT BEGINNING OF YEAR | <u>1,623,661</u> | <u>68,934</u> | <u>234,708</u> | <u>1,927,303</u> |
| FUND BALANCES AT END OF YEAR | <u>\$ 1,710,651</u> | <u>\$ 60,987</u> | <u>\$ 195,829</u> | <u>\$ 1,967,467</u> |

McCULLOCH COUNTY, TEXAS
Combining Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
September 30, 2017

| | <u>Tax Assessor/ Collector</u> | <u>Tax Assessor/ Collector Chapter 19</u> | <u>District Clerk Excess Tax</u> | <u>District Clerk</u> |
|---------------------------|------------------------------------|---|--|---------------------------|
| ASSETS: | | | | |
| Cash and cash equivalents | \$ 130,340 | \$ 4 | \$ 277,984 | \$ 8,635 |
| Accounts receivable | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL ASSETS | <u>\$ 130,340</u> | <u>\$ 4</u> | <u>\$ 277,984</u> | <u>\$ 8,635</u> |
| LIABILITIES: | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - |
| Due to others | <u>130,340</u> | <u>4</u> | <u>277,984</u> | <u>8,635</u> |
| TOTAL LIABILITIES | <u>\$ 130,340</u> | <u>\$ 4</u> | <u>\$ 277,984</u> | <u>\$ 8,635</u> |

| <u>District Clerk Trust</u> | <u>County Clerk Escrow</u> | <u>County Clerk Fees</u> | <u>County Clerk Trust</u> | <u>Sheriff's Department</u> | <u>Sheriff's Forfeiture</u> |
|-------------------------------------|------------------------------------|----------------------------------|-----------------------------------|---------------------------------|---------------------------------|
| \$ 115,302 | \$ 17,717 | \$ 24,149 | \$ 134 | \$ 2,683 | \$ 7,691 |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>\$ 115,302</u> | <u>\$ 17,717</u> | <u>\$ 24,149</u> | <u>\$ 134</u> | <u>\$ 2,683</u> | <u>\$ 7,691</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>115,302</u> | <u>17,717</u> | <u>24,149</u> | <u>134</u> | <u>2,683</u> | <u>7,691</u> |
| <u>\$ 115,302</u> | <u>\$ 17,717</u> | <u>\$ 24,149</u> | <u>\$ 134</u> | <u>\$ 2,683</u> | <u>\$ 7,691</u> |

McCULLOCH COUNTY, TEXAS
Combining Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
September 30, 2017

| | Sheriff's LEOSE | DREAM | Inmate Trust | Commissary Profit |
|---------------------------|--------------------|---------------|-----------------|----------------------|
| ASSETS: | | | | |
| Cash and cash equivalents | \$ 1,148 | \$ 764 | \$ 7,066 | \$ 3,469 |
| Accounts receivable | - | - | - | - |
| TOTAL ASSETS | \$ 1,148 | \$ 764 | \$ 7,066 | \$ 3,469 |
| LIABILITIES: | | | | |
| Accounts payable | - | - | - | \$ 2,962 |
| Due to others | 1,148 | 764 | 7,066 | 507 |
| TOTAL LIABILITIES | \$ 1,148 | \$ 764 | \$ 7,066 | \$ 3,469 |

| <u>Justice of the Peace</u> | <u>Prosecutor's Collection</u> | <u>State Trust</u> | <u>Payroll Clearing</u> | <u>Richards Memorial Library</u> | <u>Unclaimed Money</u> | <u>Total Agency Funds</u> |
|---------------------------------|------------------------------------|------------------------|-----------------------------|--|----------------------------|-----------------------------------|
| \$ 17,885 | \$ 1,910 | \$ 46,786 | \$ 35,223 | \$ 949 | \$ 351 | \$ 700,190 |
| <u>-</u> | <u>-</u> | <u>325</u> | <u>2,323</u> | <u>-</u> | <u>-</u> | <u>2,648</u> |
| <u>\$ 17,885</u> | <u>\$ 1,910</u> | <u>\$ 47,111</u> | <u>\$ 37,546</u> | <u>\$ 949</u> | <u>\$ 351</u> | <u>\$ 702,838</u> |
| \$ - | \$ - | \$ 43,456 | \$ - | \$ - | \$ - | \$ 46,418 |
| <u>17,885</u> | <u>1,910</u> | <u>3,655</u> | <u>37,546</u> | <u>949</u> | <u>351</u> | <u>656,420</u> |
| <u>\$ 17,885</u> | <u>\$ 1,910</u> | <u>\$ 47,111</u> | <u>\$ 37,546</u> | <u>\$ 949</u> | <u>\$ 351</u> | <u>\$ 702,838</u> |

OTHER SUPPLEMENTARY INFORMATION

This section includes financial information and disclosures not required by the Government Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.



CPAs & BUSINESS ADVISORS

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

To the Honorable Judge and
Members of the Commissioners' Court
McCulloch County, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of McCulloch County, Texas (the County), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 22, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as 2017-A and 2017-B to be material weaknesses.

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.

Compliance and Other Matters

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

McCulloch County, Texas' Response to Findings

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Abilene, Texas
March 22, 2018

McCULLOCH COUNTY, TEXAS
 Schedule of Findings and Responses
 September 30, 2017

A. Summary of Auditor's Results

| | |
|---|----------------------------------|
| Type of auditor's report issued on the financial statements: | Unmodified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | Finding 2017-A Finding 2017-B |
| Significant deficiencies identified that are not considered to be material weaknesses | None reported |
| Noncompliance material to financial statements noted? | No |

B. Findings Related to the Financial Statements which are Required to be Reported in Accordance with *Government Auditing Standards*

| | |
|-----------------------------------|--|
| Finding 2017-A: | Financial Reporting |
| Type of Finding: | Material Weakness |
| Criteria or Specific Requirement: | Management of the County is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP). This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement. |
| Statement of Condition: | The County does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In conjunction with the completion of our audit, we were requested to draft the financial statements and accompanying notes to those financial statements. Additionally, we recorded 14 audit adjustments to the County's recorded account balances, which if not recorded, would have resulted in a material misstatement of the County's financial statements. |
| Cause: | The County does not prepare and has not developed an internal control system to provide for the preparation of the financial statements and related disclosures in a timely manner. |
| Effect: | Although this circumstance is not unusual for an organization of your size, the preparation of financial statements as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by County personnel. The need for the audit adjustments indicates that the County's interim financial information is not materially correct, which may affect management decisions made during the course of the year. |

McCULLOCH COUNTY, TEXAS
Schedule of Findings and Responses
September 30, 2017

B. Findings Related to the Financial Statements which are Required to be Reported in Accordance with *Government Auditing Standards* - continued

Recommendations: Auditing standards require that auditors communicate this deficiency; however, the County prepares budgetary and other financial reports for County Commissioners' review on a routine basis, similar to many smaller governmental entities. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of cost or other considerations.

View of Responsible Officials: The County prepares budgetary and financial reports to present to the Commissioners on a monthly basis and will continue to do so, and will continue to have all financial statements and related information available.

Finding 2017-B: Reconciliations of Fund Balance, Long-Term Obligations, and Capital Assets

Type of Finding: Material Weakness

Criteria or Specific Requirement: Fund balance, long-term obligations and capital assets should be reconciled at the end of the fiscal year.

Statement of Condition: The County does not have a process for the preparation of reconciliation of the fund balance, long-term obligations and capital assets. If not reconciled, the financial statements could result in a material misstatement.

Cause: Fund balance, long-term obligations and capital assets are not reconciled at year end.

Effect: The lack of reconciliations of fund balance, long-term obligations and capital assets increases the risk of material misstatement in the financial statements for these areas, either due to error or fraud.

Recommendations: The County should design and implement a reconciliation process for fund balance, long-term obligations and capital assets.

View of Responsible Officials: The County will design and implement reconciliation processes for 2018.

DANNY NEAL, County Judge-judgeal@hotmail.com
JIM QUINN, Commissioner Precinct 1-jimq2008@yahoo.com
GENE EDMISTON, Commissioner Precinct 2
JASON BEHRENS, Commissioner Precinct 3
BRENT DEEDS, Commissioner Precinct 4 – brent.deeds@co.mcculloch.tx.us
JOHN DAGEN, Sheriff



MAGGIE SAWYER, Justice of the Peace
MARK A. MARSHALL, County Attorney
MICHELLE PITCOX, District Clerk
TINA A. SMITH, County Clerk
SILVIA CAMPOS, Tax Assessor-Collector
STEVEN ESTES, County Treasurer

MCCULLOCH COUNTY

Brady Texas, 76825

Phone: 325-597-0733

Website: www.co.mcculloch.tx.us

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | |
|-------------------------------|--|
| Finding 2017-A | The County will prepare budgetary and financial reports on a monthly basis to the Commissioners. |
| Finding 2017-B | The County will design and implement reconciliation processes for 2018. |
| Contact Person: | Steven Estes County Treasurer McCulloch County, Texas 199 Courthouse Square Room 301 Brady, Texas 76825 Phone: (325) 597-0733x6 steven.estes@co.mcculloch.tx.us |
| Expected Implementation date: | March 31, 2018 |