

COUNTY OF STEPHENS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2015

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COUNTY OF STEPHENS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2015

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

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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, 2015, 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note K to the financial statements, the District adopted new accounting guidance, GASB Statements No. 68 and 71, Accounting and Reporting for Pensions and for Pension Transition of Contributions Made Subsequent to the Measurement Date. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule for the General Fund and Road and Bridge Fund, Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Contributions as listed in the table of contents 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. I have applied certain limited procedure 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated August 30, 2016, on my consideration of the County's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Cameron L. Gulley
Certified Public Accountant

August 30, 2016

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, 2015. 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.

These two statements report the County's net position and changes in them. The County's net position (the difference between assets and liabilities) provide one measure of the County's financial health, or financial position. Over time, increases or decreases in the County's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the County, however, you should consider nonfinancial factors as well, such as changes in the County's property tax base and the condition of the County's facilities.

In the Statement of Net Position and the Statement of Activities, the County has one activity:

Governmental activities - Most of the County's basic services are reported here, including public safety, maintenance of County roads, community services, and general administration. Property taxes, fines and other fees, and state and federal grants finance most of these services.

Reporting the County's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds - not the County as a whole. Laws and contracts require the County to establish some funds, such as a debt service fund used to provide sources of revenues to service the County's general obligation bonds. The County's administration establishes many other funds to help it control and manage money for particular purposes. The County's one kind of fund - governmental - uses the following accounting approach.

Governmental funds - Most of the County's basic services are reported in governmental funds. These use the modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the County's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total net position of the County's governmental activities decreased from \$18,477,877 to \$18,233,779. The primary reason for the decrease is due mainly to current year depreciation expense. Current and other assets decreased by approximately \$219,000 (consisting primarily of decreases in cash and receivables offset by increases in net pension assets). Capital assets decreased by approximately \$1,150,000 due to depreciation expense in excess of asset additions for the year. Long-term liabilities decreased by \$690,000 due to principal retirement on long-term debt. Other liabilities decreased by \$75,447 due to reductions in ending accounts payable and accrued liabilities. Deferred resource outflows totaling \$541,340 were related to amortizable costs to refund old outstanding bonds in excess of their carrying value plus deferred costs related to pension benefit liabilities. Deferred resource inflows totaling \$18,285 were related to deferred gains related to pension benefit obligations.

Table I
County of Stephens, Texas
Net Position

	Governmental Activities 2015	Governmental Activities 2014	Variance Increase/ (Decrease)
Current and other assets	\$ 6,986,195	\$ 7,205,628	\$ (219,433)
Capital assets	17,206,036	18,354,970	(1,148,934)
Deferred resource outflows	541,340	164,141	377,199
Total assets and deferred resource outflows	24,733,571	25,724,739	(991,168)
Long-term liabilities	6,250,720	6,940,628	(689,908)
Other liabilities	230,787	306,234	(75,447)
Deferred resource inflows	18,285	0	18,285
Total liabilities and deferred resource inflows	7,246,863	7,246,862	(747,070)
Net position:			
Net investment in capital assets	11,040,175	11,511,063	(470,888)
Restricted for debt service	353,394	379,717	(26,323)
Unrestricted	6,840,210	6,587,097	253,113
Total net position	\$ 18,233,779	\$ 18,477,877	\$ (244,098)

Table II
County of Stephens, Texas
Changes in Net Position

	Governmental Activities 2015	Governmental Activities 2014	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 1,015,721	\$ 1,008,790	\$ 6,931
Operating grants and contributions	432,560	496,511	(63,951)
General Revenues:			
Property taxes	4,778,649	5,884,108	(1,105,459)
Other taxes	10,968	12,434	(1,466)
Miscellaneous income	177,039	263,075	(86,036)
Investment earnings	66,247	131,667	(65,420)
Gain on sale of assets	0	38,372	(38,372)
Total Revenues	6,481,184	7,834,957	(1,353,773)
Expenses:			
Judicial	522,759	581,335	58,576
Public transportation	2,023,110	2,115,827	92,717
General government	1,881,471	2,023,215	141,744
Public facilities	245,589	215,237	(30,352)
Health and welfare	196,341	604,780	408,439
Public safety	2,304,062	2,413,134	109,072
Recreation and culture	24,908	27,287	2,379
Debt service	162,724	330,180	167,456
Total Expenses	7,360,964	8,310,995	950,031
Increase in Net Position	(879,780)	(476,038)	(403,742)
Net Position - beginning of year	18,477,877	19,322,915	(845,038)
Prior period adjustment	635,682	(369,000)	1,004,682
Net Position - end of year	\$ 18,233,779	\$ 18,477,877	\$ (244,098)

Total revenues of the County were down by \$1,353,773 from the previous year. Most of the net decrease was due to a sharp decline in property valuations within the County.

As a result of the drastic decline in property tax revenues, the County made significant reductions in expenses. Total expenses were reduced over \$950,000 from the previous year across nearly every departmental category. Public transportation expenses were lower due to cuts in road maintenance expenses. General government expenses were down due to cuts in general operating supplies and expenses related to technology improvements. Health and welfare expenses were lower due to reductions in subsidy payments to the local hospital district. Public safety expenses were cut in relation to reduced payroll and inmate costs. Debt service expense reductions were related to savings as a result of refinancing outstanding debt to lower interest rates in the previous year with benefits realized in the current 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 \$3,274,723, a decrease of \$33,250 in the County's governmental funds from last year's fund balance of \$3,307,973. This differs substantially from the decrease in net position reported above. Those differences are disclosed on the exhibits on pages 13 and 15 (primarily consisting of capitalized asset costs and depreciation expense).

The County's General Fund balance of \$2,240,322 reported on pages 12 and 14 differs from the projected budgetary fund balance of \$1,885,731 on page 30 due to both revenues and expenditures being more favorable than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2015, the County had \$45,808,441 invested in a broad range of capital assets including infrastructure, county government facilities and road and maintenance equipment. This amount represents an increase of \$92,246 from last fiscal year. This year's major additions included:

Public safety Chevrolet pickup	\$ 32,964
Public safety Chevrolet pickup	53,098
Public safety technology equipment	6,184
Total	\$ 92,246

Debt

At December 31, 2015, the County had two outstanding debt obligations in the forms of certificates of obligation. Payments on the outstanding obligations will final maturity in 2026. The County retired \$663,000 in principal on the loans for an ending balance of \$6,059,000. Future annual payments will approximate \$840,000 until fully retired in 2026. A summary of outstanding debt balances is as follows:

	2015	2014
Certificates of obligation	\$ 6,059,000	\$ 6,722,000
Total	\$ 6,059,000	\$ 6,722,000

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's financial health is expected to continue declining during the 2016 fiscal year. Budgeted revenues for next fiscal year are approximately \$1.07 million less they were for the 2015 fiscal year. Budgeted expenditures are approximately \$1.09 million less than they were for the 2015 fiscal year. The resulting budgeted deficit is projected to approximate \$408,000 with total fund balances of the County estimated to be \$2,867,000 at the end of the next fiscal year.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the County's finances and to show the County's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the County Treasurer's office at: County of Stephens, Texas, 200 W. Walker, Breckenridge, Texas 76424.

BASIC FINANCIAL STATEMENTS

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COUNTY OF STEPHENS, TEXAS
STATEMENT OF NET POSITION
DECEMBER 31, 2015

	Primary Govt Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 2,758,206
Property taxes receivable	3,394,898
Allowance for uncollectible taxes	(230,223)
Accounts receivable	688,224
Capital assets:	
Land	301,285
Infrastructure, net	6,553,994
Buildings and improvements, net	9,557,714
Furniture and equipment, net	793,043
Net pension asset	375,090
	24,192,231
DEFERRED RESOURCE OUTFLOWS	
Deferred resource outflow related to retirement	397,401
Deferred resource outflow related to refunded bond costs	143,939
	541,340
LIABILITIES	
Accounts payable	92,956
Accrued liabilities	78,751
Accrued interest payable	59,080
Noncurrent liabilities:	
Due within one year	679,000
Due in more than one year	5,571,720
	6,481,507
DEFERRED RESOURCE INFLOWS	
Deferred resource inflow related to retirement	18,285
	18,285
NET POSITION	
Net investment in capital assets	11,040,175
Restricted for debt service	353,394
Unrestricted net position	6,840,210
	\$ 18,233,779

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

COUNTY OF STEPHENS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
PRIMARY GOVERNMENT:				
Governmental activities:				
Judicial	\$ 522,759	\$ 2,252	\$	\$ (520,507)
Public transportation	2,023,110	451,508	265,806	(1,305,796)
General government	1,881,471	320,830	148,551	(1,412,090)
Public facilities	245,589			(245,589)
Health and welfare	196,341		15,370	(180,971)
Public safety	2,304,062	241,131	2,833	(2,060,098)
Recreation and culture	24,908			(24,908)
Debt service	162,724			(162,724)
TOTAL PRIMARY GOVERNMENT	\$ 7,360,964	\$ 1,015,721	\$ 432,560	(5,912,683)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				4,778,649
Other taxes				10,968
Investment and royalty earnings				66,247
Miscellaneous				177,039
Total general revenues				<u>5,032,903</u>
Change in net position				(879,780)
Net position - beginning of year				18,477,877
Prior period adjustment				<u>635,682</u>
Net position - ending				<u>\$ 18,233,779</u>

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

COUNTY OF STEPHENS, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General Fund	Road & Bridge Fund	Other Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,730,978	\$ 725,506	\$ 301,722	\$ 2,758,206
Property taxes	3,394,898			3,394,898
Allowance for uncollectible taxes (credit)	(230,223)			(230,223)
Accounts receivable	627,137	48,277	12,810	688,224
Total Assets	\$ 5,522,790	\$ 773,783	\$ 314,532	\$ 6,611,105
LIABILITIES				
Accounts payable	\$ 60,649	\$ 7,268	\$ 25,039	\$ 92,956
Accrued payroll	57,144	21,607		78,751
Total Liabilities	117,793	28,875	25,039	171,707
DEFERRED INFLOW OF RESOURCES				
Unavailable revenue - property taxes	3,164,675			3,164,675
Total Deferred Inflow of Resources	3,164,675	0	0	3,164,675
FUND BALANCES				
Restricted for:				
Retirement of long-term debt	353,394			353,394
Committed for:				
Other purposes			289,493	289,493
Unassigned	1,886,928	744,908		2,631,836
Total Fund Balances	2,240,322	744,908	289,493	3,274,723
Total Liabilities, Deferred Inflows & Fund Balances	\$ 5,522,790	\$ 773,783	\$ 314,532	\$ 6,611,105

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

COUNTY OF STEPHENS, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
DECEMBER 31, 2015

Total fund balances - governmental funds	\$ 3,274,723
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$45,713,958 and the accumulated depreciation was \$25,079,834. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.	11,511,063
2 Prior year property tax levies which are considered collectible are recognized as revenue in the accounting period in which levied. However, they are reported as a deferred resource in the fund level financial statements until received. Additionally, billed but uncollected receivables related to fines and fees are not recognizable as revenue until received in the fund level financial statements. The net effect of including the beginning balances for deferred revenues related to delinquent taxes receivable and fines and fees receivable in the governmental activities is to increase net position.	3,658,841
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2014 capital outlays and debt principal payments is to increase (decrease) net position.	755,246
4 Included in the noncurrent assets is the recognition of the County's net pension asset required by GASB 68 in the amount of \$375,090, a deferred resource inflow in the amount of (\$18,285) and a deferred resource outflow in the amount of \$397,401. This resulted in an increase in net position.	754,206
5 The 2015 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(1,241,180)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	(479,120)
Net position of governmental activities	\$ 18,233,779

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, 2015

	General Fund	Road & Bridge Fund	Other Funds	Total Governmental Funds
REVENUES:				
Property taxes	\$ 4,826,102	\$ 446,713	\$	\$ 5,272,815
Licenses and fees	387,727	436,257	191,737	1,015,721
Other taxes	10,968			10,968
State and federal grants and contracts	165,823	263,904	2,833	432,560
Investment earnings	18,782			18,782
Royalties	47,465			47,465
Miscellaneous revenues	135,065	41,974		177,039
Total revenues	<u>5,591,932</u>	<u>1,188,848</u>	<u>194,570</u>	<u>6,975,350</u>
EXPENDITURES:				
Judicial	519,875		10,492	530,367
Public transportation	24,144	1,229,179		1,253,323
General government	1,869,874		2,910	1,872,784
Public facilities	248,897			248,897
Health and welfare	91,393			91,393
Public safety	2,029,333		116,825	2,146,158
Recreation and culture	24,908			24,908
Debt service	840,770			840,770
Total expenditures	<u>5,649,194</u>	<u>1,229,179</u>	<u>130,227</u>	<u>7,008,600</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(57,262)</u>	<u>(40,331)</u>	<u>64,343</u>	<u>(33,250)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	(10,000)		10,000	0
Total other financing sources (uses)	<u>(10,000)</u>	<u>0</u>	<u>10,000</u>	<u>0</u>
Net change in fund balances	(67,262)	(40,331)	74,343	(33,250)
Fund balance - beginning	2,307,584	785,239	215,150	3,307,973
Adjustments to beginning fund balances				0
Fund balance - ending	<u>\$ 2,240,322</u>	<u>\$ 744,908</u>	<u>\$ 289,493</u>	<u>\$ 3,274,723</u>

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

COUNTY OF STEPHENS, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2015

Total net change in fund balances - governmental funds	\$ (33,250)
1 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2015 capital outlays and debt principal payments is to increase (decrease) net position.	755,246
2 Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(1,241,180)
3 The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/14 caused the change in the ending net position to increase in the amount of \$283,909. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling (\$278,142). The County's reported TCDRS net pension expense had t be recorded. The net pension expense increased the change in net position by \$112,757. The result of these changes is to increase the change in net position.	118,524
4 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unearned revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	(479,120)
Change in net position of governmental activities	\$ <u>(879,780)</u>

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, 2015

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.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The County considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the County to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The County applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

D. Fund accounting

The County reports the following major governmental funds:

1. **The General Fund** – The general fund is the County's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Road & Bridge Special Revenue Fund** - The County's activities for which revenues and assessments relative to vehicle licenses, permits and an allocated portion of property tax revenues for the purposes of supporting and maintaining the County's public transportation system are accounted for in these special revenue funds.

The County reports the following nonmajor fiduciary funds:

3. **Special Revenue Funds** - The County's activities for which revenues and assessments relative to specific revenue sources and uses can be used to support those specific programs are accounted for in these special revenue funds.

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
Infrastrucure	40
Vehicles	5
Equipment	10
Technology Equipment	5

6. Governmental fund balances are classified into the following categories:

Non-spendable fund balances include amounts that are not in spendable form (i.e. inventory or prepaid items) or amounts that are required to be maintained intact legally or contractually (i.e. principal in an endowment fund)

Restricted fund balances include amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed fund balances include amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

Assigned fund balances are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

County policies concerning fund balances are as follows:

The County's Unassigned General Fund Balance will be maintained to provide the County with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees.

Fund Balance of the County may be committed for a specific source by formal action of the County Commission. Amendments or modifications of the committed fund balance must also be approved by formal action of the County Commission.

When it is appropriate for fund balance to be assigned, only the County Commission has the authority to assign fund balance by formal action by the commissioners.

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: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

At December 31, 2015, the County's general fund balances were committed or assigned as follows:

Restricted for debt service	\$ 379,717.
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7. When the County incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.

II. Stewardship, compliance, and accountability

A. Budgetary data

The County Treasurer submits an annual budget to the County Commission in accordance with the County Charter. In September, the County Commission adopts annual fiscal year budgets for specified County funds. Budgets for the general fund are adopted on a basis consistent with U.S. generally accepted accounting principles. The budget is properly amended throughout the year.

B. Excess of expenditures over appropriations

Debt service - over budget by \$35,620.

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, 2015, the County had no investments..

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

Credit Risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the County limits investments in certificates of deposit or publicly funded investment pools to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of December 31, 2015, the County's investments in certificates of deposit and investment pools were rated A1 by Standard and Poor's.

Custodial Credit Risk for Investments - To limit the risk that, in the even of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the County requires counterparties to register the securities in the name of the County and hand them over to the County or its designated agent. This included securities in securities lending transactions. All of the securities are in the County's name and held by the County or its agent.

Concentration of Credit Risk - To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the County limits investments to less than 5% of its total investments. The County further limits investments in a single issuer when they would cause investment risk to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the County requires at least half of the investment portfolio to have maturities of less than one year on a weighted average maturity basis.

Foreign Currency Risk for Investments - The County limits the risk that changes in exchange rates will adversely affect the fair value of an investment by limiting all investments denominated in a foreign currency to zero.

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 2015 levy was based was approximately \$788,016,083. 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, 2015, was \$0.7418 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 36.01% and total tax collections were 109.63% of the tax levy.

C. Delinquent taxes receivable

Delinquent taxes are prorated between maintenance and special revenue funds based on rates adopted for the year of the levy. Allowances for uncollectible taxes receivable within the General and Road and Bridge Special Revenue Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically written off, but the County is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. Interfund balances and transfers

	Transfer In	Transfer Out	Purpose
General fund		\$ 10,000	Operating activities
Special revenue fund	10,000		Operating activities
	<u>\$ 10,000</u>	<u>\$ 10,000</u>	

E. Disaggregation of receivables and payables

Receivables at December 31, 2015 were as follows:

	Accounts	Taxes	Total Receivables
Governmental Activities:			
General Fund	\$627,137	\$3,394,898	\$4,022,035
Road & Bridge Fund	48,277		48,277
Special Revenue Funds	12,810		12,810
Total Governmental Activities	<u>\$688,224</u>	<u>\$3,394,898</u>	<u>\$4,083,122</u>

Payables at December 31, 2015 were as follows:

	Accounts	Accrued Payroll	Total Payables
Governmental Activities:			
General Fund	\$60,649	\$57,144	\$117,793
Road & Bridge Fund	7,268	21,607	28,875
Special Revenue Funds	25,039		25,039
Total Governmental Activities	<u>\$92,956</u>	<u>\$78,751</u>	<u>\$171,707</u>

F. Capital asset activity

Capital asset activity for the County for the year ended December 31, 2015, was as follows:

	Balance 12/31/14	Additions	Deletions	Balance 12/31/15
Governmental activities:				
Land	\$ 301,285			\$ 301,285
Infrastructure - roads	25,768,408			25,768,408
Buildings and improvements	15,294,152			15,294,152
Furniture and equipment	4,352,350	\$ 92,246		4,444,596
Totals	45,716,195	92,246		45,808,441
Less accum depreciation for:				
Infrastructure - roads	18,571,963	642,451		19,214,414
Buildings and improvements	5,425,241	311,197		5,736,438
Furniture and equipment	3,364,021	287,532		3,651,553
Total accum depreciation	27,361,225	1,241,180		28,602,405
Governmental activities capital assets, net	<u>\$18,354,970</u>	<u>\$(1,148,934)</u>	<u>\$ 0</u>	<u>\$17,206,036</u>

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

Governmental activities:	
General government	\$ 38,028
Public health and welfare	104,948
Public safety	299,506
Public transportation	798,698
Total depreciation expense - governmental activities	<u>\$1,241,180</u>

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 County 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 677 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 County, 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.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the County within the actuarial constraints imposed by the TCDRS Act so that 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 contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Contributions. The County has elected the annually determined contribution rate (ADCR) plan provisions if the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually.

Employees of the County were required to contribute 7.0% of their annual gross earnings during the fiscal year. The contribution rates for the County were 12.00% and 12.00% in calendar years 2014 and 2015, respectively. The County's contributions to TCDRS for the year ended December 31, 2015 were \$283,909 and were equal to the required contributions.

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 2015 information for a 7-10 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 2013.

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	16.50%	5.35%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	12.00%	8.35%
Global Equities	MSCI World (net) Index	1.50%	5.65%
International Equities - Developed	50% MSCI World Ex USA (Net) + 50% MSCI World ex USA 100% Hedged to USD (net) Index	11.00%	5.35%
International Equities - Emerging	50% MSCI EM Standard (net) Index + 50% MSCI EM 100% Hedged to USD (net) Index	9.00%	6.35%
Investment-Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	0.55%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.75%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	5.00%	5.54%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	2.00%	5.80%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	6.75%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	4.00%
Commodities	Bloomberg Commodities Index	2.00%	-0.20%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	5.30%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁴⁾	3.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	25.00%	5.15%
Total		100.00%	

(1) Target asset allocation adopted at the April 2015 TCDRS board meeting.

(2) Geometric real rates of return in addition to assumed inflation of 1.7%, per Cliffwater's 2015 capital market assumptions.

(3) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

(4) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

Changes in the Net Pension Liability. At December 31, 2014, the County reported a net pension liability /(asset) of (\$71,087). The changes in net pension liability (asset) were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/13	\$ 10,054,729	\$ 10,412,269	\$ (357,540)
Changes for the year:			
Service cost	295,394		295,394
Interest	807,530		807,530
Change in benefit terms			
Difference between expected/actual experience	(22,856)		(22,856)
Changes in assumptions			
Contributions - employer		278,142	(278,142)
Contributions - employee		162,250	(162,250)
Net investment income		706,673	(706,673)
Benefit payments, including refunds of employee contributions	(469,219)	(469,219)	0
Administrative expenses		(8,252)	8,252
Other charges		(41,195)	41,195
Net changes	610,849	628,399	(17,550)
Balance at 12/31/14	\$ 10,665,578	\$ 11,040,668	\$ (375,090)

The net pension liability was measured as of December 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date and for the year then ended.

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

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

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

	1% Decrease in Discount Rate (7.1%)	Discount Rate (8.1%)	1% Increase in Discount Rate (9.1%)
Net pension liability / (asset)	\$701,975	(\$375,090)	(\$1,283,212)

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

For the year ended December 31, 2015, the County recognized pension expense of \$165,386.

At December 31, 2015, the County 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)	\$	\$ 18,285
Changes in actuarial assumptions		
Differences between projected and actual investment earnings (net of current year amortization)	113,492	
Contributions subsequent to the measurement date	283,909	
Total	\$ 397,401	\$ 18,285

\$283,909 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, 2015. 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,	
2016	\$ 23,802
2017	\$ 23,802
2018	\$ 23,802
2019	\$ 23,802
2020	\$ 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	\$ 397,401	\$ 18,285
Deferred charge related to refunded bonds	143,939	
Total	<u>\$ 541,340</u>	<u>\$ 18,285</u>

J. Long-term debt

During the year ended December 31, 2015, the County had four outstanding loans payable as follows:

Issue	Beginning Balance	Advanced	Retired or Refunded	Ending Balance	Current Portion
\$9,000,000 Certificates of Obligation, Series 2008 bearing interest at 4.0262% due incrementally on 02/15 and 08/15 of each year until 02/15/2023.	\$595,000		\$595,000	\$0	N/A
\$410,000 Certificates of Obligation, Series 2011 bearing interest at 4.0% due incrementally on 06/01 and 12/01 of each year until 06/01/2026.	347,000		23,000	324,000	\$24,000
\$5,780,000 Certificates of Obligation, Series 2014 bearing interest variably from 2.0% to 3.0% due incrementally on 02/15 and 08/15 of each year until 02/15/2023.	5,780,000		45,000	5,735,000	655,000
Subtotal - notes and bonds payable	6,722,000		663,000	6,059,000	679,000
Bond premium, Certificates of Obligation, Series 2014	218,628		26,908	191,720	N/A
Total Long-Term Debt	\$6,940,628	\$0	\$689,908	\$6,250,720	\$679,000

Future debt service requirements are as follows:

Year ended December 31,	Principal	Interest	Total Requirements
2016	\$679,000	\$157,930	\$836,930
2017	695,000	143,700	838,700
2018	706,000	129,180	835,180
2019	727,000	110,820	837,820
2020	753,000	88,345	841,345
2021-2025	2,463,000	128,595	2,591,595
2026	36,000	720	36,720
Total	\$6,059,000	\$759,290	\$6,810,290

K. Prior period adjustment - change in accounting principles

During fiscal year 2015, the County adopted GASB Statements No. 68 and 71 related to Accounting and Reporting for Pensions and for Pension Transition of Contributions Made Subsequent to the Measurement Date. With GASB 68 and 71, the County assumed their Net Pension Asset/(Liability) of the Texas County and District Retirement System. Adoption of Statements required a prior period adjustment to report the effects of GASB 68 and 71 retroactively. The amount of the prior period adjustment is \$635,682. The restated beginning net position is \$19,113,559.

L. Subsequent event

Management has evaluated subsequent events through September 12, 2016; the date which the financial statements were available for distribution. There were none noted.

M. Implementation of new GASB statements

The Governmental Accounting Standards Board ("GASB") has issued several new pronouncements that the County has reviewed for application to their accounting and reporting as follows:

In February 2015, the GASB issued Statement No. *72 Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The County has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. *73 Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pension that are within their respective scopes. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. There should be no impact to the financial statements of the County.

In June 2015, the GASB issued Statement No. *74 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes new accounting and financial reporting requirements for governments whose employees are provided with other postemployment benefits (OPEB), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The County has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. *75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to other postemployment benefits (OPEB). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The County has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

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REQUIRED SUPPLEMENTARY INFORMATION

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COUNTY OF STEPHENS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 4,923,424	\$ 4,923,424	\$ 4,826,102	\$ (97,322)
Licenses and fees	255,773	255,773	387,727	131,954
Other taxes	8,500	8,500	10,968	2,468
State and federal grants and contracts	59,000	59,000	165,823	106,823
Investment earnings	11,042	11,042	18,782	7,740
Royalties	77,235	77,235	47,465	(29,770)
Miscellaneous revenues	65,746	65,746	135,065	69,319
Total revenues	5,400,720	5,400,720	5,591,932	191,212
EXPENDITURES:				
Judicial	534,537	534,537	519,875	14,662
Public transportation	26,801	26,801	24,144	2,657
General government	1,964,456	1,964,456	1,869,874	94,582
Public facilities	250,698	250,698	248,897	1,801
Health and welfare	94,032	94,032	91,393	2,639
Public safety	2,106,211	2,106,211	2,029,333	76,878
Recreation and culture	25,688	25,688	24,908	780
Debt service	805,150	805,150	840,770	(35,620)
Total expenditures	5,807,573	5,807,573	5,649,194	158,379
Excess (deficiency) of revenues over (under) expenditures	(406,853)	(406,853)	(57,262)	349,591
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	(15,000)	(15,000)	(10,000)	5,000
Total other financing sources (uses)	(15,000)	(15,000)	(10,000)	5,000
Net change in fund balances	(421,853)	(421,853)	(67,262)	354,591
Fund balance - beginning	2,307,584	2,307,584	2,307,584	0
Adjustments to beginning fund balances	0	0	0	0
Fund balance - ending	\$ 1,885,731	\$ 1,885,731	\$ 2,240,322	\$ 354,591

COUNTY OF STEPHENS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - ROAD & BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 638,543	\$ 638,543	\$ 446,713	\$ (191,830)
Licenses and fees	445,288	445,288	436,257	(9,031)
Other taxes	0	0		0
State and federal grants and contracts	459,026	459,026	263,904	(195,122)
Investment earnings	0	0		0
Royalties	0	0		0
Miscellaneous revenues	8,368	8,368	41,974	33,606
Total revenues	<u>1,551,225</u>	<u>1,551,225</u>	<u>1,188,848</u>	<u>(362,377)</u>
EXPENDITURES:				
Judicial	0	0		0
Public transportation	1,578,061	1,578,061	1,229,179	348,882
General government	0	0		0
Public facilities	0	0		0
Health and welfare	0	0		0
Public safety	0	0		0
Recreation and culture	0	0		0
Debt service	0	0		0
Total expenditures	<u>1,578,061</u>	<u>1,578,061</u>	<u>1,229,179</u>	<u>348,882</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(26,836)</u>	<u>(26,836)</u>	<u>(40,331)</u>	<u>(13,495)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	0	0		0
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balances	<u>(26,836)</u>	<u>(26,836)</u>	<u>(40,331)</u>	<u>(13,495)</u>
Fund balance - beginning	785,239	785,239	785,239	0
Adjustments to beginning fund balances				0
Fund balance - ending	<u>\$ 758,403</u>	<u>\$ 758,403</u>	<u>\$ 744,908</u>	<u>\$ (13,495)</u>

STEPHENS COUNTY, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2015

	2014
Total Pension Liability	
Service cost	\$ 295,394
Interest (on the total pension liability)	807,530
Changes of benefit terms	-
Difference between expected and actual experience	(22,856)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(469,219)
Net Change in Total Pension Liability	610,849
Total Pension Liability - Beginning	10,054,729
Total Pension Liability - Ending (a)	\$ 10,665,578
 Plan Fiduciary Net Position	
Contributions - employer	\$ 278,142
Contributions - employee	162,250
Net investment income	706,673
Benefit payments, including refunds of employee contributions	(469,219)
Administrative expense	(8,252)
Other	(41,195)
Net Change in Plan Fiduciary Net Position	628,399
Plan Fiduciary Net Position - Beginning	10,412,269
Plan Fiduciary Net Position - Ending (b)	\$ 11,040,668
 Net Pension Liability - Ending (a) - (b)	\$ (375,090)
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	103.52%
 Covered Employee Payroll	\$ 2,317,852
 Net Pension Liability as a Percentage of Covered Employee Payroll	-16.18%

STEPHENS COUNTY, TEXAS
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015	2014
Actuarially determined contribution	\$ 283,909	\$ 278,142
Contributions in relation to actuarially determined contribution	(283,909)	(278,142)
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 2,365,906	\$ 2,317,852
Contributions as a percentage of covered employee payroll	12.00%	12.00%

STEPHENS COUNTY, TEXAS
NOTES TO SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2015

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.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	2.0 years
Asset Valuation Method	5-yr smoothed value; Fund value
Inflation	3.0%
Salary Increases	4.9%
Investment Rate of Return	8.0%
Retirement Age	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 8 years but must leave his accumulated contributions in the plan to receive any employer-financed benefit.
Mortality	The RP2000 Active Employee Mortality Table for males with a two-year set-forward and a four-year setback for females with the projection scale AA.

Other Information: There were no benefit changes during the year.

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OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION

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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, 2015, 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 30, 2016.

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 30, 2016

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COUNTY OF STEPHENS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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.

COUNTY OF STEPHENS, TEXAS
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

None reported.