

COUNTY OF STEPHENS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2017

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COUNTY OF STEPHENS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2017

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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, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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, 2017, 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.

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 27, 2018, 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 27, 2018

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, 2017. 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 \$17,391,569 to \$14,617,746. The primary reason for the decrease is removal of assets related to the former County Hospital spun off as a separate entity. The beginning balance adjustment necessary to remove those assets totaled \$2,119,310 which was the main source of the decrease in net position for the year. Current and other assets decreased by approximately \$472,000 (consisting primarily of decreases in receivables). Capital assets decreased by approximately \$2,960,000 due to removal of hospital assets discussed above and for depreciation expense in excess of asset additions for the year. Long-term liabilities decreased by \$825,792 due to principal retirement on long-term debt offset by increases in net pension liabilities. Other liabilities decreased by \$30,000 due to reductions in ending accounts payable and accrued liabilities. Decreases in deferred resource outflows and inflows totaling \$220,290 and \$24,973, respectively, were related to deferred costs related to pension benefit liabilities.

Table I
County of Stephens, Texas
Net Position

	Governmental Activities 2017	Governmental Activities 2016	Variance Increase/ (Decrease)
Current and other assets	\$ 5,767,018	\$ 6,239,048	\$ (472,030)
Capital assets	13,055,366	16,017,147	(2,961,781)
Deferred resource outflows	1,122,113	1,342,403	(220,290)
Total assets and deferred resource outflows	19,944,497	23,598,598	(3,654,101)
Long-term liabilities	5,123,641	5,949,433	(825,792)
Other liabilities	153,163	182,676	(29,513)
Deferred resource inflows	49,947	74,920	(24,973)
Total liabilities and deferred resource inflows	5,326,751	6,207,029	(880,278)
Net position:			
Net investment in capital assets	8,288,017	10,542,984	(2,254,967)
Restricted for debt service	468,651	419,151	49,500
Unrestricted	5,861,078	6,429,434	(568,356)
Total net position	\$ 14,617,746	\$ 17,391,569	\$ (2,773,823)

Table II
County of Stephens, Texas
Changes in Net Position

	Governmental Activities 2017	Governmental Activities 2016	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 939,164	\$ 978,586	\$ (39,422)
Operating grants and contributions	797,673	468,673	329,000
General Revenues:			
Property taxes	4,150,243	4,181,265	(31,022)
Other taxes	12,268	15,183	(2,915)
Miscellaneous income	172,972	246,469	(73,497)
Investment earnings	75,412	63,771	11,641
Gain on sale of assets	2,500	10,000	(7,500)
Total Revenues	6,150,232	5,963,947	186,285
Expenses:			
Judicial	498,475	509,003	10,528
Public transportation	2,197,422	2,032,127	(165,295)
General government	1,663,471	1,662,936	(535)
Public facilities	211,605	192,751	(18,854)
Health and welfare	81,223	175,679	94,456
Public safety	2,005,248	2,069,732	64,484
Recreation and culture	15,015	17,897	2,882
Debt service	132,286	146,032	13,746
Total Expenses	6,804,745	6,806,157	1,412
Increase in Net Position	(654,513)	(842,210)	187,697
Net Position - beginning of year	17,391,569	18,233,779	(842,210)
Prior period adjustment	(2,119,310)	0	(2,119,310)
Net Position - end of year	\$ 14,617,746	\$ 17,391,569	\$ (2,773,823)

Total revenues of the County were higher by \$186,285 from the previous year. Most of the net increase was due to grants and contributions received during the year related to FEMA disaster funds and for a fire truck financed mostly by a Texas Forest Service grant. Other revenues were fairly consistent with last year.

Overall County expenses were nearly the same as last year with only a modest decrease of \$1,412 in total expenses for the year. Increases in public transportation expenses for the year were related to FEMA disaster rehabilitation costs incurred this year. Health and welfare expenses were lower due to the removal of hospital assets and their related current year depreciation expense this year. Public safety expenses were lower due to cost-cutting measures at the County jail.

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 \$3,129,128, a decrease of \$442,017 in the County's governmental funds from last year's fund balance of \$3,571,145. 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 \$2,159,552 reported on pages 12 and 14 differs from the projected budgetary fund balance of \$1,824,977 on page 29 due to both revenues and expenditures being more favorable than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2017, the County had \$39,622,023 invested in a broad range of capital assets including infrastructure, county government facilities and road and maintenance equipment. This amount represents an increase of \$241,905 from last fiscal year (net of asset dispositions). This year's major additions included:

Fire truck	\$ 223,700
Used 35' trailer	7,800
Internet connectivity improvements	33,740
Total	\$ 265,240

Debt

At December 31, 2017, 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 \$695,000 in principal on the loans for an ending balance of \$4,685,000. Future annual payments will approximate \$840,000 until fully retired in 2026. A summary of outstanding debt balances is as follows:

	2017	2016
Certificates of obligation	\$ 4,685,000	\$ 5,380,000

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's financial health is expected to continue deteriorating during the 2018 fiscal year. The trend of declining previous years' tax valuations have stopped with the levy used for the 2018 budget slightly higher than from last fiscal year. Budgeted revenues for next fiscal year are approximately \$5.37 million. Budgeted expenditures are approximately \$5.39 million. The resulting budgeted deficit is projected to approximate \$20,000 with total fund balances of the County estimated to be \$3,100,000 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, 2017

	Primary Govt Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 2,861,852
Property taxes receivable	2,803,638
Allowance for uncollectible taxes	(270,931)
Accounts receivable	372,459
Capital assets:	
Land	38,317
Infrastructure, net	5,413,816
Buildings and improvements, net	7,059,063
Furniture and equipment, net	544,170
Total assets	18,822,384
DEFERRED RESOURCE OUTFLOWS	
Deferred resource outflow related to retirement	1,018,578
Deferred resource outflow related to refunded bond costs	103,535
Total deferred resource outflows	1,122,113
LIABILITIES	
Accounts payable	105,183
Accrued liabilities	0
Accrued interest payable	47,980
Noncurrent liabilities:	
Due within one year	706,000
Due in more than one year	4,417,641
Total liabilities	5,276,804
DEFERRED RESOURCE INFLOWS	
Deferred resource inflow related to retirement	49,947
Total deferred resource inflows	49,947
NET POSITION	
Net investment in capital assets	8,288,017
Restricted for debt service	468,651
Unrestricted net position	5,861,078
Total net position	\$ 14,617,746

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, 2017

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position Primary Gov. Governmental Activities
PRIMARY GOVERNMENT:				
Governmental activities:				
Judicial	\$ 498,475	\$ 2,295	\$ 52,836	\$ (443,344)
Public transportation	2,197,422	499,562	509,718	(1,188,142)
General government	1,663,471	244,345	25,200	(1,393,926)
Public facilities	211,605	-	-	(211,605)
Health and welfare	81,223	-	-	(81,223)
Public safety	2,005,248	192,962	209,919	(1,602,367)
Recreation and culture	15,015	-	-	(15,015)
Debt service	132,286	-	-	(132,286)
TOTAL PRIMARY GOVERNMENT	\$ 6,804,745	\$ 939,164	\$ 797,673	(5,067,908)

General revenues:

Taxes:	
Property taxes, levied for general purposes	4,150,243
Other taxes	12,268
Investment and royalty earnings	75,412
Gain on sale of assets	2,500
Miscellaneous	172,972
Total general revenues	4,413,395
Change in net position	(654,513)
Net position - beginning of year	17,391,569
Prior period adjustment	(2,119,310)
Net position - ending	\$ 14,617,746

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

COUNTY OF STEPHENS, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	General Fund	Road & Bridge Fund	Other Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,903,513	\$ 622,476	\$ 335,863	\$ 2,861,852
Property taxes	2,803,638	-	-	2,803,638
Allowance for uncollectible taxes (credit)	(270,931)	-	-	(270,931)
Accounts receivable	329,149	32,836	10,474	372,459
Total Assets	\$ 4,765,369	\$ 655,312	\$ 346,337	\$ 5,767,018
LIABILITIES				
Accounts payable	\$ 73,110	\$ 9,609	\$ 22,464	\$ 105,183
Accrued payroll	0	(0)	-	0
Total Liabilities	73,110	9,609	22,464	105,183
DEFERRED INFLOW OF RESOURCES				
Unavailable revenue - property taxes	2,532,707	-	-	2,532,707
Total Deferred Inflow of Resources	2,532,707	-	-	2,532,707
FUND BALANCES				
Restricted for:				
Retirement of long-term debt	468,651	-	-	468,651
Committed for:				
Other purposes	-	-	323,873	323,873
Unassigned	1,690,901	645,703		2,336,604
Total Fund Balances	2,159,552	645,703	323,873	3,129,128
Total Liabilities, Deferred Inflows & Fund Balances	\$ 4,765,369	\$ 655,312	\$ 346,337	\$ 5,767,018

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, 2017

	Total fund balances - governmental funds	\$ 3,129,128
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 \$39,380,118 and the accumulated depreciation was \$25,482,281. 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.	8,423,674
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.	2,538,315
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 capital outlays and debt principal payments is to increase (decrease) net position.	960,240
4	Included in the noncurrent assets is the recognition of the County's net pension liability required by GASB 68 in the amount of \$300,737, a deferred resource inflow in the amount of \$49,947 and a deferred resource outflow in the amount of \$1,018,578. This resulted in an increase in net position.	667,894
5	Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(1,107,711)
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.	6,206
	Net position of governmental activities	\$ 14,617,746

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, 2017

	General Fund	Road & Bridge Fund	Other Funds	Total Governmental Funds
REVENUES:				
Property taxes	\$ 3,808,572	\$ 347,279	\$ -	\$ 4,155,851
Licenses and fees	332,552	440,087	166,525	939,164
Other taxes	12,268	-	-	12,268
State and federal grants and contracts	297,774	497,480	2,419	797,673
Investment earnings	16,725	-	-	16,725
Royalties	58,687	-	-	58,687
Miscellaneous revenues	132,511	37,267	3,194	172,972
Total revenues	<u>4,659,089</u>	<u>1,322,113</u>	<u>172,138</u>	<u>6,153,340</u>
EXPENDITURES:				
Judicial	480,846	-	13,638	494,484
Public transportation	45,667	1,348,948	-	1,394,615
General government	1,605,033	-	56,624	1,661,657
Public facilities	210,178	-	-	210,178
Health and welfare	81,223	-	-	81,223
Public safety	1,803,114	-	98,471	1,901,585
Recreation and culture	15,015	-	-	15,015
Debt service	839,100	-	-	839,100
Total expenditures	<u>5,080,176</u>	<u>1,348,948</u>	<u>168,733</u>	<u>6,597,857</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(421,087)</u>	<u>(26,835)</u>	<u>3,405</u>	<u>(444,517)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	-	-	-	-
Sale of assets	-	2,500	-	2,500
Proceeds from long-term notes payable	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>2,500</u>	<u>-</u>	<u>2,500</u>
Net change in fund balances	(421,087)	(24,335)	3,405	(442,017)
Fund balance - beginning	2,580,639	670,038	320,468	3,571,145
Fund balance - ending	<u>\$ 2,159,552</u>	<u>\$ 645,703</u>	<u>\$ 323,873</u>	<u>\$ 3,129,128</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, 2017

Total net change in fund balances - governmental funds	\$ (442,017)
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 capital outlays and debt principal payments is to increase (decrease) net position.	960,240
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.	(1,107,711)
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 12/31/16 caused the change in the ending net position to increase in the amount of \$253,327. 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 (\$266,127). The County's reported TCDRS net pension expense had to be recorded. The net pension expense decreased the change in net position by (\$58,431). The result of these changes is to decrease the change in net position.	(71,231)
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.	6,206
Change in net position of governmental activities	\$ (654,513)

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, 2017

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, 2017, the County's general fund balances were committed or assigned as follows:

Restricted for debt service	\$ 468,651.
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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 \$36,500.

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, 2017, 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 2017 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, 2017, 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.

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

None.

E. Disaggregation of receivables and payables

Receivables at December 31, 2017 were as follows:

	Accounts	Taxes	Total Receivables
Governmental Activities:			
General Fund	\$329,149	\$2,803,638	\$3,132,787
Road & Bridge Fund	32,836		32,836
Special Revenue Funds	10,474		10,474
Total Governmental Activities	<u>\$372,459</u>	<u>\$2,803,638</u>	<u>\$3,176,097</u>

Payables at December 31, 2017 were as follows:

	Accounts	Accrued Payroll	Total Payables
Governmental Activities:			
General Fund	\$73,110		\$73,110
Road & Bridge Fund	9,609		9,609
Special Revenue Funds	22,464		22,464
Total Governmental Activities	<u>\$105,183</u>	<u>\$0</u>	<u>\$105,183</u>

F. Capital asset activity

Capital asset activity for the County for the year ended December 31, 2017, was as follows:

	(restated) Balance 12/31/16	Additions	Deletions	Balance 12/31/17
Governmental activities:				
Land	\$ 38,317	\$	\$	\$ 38,317
Infrastructure - roads	25,822,876			25,822,876
Buildings and improvements	9,110,595	33,740		9,144,335
Furniture and equipment	4,408,330	231,500	\$ 23,335	4,616,495
Totals	<u>39,380,118</u>	<u>265,240</u>	<u>23,335</u>	<u>39,622,023</u>
Less accum depreciation for:				
Infrastructure - roads	19,770,710	638,350		20,409,060
Buildings and improvements	1,860,906	224,366		2,085,272
Furniture and equipment	3,850,665	244,995	23,335	4,072,325
Total accum depreciation	<u>25,482,281</u>	<u>1,107,711</u>	<u>23,335</u>	<u>26,566,657</u>
Governmental activities capital assets, net	<u>\$13,897,837</u>	<u>\$ (842,471)</u>	<u>\$ 0</u>	<u>\$13,055,366</u>

See Footnote M. related to beginning balance adjustments for assets listed above.

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

Governmental activities:

General government	\$ 17,255
Public safety	299,587
Public transportation	790,869
Total depreciation expense - governmental activities	<u>\$1,107,711</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 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.

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 District 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. A combination of three elements funds each employer's plan: employee deposits, employer contributions and investment income.

- The deposit rate for employees is 4%, 5%, 6% or 7% of compensation, as adopted by the employer's governing body.
- Participating employers are required, by law, to contribute at actuarially determined rates, which are determined annually.
- Investment income funds a large part of the benefits employees earn.

Employers have the option of paying more than the required contribution rate each year. Extra contributions can help employers "prefund" benefit increases, such as a cost-of-living adjustment to retirees, and they can be used to help offset or mitigate future increases in the required rate due to negative plan experience. There are two approaches for making extra contributions: (a) paying an elected contribution rate higher than the required rate and (b) making an extra lump-sum contribution to the employer account.

Contribution Rates		
	2016	2017
Employee	7.00%	7.00%
Employer	12.00%	12.00%
Fiscal year 2017 employer contributions		\$ 253,327
Fiscal year 2017 employee contributions		\$ 147,774

The District's contributions to TCDRS for the year ended December 31, 2017 were equal to the required contributions.

Actuarial Assumptions. TCDRS is a statewide, agent multiple-employer, public-employee retirement system. The system serves approximately 700 participating counties and districts throughout Texas. Each employer maintains its own customized plan of benefits. Plan provisions are adopted by the governing body of each employer, within the options available in the TCDRS Act. Because of that, employers have the flexibility and local control to select benefits and pay for those benefits based on their needs and budgets.

Each employer has a 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.

A percentage of each employee's paycheck is deposited into his or her TCDRS account. That percentage (from 4% to 7%) is set by the employer.

The employee's savings grow, by law, at a rate of 7%, compounded annually. The employer selects a matching rate - at least "dollar for dollar," up to \$2.50 per \$1.00 in the employee's account. At retirement, the employee's account balance is combined with employer matching and converted into a lifetime monthly benefit.

Employees receive a month of service time for each month that they make a deposit into their account. The amount of service an employee needs to earn a future benefit is called the vesting requirement. When an employee is vested, he or she has the right to a monthly benefit, which includes employer matching, at age 60 or older. Employers may choose 5-, 8- or 10-year vesting. In addition, employees may retire before age 60 if they meet one of the following requirements, set by the 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, 2016 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll; closed
Remaining Amortization Period	1.8 years
Asset Valuation Method	5-year smoothed market
Inflation	3.0%
Salary Increases	Varies by age and service
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	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions	None.

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 2016 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	Target Allocation	Geometric Real Rate of Return
US Equities	14.50%	5.45%
International Equities - Developed	10.00%	5.45%
International Equities - Emerging	8.00%	6.45%
Global Equities	1.50%	5.75%
Hedge Funds	25.00%	5.25%
High-Yield Bonds	3.00%	5.10%
Opportunistic Credit	2.00%	5.09%
Distressed Debt	3.00%	8.10%
Direct Lending	5.00%	6.40%
Private Equity	14.00%	8.45%
REIT Equities	3.00%	4.00%
Private Real Estate Partnerships	5.00%	6.90%
Master Limited Partnerships (MLPs)	3.00%	6.80%
Investment-Grade Bonds	3.00%	1.00%
Total	100.00%	

Changes in the Net Pension Liability. At December 31, 2016, the District reported a net pension liability /(asset) of \$300,737. 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 12/31/15	\$11,312,300	\$ 10,907,679	\$ 404,621
Changes for the year:			
Service cost	284,960		284,960
Interest	902,308		902,308
Change in benefit terms			
Difference between expected/actual experience	11,204		11,204
Changes in assumptions			
Contributions - employer		266,134	(266,134)
Contributions - employee		155,241	(155,241)
Net investment income		806,459	(806,459)
Benefit payments, including refunds of employee contributions	(637,209)	(637,209)	0
Administrative expenses		(8,758)	8,758
Other charges		83,280	(83,280)
Net changes	561,263	665,147	(103,884)
Balance at 12/31/16	\$ 11,873,563	\$ 11,572,826	\$ 300,737

The net pension liability was measured as of December 31, 2016 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 8.1%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.1%) or 1 percentage point higher (9.1%) 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)	\$ 1,503,826	\$ 300,737	\$ (724,059)

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

For the year ended December 31, 2017, the District recognized pension expense of \$324,564.

At December 31, 2017, 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)	\$ 8,403	\$ 49,947
Changes in actuarial assumptions (net of current year amortization)	60,989	
Differences between projected and actual investment earnings (net of current year amortization)	695,859	
Contributions subsequent to the measurement date	253,327	
Total	\$ 1,018,578	\$ 49,947

\$253,327 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, 2018. 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,	
2018	\$ 244,970
2019	\$ 244,968
2020	\$ 211,075
2021	\$ 14,291
2022	\$ 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	\$ 1,018,578	\$ 49,947
Deferred charge related to refunded bonds	103,535	
Total	<u>\$ 1,122,113</u>	<u>\$ 49,947</u>

J. Long-term debt

During the year ended December 31, 2017, the County had four outstanding loans payable as follows:

Issue	Beginning Balance	Advanced	Retired or Refunded	Ending Balance	Current Portion
\$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.	\$ 300,000		\$ 25,000	\$ 275,000	\$ 26,000
\$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.	5,080,000		670,000	4,410,000	680,000
Subtotal - notes and bonds payable	5,380,000		695,000	4,685,000	695,000
Bond premium, Certificates of Obligation, Series 2014	164,812		26,908	137,904	N/A
Total Long-Term Debt	<u>\$ 5,544,812</u>	<u>\$ 0</u>	<u>\$ 721,908</u>	<u>\$ 4,822,904</u>	<u>\$ 706,000</u>

Future debt service requirements are as follows:

Year ended December 31,	Principal	Interest	Total Requirements
2018	\$706,000	\$129,180	\$835,180
2019	727,000	110,820	837,820
2020	753,000	88,345	841,345
2021	774,000	65,155	839,155
2022	800,000	41,250	841,250
2023-2026	925,000	22,910	947,910
Total	\$4,685,000	\$457,660	\$5,142,660

K. Non-current liabilities

Changes in non-current liabilities are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Long-term debt	\$ 5,380,000		\$ 695,000	\$ 4,685,000
Bond premium	164,812		26,908	137,904
Net pension liability	404,621	1,123,950	1,227,834	300,737
Total non-current liabilities	\$ 5,949,433	\$ 1,123,950	1,949,742	\$ 5,123,641

L. Subsequent event

Management has evaluated subsequent events through August 27, 2018; the date which the financial statements were available for distribution. There were none noted.

M. Prior period adjustment

A prior period adjustment was necessary to restate beginning net position as a result of assets removed for the former County Hospital which was spun off into a separate legal taxing authority. Original asset basis and related accumulated depreciation on those assets removed totaled \$2,119,310. Balances in beginning capital assets in Footnote F. above were also restated.

N. 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 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.

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, 2017

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 3,590,741	\$ 3,590,741	\$ 3,808,572	\$ 217,831
Licenses and fees	434,840	434,840	332,552	(102,288)
Other taxes	16,510	16,510	12,268	(4,242)
State and federal grants and contracts	126,100	126,100	297,774	171,674
Investment earnings	20,129	20,129	16,725	(3,404)
Royalties	50,000	50,000	58,687	8,687
Miscellaneous revenues	175,000	175,000	132,511	(42,489)
Total revenues	<u>4,413,320</u>	<u>4,413,320</u>	<u>4,659,089</u>	<u>245,769</u>
EXPENDITURES:				
Judicial	379,701	495,681	480,846	14,835
Public transportation	16,915	51,896	45,667	6,229
General government	1,355,597	1,633,494	1,605,033	28,461
Public facilities	146,981	211,805	210,178	1,627
Health and welfare	65,600	81,698	81,223	475
Public safety	1,550,999	1,877,044	1,803,114	73,930
Recreation and culture	16,200	14,764	15,015	(251)
Debt service	802,600	802,600	839,100	(36,500)
Total expenditures	<u>4,334,593</u>	<u>5,168,982</u>	<u>5,080,176</u>	<u>88,806</u>
Excess (deficiency) of revenues over (under) expenditures	<u>78,727</u>	<u>(755,662)</u>	<u>(421,087)</u>	<u>334,575</u>
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	-	-	-	-
Sale of assets	-	-	-	-
Proceeds from long-term notes payable	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	78,727	(755,662)	(421,087)	334,575
Fund balance - beginning	2,580,639	2,580,639	2,580,639	-
Fund balance - ending	<u>\$ 2,659,366</u>	<u>\$ 1,824,977</u>	<u>\$ 2,159,552</u>	<u>\$ 334,575</u>

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, 2017

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 291,346	\$ 291,346	\$ 347,279	\$ 55,933
Licenses and fees	469,960	469,960	440,087	(29,873)
Other taxes	-	-	-	-
State and federal grants and contracts	83,334	83,334	497,480	414,146
Investment earnings	-	-	-	-
Royalties	-	-	-	-
Miscellaneous revenues	41,500	41,500	37,267	(4,233)
Total revenues	<u>886,140</u>	<u>886,140</u>	<u>1,322,113</u>	<u>435,973</u>
EXPENDITURES:				
Judicial	-	-	-	-
Public transportation	1,039,228	1,358,895	1,348,948	9,947
General government	-	-	-	-
Public facilities	-	-	-	-
Health and welfare	-	-	-	-
Public safety	-	-	-	-
Recreation and culture	-	-	-	-
Debt service	-	-	-	-
Total expenditures	<u>1,039,228</u>	<u>1,358,895</u>	<u>1,348,948</u>	<u>9,947</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(153,088)</u>	<u>(472,755)</u>	<u>(26,835)</u>	<u>445,920</u>
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	-	-	-	-
Sale of assets	-	-	2,500	2,500
Proceeds from long-term notes payable	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>2,500</u>	<u>2,500</u>
Net change in fund balances	(153,088)	(472,755)	(24,335)	448,420
Fund balance - beginning	670,038	670,038	670,038	-
Fund balance - ending	<u>\$ 516,950</u>	<u>\$ 197,283</u>	<u>\$ 645,703</u>	<u>\$ 448,420</u>

COUNTY OF STEPHENS, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Plan Year Ended December 31,		
	2016	2015	2014
Total Pension Liability			
Service cost	\$ 284,960	\$ 288,396	\$ 295,394
Interest (on the total pension liability)	902,308	858,733	807,530
Changes of benefit terms	-	(23,872)	-
Difference between expected and actual experience	11,204	(81,608)	(22,856)
Change of assumptions	-	121,979	-
Benefit payments, including refunds of employee contributions	(637,209)	(516,906)	(469,219)
Net Change in Total Pension Liability	561,263	646,722	610,849
Total Pension Liability - Beginning	11,312,300	10,665,578	10,054,729
Total Pension Liability - Ending (a)	<u>\$ 11,873,563</u>	<u>\$ 11,312,300</u>	<u>\$ 10,665,578</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 266,134	\$ 283,909	\$ 278,142
Contributions - employee	155,241	165,614	162,250
Net investment income	806,459	(70,234)	706,673
Benefit payments, including refunds of employee contributions	(637,209)	(516,906)	(469,219)
Administrative expense	(8,758)	(7,884)	(8,252)
Other	83,280	12,513	(41,195)
Net Change in Plan Fiduciary Net Position	665,147	(132,988)	628,399
Plan Fiduciary Net Position - Beginning	10,907,679	11,040,667	10,412,269
Plan Fiduciary Net Position - Ending (b)	<u>\$ 11,572,826</u>	<u>\$ 10,907,679</u>	<u>\$ 11,040,668</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 300,737</u>	<u>\$ 404,621</u>	<u>\$ (375,090)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	97.47%	96.42%	103.52%
Covered Employee Payroll	\$ 2,217,727	\$ 2,365,911	\$ 2,317,852
Net Pension Liability as a Percentage of Covered Employee Payroll	13.56%	17.10%	-16.18%

COUNTY OF STEPHENS, TEXAS
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Fiscal Year Ended December 31,		
	2017	2016	2015
Actuarially determined contribution	\$ 253,327	\$ 266,127	\$ 283,909
Contributions in relation to actuarially determined contribution	<u>(253,327)</u>	<u>(266,127)</u>	<u>(283,909)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 2,111,055	\$ 2,217,725	\$ 2,365,906
Contributions as a percentage of covered employee payroll	12.00%	12.00%	12.00%

COUNTY OF STEPHENS, TEXAS
NOTES TO SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

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	1.8 years
Asset Valuation Method	5-yr smoothed market
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.0%, net of investment expenses, including inflation.
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	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.

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, 2017, 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 27, 2018.

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 27, 2018

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COUNTY OF STEPHENS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017

None reported.