

**COUNTY OF STEPHENS, TEXAS**

*ANNUAL FINANCIAL REPORT*

*FOR THE YEAR ENDED DECEMBER 31, 2019*

**COUNTY OF STEPHENS, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

TABLE OF CONTENTS

	<u>Page</u>
<u>Independent Auditor's Report:</u>	
Unmodified Opinion on Basic Financial Statements .....	1
Management's Discussion and Analysis .....	3
<u>Basic Financial Statements:</u>	
Government-Wide Financial Statements:	
Statement of Net Position .....	10
Statement of Activities .....	11
Governmental Fund Financial Statements:	
Balance Sheet-Governmental Funds .....	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .....	13
Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Funds .....	14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities .....	15
Notes to the Financial Statements .....	16
<u>Required Supplementary Information</u>	
Budgetary Comparison Schedules:	
Budgetary Comparison Schedule-General Fund .....	30
Budgetary Comparison Schedule-Road & Bridge Fund .....	31
Schedule of Changes in Net Pension Liability and Related Ratios .....	32
Schedule of Contributions .....	33
Notes to Schedule of Contributions .....	34
<u>Overall Compliance and Internal Controls Section:</u>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i> .....	36
Schedule of Findings and Questioned Costs .....	37
Schedule of Prior Audit Findings .....	38

# Cameron L. Gulley

CERTIFIED PUBLIC ACCOUNTANT

P. O. Box 163  
Eastland, Texas 76448  
(325)669-9795  
cgulley@txol.net

## Independent Auditor's Report

### UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION

County Commission  
County of Stephens, Texas  
200 W. Walker  
Breckenridge, Texas 76424

#### Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for County of Stephens, Texas (the "County") as of and for the year ended December 31, 2019, 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**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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. 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

#### **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of County of Stephens, Texas as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with account principles generally accepted in the United States of America.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of County of Stephens, Texas, discuss and analyze the County's financial performance for the fiscal year ended December 31, 2019. Please read it in conjunction with the independent auditor's report on page 1 and the County's Basic Financial Statements which begin on page 10.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 - 11). These provide information about the activities of the County as a whole and present a longer-term view of the County's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the County were sold to external customers and how the sales revenues covered the expenses of the goods or services.

The notes to the financial statements (starting on page 16) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

### Reporting the County as a Whole

#### *The Statement of Net Position and the Statement of Activities*

The analysis of the County's overall financial condition and operations begins on page 4. Its primary purpose is to show whether the County is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the County's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the County's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The County's revenues are divided into those provided by outside parties who share the costs of some programs, such as revenue sharing programs from other governments received and fees charged for utility services (program revenues), and revenues provided by the taxpayers or by the State of Texas (general revenues). All the County's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

Table I  
County of Stephens, Texas  
Net Position

	Governmental Activities 2019	Governmental Activities 2018	Variance Increase/ (Decrease)
Current and other assets	\$ 5,870,545	\$ 6,304,552	\$ (434,007)
Capital assets	11,581,126	12,214,421	(633,295)
Deferred resource outflows	1,165,585	457,831	707,754
Total assets and deferred resource outflows	18,617,256	18,976,804	(359,548)
Long-term liabilities	3,891,560	4,173,622	(282,062)
Other liabilities	289,612	127,345	162,267
Deferred resource inflows	491,474	304,237	187,237
Total liabilities and deferred resource inflows	4,672,646	4,605,204	67,442
Net position:			
Net investment in capital assets	7,716,088	8,081,339	(365,251)
Restricted for debt service	603,817	542,840	60,977
Unrestricted	5,624,705	5,747,421	(122,716)
Total net position	\$ 13,944,610	\$ 14,371,600	\$ (426,990)

Total revenues of the County were lower by \$231,000 from the previous year. Operating grants and contributions were lower due to prior year federal FEMA and state CERZ grant funds not received for the year. Maintenance and operations taxes were higher by \$260,000 due to increased property valuations from the previous year. Prior year gain on sale of assets were due to auction proceeds received on assets disposed last year. Charges for services were lower by \$103,000 due mainly to prior year placement fees reimbursements not received during the current year. Other revenues were fairly consistent with last year.

Total expenses for the year were \$50,000 less than last year. Decreases in public transportation expenses by \$107,000 for the year were related to decreased depreciation expense and payroll costs. Public safety expenses decreased \$75,000 due to lower payroll, rural fire and ambulance fees. Judicial expenses increased \$68,000 due to higher payroll costs and contracted services. General government expenses increased \$30,000 due to higher liability insurance costs. Public facilities expenses increased \$13,000 related to facility repair costs for the year. Debt service expenses increased \$12,000 due to one-time financing fees paid for new debt entered into during the year. All other departmental costs were approximately the same as last year.

**THE COUNTY'S FUNDS**

As the County completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$2,536,255, a decrease of \$473,089 in the County's governmental funds from last year's fund balance of \$3,009,344. This differs from the decrease in net position reported above primarily due to capital asset and related debt activity expended at the fund level but capitalized at the government-wide level of reporting. Specific differences are disclosed on the exhibits on pages 13 and 15.

The County's General Fund balance of \$1,070,817 reported on pages 12 and 14 differs from the projected budgetary fund balance of \$1,343,337 on page 30 due to a one-time transfer of district clerk unclaimed property balances totaling \$249,568 to special revenue fund from the general fund.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2019, the County had \$40,038,687 invested in a broad range of capital assets including infrastructure, county government facilities and road and maintenance equipment. This amount represents an increase of \$383,226 from last fiscal year (net of asset dispositions). This year's major additions included:

HVAC improvements	\$	299,161
Building improvements - new roofs		46,560
Chevrolet Silverado pickup		37,505
Total	\$	383,226

**Debt**

At December 31, 2019, the County had four outstanding debt obligations in the forms of certificates of obligation, a tax note payable and capital lease liability. Payments on the outstanding obligations will final maturity in 2026. The County issued \$500,000 in new debt and retired \$755,592 in principal on the obligations for an ending balance of \$3,807,034. Future annual payments will approximate \$900,000 until 2023 and then approximately \$138,000 from 2024 until fully retired in 2026. A summary of outstanding debt balances is as follows:

	2019	2018
Certificates of obligation	\$ 3,252,000	\$ 3,979,000
Tax maintenance note	500,000	0
Capital lease liability	55,034	83,626
Total	\$ 3,807,034	\$ 4,062,626

**BASIC FINANCIAL STATEMENTS**

COUNTY OF STEPHENS, TEXAS  
STATEMENT OF NET POSITION  
DECEMBER 31, 2019

	Primary Govt Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,371,768
Property taxes receivable	3,352,785
Allowance for uncollectible taxes	(271,060)
Accounts receivable	417,052
Capital assets:	
Land	38,317
Infrastructure, net	4,137,136
Buildings and improvements, net	6,945,723
Furniture and equipment, net	459,950
Total assets	17,451,671
<b>DEFERRED RESOURCE OUTFLOWS</b>	
Deferred resource outflow related to retirement	1,102,454
Deferred resource outflow related to refunded bond costs	63,131
Total deferred resource outflows	1,165,585
<b>LIABILITIES</b>	
Accounts payable	252,565
Accrued interest payable	37,047
Noncurrent liabilities:	
Due within one year	803,000
Due in more than one year	3,088,560
Total liabilities	4,181,172
<b>DEFERRED RESOURCE INFLOWS</b>	
Deferred resource inflow related to retirement	491,474
Total deferred resource inflows	491,474
<b>NET POSITION</b>	
Net investment in capital assets	7,716,088
Restricted for debt service	603,817
Unrestricted net position	5,624,705
Total net position	\$ 13,944,610

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



COUNTY OF STEPHENS, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2019

	General Fund	Road & Bridge Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 786,493	\$ 609,794	\$ 292,773	\$ 682,708	\$ 2,371,768
Property taxes	3,352,785	-	-	-	3,352,785
Allowance for uncollectible taxes (credit)	(271,060)	-	-	-	(271,060)
Accounts receivable	364,454	41,613	-	10,985	417,052
<b>Total Assets</b>	<b>\$ 4,232,672</b>	<b>\$ 651,407</b>	<b>\$ 292,773</b>	<b>\$ 693,693</b>	<b>\$ 5,870,545</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 80,130	\$ 14,732	\$ 142,362	\$ 15,341	\$ 252,565
<b>Total Liabilities</b>	<b>80,130</b>	<b>14,732</b>	<b>142,362</b>	<b>15,341</b>	<b>252,565</b>
<b>DEFERRED INFLOW OF RESOURCES</b>					
Unavailable revenue - property taxes	3,081,725	-	-	-	3,081,725
<b>Total Deferred Inflow of Resources</b>	<b>3,081,725</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,081,725</b>
<b>FUND BALANCES</b>					
Restricted for:					
Retirement of long-term debt	603,817	-	-	-	603,817
Committed for:					
Capital improvements	-	-	150,411	-	150,411
Other purposes	-	-	-	678,352	678,352
Unassigned	467,000	636,675	-	-	1,103,675
<b>Total Fund Balances</b>	<b>1,070,817</b>	<b>636,675</b>	<b>150,411</b>	<b>678,352</b>	<b>2,536,255</b>
<b>Total Liabilities, Deferred Inflows &amp; Fund Balances</b>	<b>\$ 4,232,672</b>	<b>\$ 651,407</b>	<b>\$ 292,773</b>	<b>\$ 693,693</b>	<b>\$ 5,870,545</b>

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

COUNTY OF STEPHENS, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

	General Fund	Road & Bridge Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>					
Property taxes	\$ 3,691,583	\$ 431,099	\$ -	\$ -	\$ 4,122,682
Licenses and fees	306,759	436,791	-	168,304	911,854
Other taxes	15,735	-	-	-	15,735
State and federal grants and contracts	123,715	14,797	-	682	139,194
Investment earnings	24,425	-	-	24	24,449
Royalties	60,186	-	-	-	60,186
Miscellaneous revenues	121,951	40,599	-	330	162,880
<b>Total revenues</b>	<b>4,344,354</b>	<b>923,286</b>	<b>-</b>	<b>169,340</b>	<b>5,436,980</b>
<b>EXPENDITURES:</b>					
Judicial	491,298	-	-	9,042	500,340
Public transportation	16,465	1,015,355	-	-	1,031,820
General government	1,610,644	-	-	24,352	1,634,996
Public facilities	266,218	-	320,217	-	586,435
Health and welfare	74,336	-	-	-	74,336
Public safety	1,573,878	-	-	86,294	1,660,172
Recreation and culture	23,520	-	-	-	23,520
Debt service	869,078	-	29,372	-	898,450
<b>Total expenditures</b>	<b>4,925,437</b>	<b>1,015,355</b>	<b>349,589</b>	<b>119,688</b>	<b>6,410,069</b>
Excess (deficiency) of revenues over (under) expenditures	(581,083)	(92,069)	(349,589)	49,652	(973,089)
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in (out)	(249,568)	-	-	249,568	-
Proceeds from long-term debt	-	-	500,000	-	500,000
<b>Total other financing sources (uses)</b>	<b>(249,568)</b>	<b>-</b>	<b>500,000</b>	<b>249,568</b>	<b>500,000</b>
Net change in fund balances	(830,651)	(92,069)	150,411	299,220	(473,089)
Fund balance - beginning	1,901,468	728,744	-	379,132	3,009,344
<b>Fund balance - ending</b>	<b>\$ 1,070,817</b>	<b>\$ 636,675</b>	<b>\$ 150,411</b>	<b>\$ 678,352</b>	<b>\$ 2,536,255</b>

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

**COUNTY OF STEPHENS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT AND FOR THE YEAR ENDED DECEMBER 31, 2019**

I. Summary of significant accounting policies

County of Stephens, Texas (the "County") was incorporated in 1883, under provisions of the State of Texas. The County is governed by a Commissioners' Court consisting of a County Judge and four Commissioners. The financial statements of the County are prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). The County's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements. Proprietary funds (if applicable) apply only those Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

A. Reporting entity

The County was created in accordance with, and continues to operate under, the statutes and regulations of the State of Texas. The County operates under the direction of the Commissioners' Court which is made up of four elected commissioners, one from each precinct within the county, and the County Judge who presides over the Court. The county departments are headed by elected officials who hire and maintain their staff within the restraints of the official county budget.

For financial reporting purposes, management does not consider Stephens Memorial Hospital a component unit of the County. The hospital is treated as a separate entity since it is audited as such.

B. Government-wide and fund financial statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the County nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, franchise fees, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the County operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the County. Examples include fees charged for auto licenses, county clerk fees, fines, etc. The "grants and contributions" column includes amounts paid by organizations outside the County to help meet the operational or capital requirements of a given function. Examples include grants under the U.S. Department of Agriculture Rural Development Program. If a revenue is not a program revenue, it is a general revenue used to support all of the County's functions. Taxes are always general revenues.

Interfund activities between governmental appear as due to/due from on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for County operations, they are not included in the government-wide statements. The County considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

## E. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the Fiduciary Net Position of the Texas County and District Retirement System (the "TCDRS") and additions to/deductions from TCDRS' Fiduciary Net Position have been determined on the same basis as they are reported to TCDRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## F. Other accounting policies

1. For purposes of the statement of cash flows for proprietary and similar fund-types, the County considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The County reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred..

In the fund financial statements, governmental fund types recognized 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.

4. The County's policy does permits employees to accumulate unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.
5. Capital assets, which include land, buildings, furniture and equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Buildings, furniture and equipment of the County are depreciated using the straight line method over the following estimated useful lives:

<u>Asset:</u>	<u>Years</u>
Buildings	10-40
Building Improvements	10-40
Infrastructure	40
Vehicles	5
Equipment	10
Technology Equipment	5

B. Excess of expenditures over appropriations by more than \$2,500

Functional Category	Amount Over Budget	Explanation
Public facilities	\$ 4,093	Over budget due to ending accounts payable.
Recreation and culture	\$ 3,576	Over budget due to ending accounts payable.
Debt service	\$ 36,420	Over budget due to flow-thru payment made on behalf of County by County Hospital District.

C. Deficit fund equity

None.

III. Detailed notes on all funds

A. Deposits and investments

County Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the County complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk - The County limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not investing in any foreign currency.

County Policies and Legal and Contractual Provisions Governing Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the County to adopt, implement, and publicize an investment policy. Statutes authorize the County to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

As of December 31, 2019, the County had no investments..

B. Property taxes

The County's property tax is levied each October 1, on the assessed value listed as of the prior January 1, for all real and certain personal property located in the County. The appraisal of property within the County is the responsibility of the Stephens County Appraisal District as required by legislation passed by the Texas Legislature. The Appraisal District is required under such legislation to assess all property within the Appraisal District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The assessed value upon which the fiscal 2019 levy was based was approximately \$542,752,255. The value of property within the Appraisal District must be reviewed every five years; however, the County may, at its own expense, require annual review of appraised values. The County may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action.

General property taxes are limited by the Texas Constitution to \$2.50 per \$100 of assessed valuation. The combined tax rate to finance general governmental service for the year ended December 31, 2019, was \$0.7516 per \$100 of assessed valuation.

Property taxes attach as an enforceable lien on property as of January 1, following the levy date. Taxes are due by January 31, following the levy date. Current tax collections for the year were 42.68% and total tax collections were 99.02% of the tax levy.

F. Capital asset activity

Capital asset activity for the County for the year ended December 31, 2019, was as follows:

	Balance 12/31/18	Additions	Deletions	Balance 12/31/19
<b>Governmental activities:</b>				
Land	\$ 38,317			\$ 38,317
Infrastructure - roads	25,822,876			25,822,876
Buildings and improvements	9,144,335	345,721		9,490,056
Furniture and equipment	4,649,933	37,505		4,687,438
<b>Totals</b>	<b>39,655,461</b>	<b>383,226</b>		<b>40,038,687</b>
<b>Less accum depreciation for:</b>				
Infrastructure - roads	21,047,407	638,333		21,685,740
Buildings and improvements	2,310,481	233,852		2,544,333
Furniture and equipment	4,083,152	144,336		4,227,488
<b>Total accum depreciation</b>	<b>27,441,040</b>	<b>1,016,521</b>		<b>28,457,561</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 12,214,421</b>	<b>\$ (633,295)</b>		<b>\$ 11,581,126</b>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental activities:</b>	
General government	\$ 17,619
Public safety	290,915
Public transportation	707,987
<b>Total depreciation expense - governmental activities</b>	<b>\$ 1,016,521</b>

G. Accumulated unpaid vacation and sick leave benefits

County employees are entitled to certain compensated absences based on their length of employment. However, total accrued leave benefits were inconsequential in amount and were not recorded as a liability.

H. Texas County and District Retirement System

**Plan Description.** The District provides pension, disability, and death benefits for all of its full-time employees through a statewide, multiple-employer, public-employee retirement system through the Texas County District Retirement System (the "TCDRS"). The system serves over 700 actively participating counties and districts throughout Texas. Each employer has its own defined benefit plan that functions similarly to a cash balance plan. The assets of the plans are pooled for investment purposes, but each employer's plan assets may be used only for the payment of benefits to the members of that employer's plan. In accordance with Texas law, it is intended that the pension plan be construed and administered in a manner that the retirement system will be considered qualified under Section 401(a) of the Internal Revenue Code. All employees (except temporary staff) of a participating employer must be enrolled in the plan. The TCDRS 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.

The plan provisions are adopted by the governing body of the District, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 or more years of service or with 30 years regardless of age, or when the sum of their age and years of service equals 75 or more. A member is vested after 10 years but must leave his 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.

- **“Rule of ” eligibility:** Under these rules, a vested employee can retire if their age plus years of service time add up to at least 75 or 80.
- **20-year or 30-year retirement at any age:** This lets employees retire when they have at least 20 or 30 years of service time. Retirees elect to receive their lifetime benefit by choosing one of seven actuarially equivalent payment options.

Employers may elect to provide other optional benefits. Prior service gives employees monetary credit for time worked for an organization before it joined the system. Buybacks allow current employees to re-establish a closed TCDRS account from previous service with an employer. Partial lump-sum payments at retirement allow employees to withdraw part of their TCDRS account balance as a lump sum at retirement with a reduced monthly benefit.

In addition, an employer may choose to adopt a cost-of-living adjustment (COLA) for its retirees. This adjusts retiree benefits to restore purchasing power lost due to the effects of inflation.

The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll; closed
Remaining Amortization Period	0.0 years
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.00%
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Changes in Assumptions	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected.
Changes in Plan Provisions	2017: New annuity purchase rates were reflected for benefits earned.

**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. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 8.1%. The long-term expected rate of return 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 below are based on January 2019 information for a 10-year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2017.

	1% Decrease in Discount Rate (7.1%)	Discount Rate (8.1%)	1% Increase in Discount Rate (9.1%)
Net pension liability / (asset)	\$ 1,146,021	\$ 438	\$ (993,775)

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

For the year ended December 31, 2019, the District recognized pension expense of \$300,686.

At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience (net of current year amortization)	\$ 2,801	\$ 491,474
Changes in actuarial assumptions (net of current year amortization)	62,843	
Differences between projected and actual investment earnings (net of current year amortization)	786,503	
Contributions subsequent to the measurement date	250,307	
Total	\$ 1,102,454	\$ 491,474

\$250,307 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

Year ended December 31,	Amount
2020	\$ 171,151
2021	\$ (25,633)
2022	\$ (39,925)
2023	\$ 255,080
2024	\$ 0
Thereafter	\$ 0

**I. Deferred inflows and outflows of resources**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Deferred resources related to TCDRS per above	\$ 1,102,454	\$ 491,474
Deferred charge related to refunded bonds	63,131	
Total	<u>\$ 1,165,585</u>	<u>\$ 491,474</u>



Capital Lease Agreement

Future Annual Lease Payments:	Amount
2020	\$ 0
2021	58,722
Less: incremental borrowing rate of interest	(3,688)
Present Value of Future Lease Payments	<u>\$ 55,034</u>

K. Non-current liabilities

Changes in non-current liabilities are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Long-term debt	\$ 4,062,626	\$ 500,000	\$ 755,592	\$ 3,807,034
Bond premium	110,996		26,908	84,088
Net pension liability	0	993,877	993,439	438
Total non-current liabilities	<u>\$ 4,173,622</u>	<u>\$ 1,493,877</u>	<u>\$ 1,775,939</u>	<u>\$ 3,891,560</u>

L. Subsequent event

Management has evaluated subsequent events through August 18, 2020; the date which the financial statements were available for distribution.

A double-capital murder trial is slated for the County with initial proceedings beginning in fiscal year 2019 and likely continuing into fiscal year 2020. Costs for the County to prosecute the case is estimated to approximate \$1,000,000. Local and grant funding is anticipated to be used to finance the prosecution of the case.

The COVID-19 pandemic sweeping across the country has resulted in mandatory closure of many businesses during the months of March, April and May, 2020 resulting in layoffs of much of the workforce. The economic effects of those closures is not yet known but could potentially affect collectibility of future revenue billings, tax assessments, fees of office revenues and other revenues of the County due to the significant economic impact on unemployment of the County's customers and taxpayers.

M. Implementation of new GASB statements

None applicable for the current or succeeding year.

***REQUIRED SUPPLEMENTARY INFORMATION***

COUNTY OF STEPHENS, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2019

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 3,596,164	\$ 3,596,164	\$ 3,691,583	\$ 95,419
Licenses and fees	347,810	347,810	306,759	(41,051)
Other taxes	13,700	13,700	15,735	2,035
State and federal grants and contracts	154,875	154,875	123,715	(31,160)
Investment earnings	20,465	20,465	24,425	3,960
Royalties	74,708	75,008	60,186	(14,822)
Miscellaneous revenues	176,243	176,243	121,951	(54,292)
<b>Total revenues</b>	<b>4,383,965</b>	<b>4,384,265</b>	<b>4,344,354</b>	<b>(39,911)</b>
<b>EXPENDITURES:</b>				
Judicial	334,131	490,666	491,298	(632)
Public transportation	17,500	17,500	16,465	1,035
General government	1,308,779	1,611,658	1,610,644	1,014
Public facilities	110,735	262,125	266,218	(4,093)
Health and welfare	54,100	80,163	74,336	5,827
Public safety	1,633,415	1,627,682	1,573,878	53,804
Recreation and culture	17,026	19,944	23,520	(3,576)
Debt service	840,840	832,658	869,078	(36,420)
<b>Total expenditures</b>	<b>4,316,526</b>	<b>4,942,396</b>	<b>4,925,437</b>	<b>16,959</b>
Excess (deficiency) of revenues over (under) expenditures	67,439	(558,131)	(581,083)	(22,952)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (out)	-	-	(249,568)	(249,568)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>(249,568)</b>	<b>(249,568)</b>
Net change in fund balances	67,439	(558,131)	(830,651)	(272,520)
Fund balance - beginning	1,901,468	1,901,468	1,901,468	-
Fund balance - ending	<b>\$ 1,968,907</b>	<b>\$ 1,343,337</b>	<b>\$ 1,070,817</b>	<b>\$ (272,520)</b>

COUNTY OF STEPHENS, TEXAS  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
FOR THE YEAR ENDED DECEMBER 31, 2019

	Plan Year Ended December 31,				
	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>					
Service cost	\$ 267,918	\$ 282,282	\$ 284,960	\$ 288,396	\$ 295,394
Interest (on the total pension liability)	990,468	954,773	902,308	858,733	807,530
Changes of benefit terms	-	-	-	(23,872)	-
Difference between expected and actual experience	(525,337)	(162,451)	11,204	(81,608)	(22,856)
Change of assumptions	-	104,739	-	121,979	-
Benefit payments, including refunds of employee contributions	(695,839)	(751,679)	(637,209)	(516,906)	(469,219)
<b>Net Change in Total Pension Liability</b>	<b>37,210</b>	<b>427,664</b>	<b>561,263</b>	<b>646,722</b>	<b>610,849</b>
<b>Total Pension Liability - Beginning</b>	<b>12,301,227</b>	<b>11,873,563</b>	<b>11,312,300</b>	<b>10,665,578</b>	<b>10,054,729</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 12,338,437</b>	<b>\$ 12,301,227</b>	<b>\$ 11,873,563</b>	<b>\$ 11,312,300</b>	<b>\$ 10,665,578</b>
<b>Plan Fiduciary Net Position</b>					
Contributions - employer	\$ 254,009	\$ 253,328	\$ 266,134	\$ 283,909	\$ 278,142
Contributions - employee	148,170	147,774	155,241	165,614	162,250
Net investment income	(243,464)	1,683,590	806,459	(70,234)	706,673
Benefit payments, including refunds of employee contributions	(695,839)	(751,679)	(637,209)	(516,906)	(469,219)
Administrative expense	(9,910)	(8,574)	(8,758)	(7,884)	(8,252)
Other	(7,454)	(4,779)	83,280	12,513	(41,195)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>(554,488)</b>	<b>1,319,660</b>	<b>665,147</b>	<b>(132,988)</b>	<b>628,399</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>12,892,486</b>	<b>11,572,826</b>	<b>10,907,679</b>	<b>11,040,667</b>	<b>10,412,269</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 12,337,998</b>	<b>\$ 12,892,486</b>	<b>\$ 11,572,826</b>	<b>\$ 10,907,679</b>	<b>\$ 11,040,668</b>
<b>Net Pension Liability - Ending (a) - (b)</b>	<b>\$ 439</b>	<b>\$ (591,259)</b>	<b>\$ 300,737</b>	<b>\$ 404,621</b>	<b>\$ (375,090)</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	<b>100.00%</b>	<b>104.81%</b>	<b>97.47%</b>	<b>96.42%</b>	<b>103.52%</b>
<b>Covered Payroll</b>	<b>\$ 2,116,713</b>	<b>\$ 2,111,060</b>	<b>\$ 2,217,727</b>	<b>\$ 2,365,911</b>	<b>\$ 2,317,852</b>
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	<b>0.02%</b>	<b>-28.01%</b>	<b>13.56%</b>	<b>17.10%</b>	<b>-16.18%</b>

**COUNTY OF STEPHENS, TEXAS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**Budget**

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data.:

- a. Each September, the County prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the County Commissioner's Court (the "Commissioners") is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Commissioners.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Commission. Amendments are presented to the Commissioners at its regular meetings.

Each amendment must have Commissioners' approval. Such amendments are made before the fact, are reflected in the official minutes of the Commissioners and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level.

Budgeted amounts are as amended by the Commissioners. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at December 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

**Defined Benefit Pension Plan**

*Changes of benefit terms.*

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

*Changes of assumptions.*

There were no changes of assumptions that affected measurement of the net pension liability during the measurement period.

*OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION*

## Independent Auditor's Report

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

County Commission  
County of Stephens, Texas  
200 W. Walker  
Breckenridge, Texas 76424

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of County of Stephens, Texas (the "County") as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued my report thereon dated August 18, 2020.

#### Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, I do not express an opinion on the effectiveness of the County's internal control.

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

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether County of Stephens, Texas' financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County'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 County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Cameron L. Gulley  
Certified Public Accountant

August 18, 2020

**COUNTY OF STEPHENS, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

A. Summary of Auditor's Results

Type of auditor's report issued: Unmodified.

Internal control over financial reporting:

Material weakness(es) identified? None.

Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported.

Noncompliance material to financial statements noted? No.

An unmodified opinion was issued on the general purpose financial statements.

The audit disclosed no noncompliance which is material to the general purpose financial statements.

B. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

None reported.

C. Findings and Questioned Costs for Federal Awards

N/A.