



To The Honorable County Judge and
Commissioners Comprising the
Commissioners' Court of
Wheeler County, Texas

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wheeler County, Texas as of and for the year ended September 30, 2016, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Wheeler County, Texas, as of September 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of changes in net pension liability and related ratios, and the schedule of employer contributions on pages 31 – 35 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 or economic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The County has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. The MD&A, 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. The independent auditors' opinion is not affected by the omission of the MD&A.

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Wheeler County, Texas' financial statements as a whole. The combining non-major and agency fund financial statements listed under other supplementary information in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining non-major and agency fund financial statements and the schedule of expenditures of federal and state awards listed under other supplementary information in the accompanying table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2017, on our consideration of Wheeler County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wheeler County, Texas' internal control over financial reporting and compliance.

DOSHIER, PICKENS & FRANCIS, L.L.C.

DOSHIER, PICKENS & FRANCIS, LLC
May 5, 2017

BASIC FINANCIAL STATEMENTS

**WHEELER COUNTY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 8,068,419
Delinquent taxes receivable, net	133,643
Accounts receivable, net	296,226
Due from other governmental entities	1,141,921
Prepaid expenses	58,445
Inventories	67,647
Capital assets, net of accumulated depreciation	15,277,926
Total assets	25,044,227
DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions	245,628
Pension economic/demographic losses	97,276
Pension deficient earnings	735,516
Pension assumption changes	79,562
Total deferred outflows of resources	1,157,982
LIABILITIES	
Accounts payable	356,332
Due to other governmental entities	52,265
Net pension liability	366,365
Noncurrent liabilities:	
Due within one year	13,200
Due in more than one year	118,680
Total liabilities	906,842
DEFERRED INFLOWS OF RESOURCES	
Pension economic/demographic gains	209,247
Total deferred inflows of resources	209,247
NET POSITION	
Net investment in capital assets	15,277,926
Restricted:	
By enabling legislation	556,320
Unrestricted	9,251,874
Total net position	\$ 25,086,120

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

**WHEELER COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR YEAR ENDED SEPTEMBER 30, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Net Position</u>
					<u>Primary</u>
					<u>Government</u>
					<u>Governmental</u>
					<u>Activities</u>
Primary government					
Governmental Activities:					
Administrative	\$ 2,427,782	\$ 216,720	\$ 30,529	\$ -	\$ (2,180,533)
Judicial	577,442	591,040	59,879	-	73,477
Public facilities	236,656	-	-	-	(236,656)
Public safety	2,359,934	38,069	65,698	-	(2,256,167)
Road and bridge	6,922,833	353,906	2,630,736	-	(3,938,191)
Public services	400,376	47,939	-	-	(352,437)
Interest on long-term debt	2,275	-	-	-	(2,275)
Total	\$ 12,927,298	\$ 1,247,674	\$ 2,786,842	\$ -	(8,892,782)
General revenues:					
Taxes:					
Property taxes					6,458,722
Property taxes, levied for road and bridge					2,311,110
Mixed beverage taxes					6,299
Interest earnings					27,653
Miscellaneous					155,735
Gain on sale of capital assets					210,701
Total general revenues					9,170,220
Change in net position					277,438
Net position - beginning					24,808,682
Net position - ending					\$ 25,086,120

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

**WHEELER COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Non-Major Governmental</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 7,772,485	\$ 539	\$ 295,395	\$ 8,068,419
Delinquent taxes receivable, net	98,444	35,199	-	133,643
Accounts receivable, net	296,226	-	-	296,226
Due from other funds	1,690,000	-	261,000	1,951,000
Due from other governmental entities	-	1,141,921	-	1,141,921
Prepaid expenditures	38,073	20,372	-	58,445
Inventories	-	67,647	-	67,647
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 9,895,228</u>	<u>\$ 1,265,678</u>	<u>\$ 556,395</u>	<u>\$ 11,717,301</u>
LIABILITIES				
Accounts payable	\$ 158,741	\$ 197,516	\$ 75	\$ 356,332
Due to other funds	-	1,951,000	-	1,951,000
Due to other governmental entities	52,265	-	-	52,265
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>211,006</u>	<u>2,148,516</u>	<u>75</u>	<u>2,359,597</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	84,463	30,205	-	114,668
Unavailable revenue - other receivables	220,806	-	-	220,806
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total deferred inflows of resources	<u>305,269</u>	<u>30,205</u>	<u>-</u>	<u>335,474</u>
FUND BALANCES				
Nonspendable:				
Prepaid expenditures	38,073	20,372	-	58,445
Inventories	-	67,647	-	67,647
Restricted:				
By enabling legislation	-	-	556,320	556,320
Unassigned (deficit)	9,340,880	(1,001,062)	-	8,339,818
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>9,378,953</u>	<u>(913,043)</u>	<u>556,320</u>	<u>9,022,230</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 9,895,228</u>	<u>\$ 1,265,678</u>	<u>\$ 556,395</u>	<u>\$ 11,717,301</u>

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

WHEELER COUNTY, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balance, governmental funds	\$	9,022,230
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		15,277,926
Certain accounts receivable are not available to pay for current-period expenditures and, therefore, are shown as unavailable revenues in the fund financial statements		335,474
Pension contributions paid after the measurement date, December 31, 2015, and before September 30, 2016 are expensed in the governmental funds and shown as deferred outflows of resources in the government-wide financial statements.		245,628
Pension losses, deficient earnings, and assumption changes are shown as deferred outflows of resources in the government-wide financial statements.		
Pension economic/demographic losses		97,276
Pension deficient earnings		735,516
Pension assumption changes		79,562
Pension economic/demographic gains are shown as deferred inflows of resources in the government-wide financial statements.		(209,247)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences		(131,880)
Net pension liability		(366,365)
Net Position of Governmental Activities in the Statement of Net Position	\$	<u>25,086,120</u>

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

WHEELER COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Non-Major Governmental</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 6,436,387	\$ 2,303,090	\$ -	\$ 8,739,477
Mixed beverage taxes	6,299	-	-	6,299
Licenses and fees	478,963	353,906	64,406	897,275
Fines and forfeitures	386,707	-	-	386,707
Intergovernmental	145,968	2,630,737	10,137	2,786,842
Interest earnings	27,573	-	80	27,653
Miscellaneous	107,398	46,322	11,463	165,183
	<u>7,589,295</u>	<u>5,334,055</u>	<u>86,086</u>	<u>13,009,436</u>
Total revenues				
EXPENDITURES				
Current:				
Administrative	2,262,672	-	3,295	2,265,967
Judicial	555,740	-	13,075	568,815
Public facilities	193,487	-	-	193,487
Public safety	1,933,843	-	5,458	1,939,301
Road and bridge	-	5,778,498	-	5,778,498
Public services	244,162	-	10,506	254,668
Debt service:				
Principal	-	136,690	-	136,690
Interest	-	4,575	-	4,575
Capital outlay	356,342	1,301,949	-	1,658,291
	<u>5,546,246</u>	<u>7,221,712</u>	<u>32,334</u>	<u>12,800,292</u>
Total expenditures				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>2,043,049</u>	<u>(1,887,657)</u>	<u>53,752</u>	<u>209,144</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	23,204	454,389	-	477,593
Transfers in	-	115,076	-	115,076
Transfers out	(115,076)	-	-	(115,076)
	<u>(91,872)</u>	<u>569,465</u>	<u>-</u>	<u>477,593</u>
Total other financing sources (uses)				
NET CHANGE IN FUND BALANCES				
	1,951,177	(1,318,192)	53,752	686,737
FUND BALANCES - BEGINNING				
	<u>7,427,776</u>	<u>405,149</u>	<u>502,568</u>	<u>8,335,493</u>
FUND BALANCES - ENDING (DEFICIT)				
	<u>\$ 9,378,953</u>	<u>\$ (913,043)</u>	<u>\$ 556,320</u>	<u>\$ 9,022,230</u>

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

**WHEELER COUNTY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds:	\$	686,737
<p>Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.</p> <p>This is the amount by which capital outlays, \$1,658,291, was exceeded by depreciation, \$1,890,946, in the current period.</p>		
		(232,655)
<p>In the Statement of Activities, only the gain or loss on the disposition of capital assets is reported. However, in the governmental funds, only proceeds from a sale are reported. Thus, the change in net position differed from the change in fund balance by the net book value of all capital assets disposed of.</p>		
		(266,892)
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. This amount represents the change in unavailable revenues.</p>		
		(15,401)
<p>In the Statement of Net Position, incurring debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayments of principal is an expenditure in the governmental funds, but reduces the liability in the Statement of Net Position.</p> <p>Principal repayments:</p>		
Capital leases		136,690
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:</p>		
Accrued interest on debt, net change		2,300
Compensated absences, net change		(4,558)
Deferred outflows of resources:		
Pension contributions, net change		99
Pension economic/dempgraphic losses		(48,638)
Pension deficient earnings		635,659
Pension assumption changes		79,562
Deferred inflows of resources:		
Pension economic/dempgraphic gains		(209,247)
Net pension asset, net change		(119,853)
Net pension liability, net change		(366,365)
		(366,365)
Change in net position of governmental activities	\$	277,438

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

WHEELER COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
SEPTEMBER 30, 2016

ASSETS		
Cash and cash equivalents		\$ 3,125,036
		<hr/>
Total assets		\$ 3,125,036
		<hr/> <hr/>
LIABILITIES		
Accounts payable		\$ 37,669
Due to other governments		146,323
Deposits		2,941,044
		<hr/>
Total liabilities		\$ 3,125,036
		<hr/> <hr/>

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

WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Wheeler County, Texas (County) have been prepared in conformity with accounting principles generally accepted in the United States of America (generally accepted accounting principles)(GAAP) for local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant accounting and reporting policies of the County are described in the following notes to the financial statements.

A. Financial Reporting Entity

The County, incorporated in 1876, is a public corporation and political subdivision of the State of Texas. The County is governed by the Commissioners Court, composed of four County Commissioners and the County Judge, all of whom are elected officials.

The County provides a variety of services to advance the welfare, morale, comfort, safety and convenience of the County and its citizens.

The definition of the reporting entity is based primarily on the notion of financial accountability. The elected officials governing the County are accountable to their constituents for their public policy decisions, regardless of whether those decisions are carried out directly through the operations of the County or by their appointees through the operations of a separate entity. Therefore, the County is not only financially accountable for the organizations that make up its legal entity, but also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either, it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the County.

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

Government-Wide Statements

Government-wide financial statements consist of the Statement of Net Position and the Statement of Activities. These statements report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-like activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this measurement focus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Fines and forfeitures are recognized when they have been assessed and adjudicated and earned. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Continued

WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

Government-Wide Statements – Continuation

The Statement of Activities demonstrates the degree to which the direct expenses of the County’s programs are offset by those programs’ revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Certain indirect costs have been included as part of the program expenses reported for the various functional activities. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the program and 2) grants and contributions that are restricted to meeting the operational and/or capital requirements of a particular program. Taxes and other items not included among program revenue are reported instead as *general revenue*. In miscellaneous general revenues are non-program specific contributions including capital assets contributions.

Fiduciary funds are excluded in the government-wide presentation of the financial statements.

Fund-Level Statements

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County considers property taxes and other revenues as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Grant and entitlement revenues are also susceptible to accrual. These funds are accounted for on a spending “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Any proprietary funds, including internal service funds, and fiduciary funds, including agency funds, are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses when they are incurred. Claims incurred but not reported are included in payables and expenses. These funds are accounted for using an economic resources measurement focus.

The accounts of the County are organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled.

The County reports the following major governmental funds:

The **General Fund** is the general operating fund of the County. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, charges for services, intergovernmental revenues and investment of idle funds. Primary expenditures are for administrative, judicial, public facilities, public safety, public services, and capital acquisition.

Continued

WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

Fund-Level Statements – Continuation

The **Road and Bridge Fund** is a special revenue fund used to account for the revenues derived from property taxes and license fees levied for purposes of road and bridge expenditures.

Fiduciary fund level financial statements include fiduciary funds which are classified into private purpose trust and agency funds. The County has only agency funds which are used to account for assets held by the County as an agent for individuals, private organizations, other governments and other funds. Agency funds do not involve a formal trust agreement. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Use of Restricted Assets

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

D. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Equity

1. Deposits and Investments

The County's cash and cash equivalents are considered to be cash on hand, demand deposits, deposits within public fund investment pools and short-term investments with original maturities of three months or less from the date of acquisition.

Statutes authorize the County to keep funds in demand deposits, time deposits, or securities of the United States. The County's custodial banks are required to pledge for the purpose of securing County funds, securities of the following kind, in an amount equal to the amount of such County funds: bonds and notes of the United States, securities of indebtedness of the United States, bonds of the State of Texas, or of any county, city, or independent school district, and various other bonds as described in Texas Statutes.

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

The Act requires an annual audit of investment policies. Audit procedures in this area, conducted as a part of the audit of the basic financial statements, disclosed that in the area of investment practices, management has reported and established appropriate policies. The County adheres to the requirements of the Act. Additionally, investment practices of the County are in accordance with local policies.

Continued

**WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

D. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Equity – Continuation

2. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of inter-fund loans) or “advances to/from other funds” (i.e., the noncurrent portion of inter-fund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

Accounts receivable consist of reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as unavailable revenues in the fund statements. Receivables are shown net of an allowance for uncollectible accounts of \$1,635,258.

Payables consist of vendor obligations for goods and services as well as funds payable to others when the criteria for their release have been met.

3. Property Tax Calendar and Revenues

Property taxes are based on taxable value at January 1 and become due October 1 and past due after January 31 of the following year unless the half payment option is elected in which one-half the tax is due November 30, and the balance the following June 30. Tax collections after February 1 are treated as late payments and are subject to penalty and interest. Uncollected taxes from the current tax roll become delinquent on July 1 and are subject to additional penalties and interest. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior years' levies are shown net of an allowance for uncollectible accounts of \$245,978.

4. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories in the governmental funds are recorded as expenditures when consumed rather than purchased. At September 30, 2016, inventories consisted of fuel in the road and bridge department.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Continued

WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

D. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Equity – Continuation

5. Capital Assets

Capital assets, which include buildings and improvements, infrastructure, and machinery and equipment, are reported in the government-wide financial statements. The County has opted to retroactively report infrastructure assets. According to the County’s capitalization policy, capital assets are defined as individual assets (or systems of assets) having a cost of \$5,000 or more and an estimated useful life in excess of two years. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

When capital assets are purchased, they are capitalized and depreciated in the government-wide financial statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated lives:

Buildings and improvements	30 - 50 years
Infrastructure	50 years
Machinery and equipment	5 - 10 years

6. Compensated Absences

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

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

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

Regular full-time employees are entitled to vacation of up to three weeks per year as earned. Vacation time earned, but not taken, is paid upon termination, but cannot be accumulated beyond one calendar year. Compensation time is accrued at one and one-half the employee’s regular rate for each hour worked over forty hours in a work week. After it is accrued, it is treated like vacation time earned and is paid upon termination. Sick leave accrues at 8 hours per month with a maximum limit of 480 hours; however, unused sick leave is not paid upon termination. Accrued vacation leave and comp time are accrued in the government-wide financial statements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

In the fund financial statements, the face amount of debt issued is reported as other financing sources when the debt is issued and as an expenditure when the debt is paid.

Continued

**WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

D. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Equity – Continuation

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow or resources (expense/expenditure) until then. The government has multiple items that qualify for reporting in this category. They are the contributions and other items related to the County’s pension plan reported in the government-wide statement of net position.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The government has one item that qualifies for reporting in this category. *Unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

9. Pensions

For purposes of measuring the net pension asset or liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County’s Texas County and District Retirement System Plan and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

10. Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Non-spendable Fund Balance – includes amounts that are (a) not in spendable forms, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted Fund Balance – includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of the resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of the County’s highest level of decision-making authority, the Commissioners’ Court. Commitments may be changed or lifted only by the County taking the same formal action that imposed the constraint originally (for example: resolution or ordinance).

Continued

**WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

D. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Equity – Continuation

10. Fund Balances – Continued

Assigned Fund Balance – includes amounts intended to be used by the County for specific purposes that are neither restricted nor committed. Intent is expressed by (a) Commissioners' Court or (b) a body (budget, finance committee, or County Official) to which the assigned amounts are to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as non-spendable, restricted or committed.

Unassigned Fund Balance – this classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

11. Net Position

In the government-wide financial statements, equity is classified as net position and displayed in three categories.

Net Investment in Capital Assets – This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments, enabling legislation, or constitutional provisions.

Unrestricted Net Position – This amount includes all net position amounts that do not meet the definition of "net investment in capital assets" or "restricted net position."

12. Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The County follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the proposed budget is submitted to the Commissioners' Court.
2. The Commissioners' Court provides for a public hearing on the County budget subsequent to August 15, and prior to the levy of taxes by the Commissioners' Court.
3. Prior to October 1, the budget is legally adopted by order of the Commissioners' Court for the General Fund, and the Road and Bridge Special Revenue Fund.

Continued

WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – Continuation

A. Budgetary Information – Continuation

4. The budget is prepared by fund and department with the legal level of control at the department level. Administrative control is maintained through the establishment of more detailed account or object class budgets within the departments. Emergency expenditures to meet unusual and unforeseen conditions which could not, by reasonable diligent thought and attention, have been included in the original budget, whereby total expenditures of a department have been increased must be authorized by the Court as emergency amendments to the original budget. Management may not amend the budget at any level without approval of the Commissioners' Court. The Court has the authority to make such changes in the budget, in its judgment of facts, the law warrant, and the interest of the taxpayers demand, provided the amounts budgeted for the current expenditures from the various funds for the County do not exceed appropriations, including fund balances from the prior fiscal periods. Amounts shown in the financial statements represent the original budget amounts and all supplemental appropriations. Supplemental appropriations to the original adopted budget are in the Final Budget Amounts column of the Budgetary Comparison Schedule for the General Fund, and the Road and Bridge Special Revenue Fund.
5. Budgets for the General Fund, and the Road and Bridge Special Revenue Fund are adopted on a basis consistent with GAAP on the modified accrual basis of accounting on an annual basis.
6. Formal budgetary integration on an annual basis is employed as a management control device during the year for the General Fund and the Road and Bridge Special Revenue Fund.
7. All appropriations, except those in grant funds, lapse at the end of the County's fiscal year and may be re-budgeted the next year.

B. Deficit Fund Equity

The Road and Bridge Fund had a deficit fund balance of \$1,001,062. In the current year the fund incurred expenditures in excess of the collected revenues primarily for the completion of the various road projects associated with the County Transportation Infrastructure Grant. The County plans on covering this deficit with subsequent collections netted against reduced expenditures.

**WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 3 – DEPOSITS AND INVESTMENTS

Following is a reconciliation of the County’s cash and deposit balances as of September 30, 2016:

Cash and deposit balances consist of:

Bank deposits	\$ 11,171,525
Temporary investments - TexPool	20,915
Temporary investments - TexStar	515
Temporary investments - Texas CLASS	<u>500</u>
 Total	 <u><u>\$ 11,193,455</u></u>

Cash and deposit balances are reported in the basic financial statements as follows:

Government-wide Statement of Net Position:

Unrestricted	\$ 8,068,419
Fiduciary Funds Statement of Net Position	<u>3,125,036</u>
 Total	 <u><u>\$ 11,193,455</u></u>

Custodial credit risk – deposits. As of September 30, 2016, the carrying amount of the County's deposits with financial institutions was \$11,171,525 and the bank's balance was \$11,508,913. Of the bank balance, \$3,258,636 was insured through the Federal Depository Insurance Corporation (FDIC) and the remaining \$8,250,277 was collateralized with securities held by the pledging institution’s agent in the County’s name.

As of September 30, 2016, the County had \$20,915 invested with Texas Treasury Safekeeping Trust Company (TexPool). TexPool is a public funds investment pool created pursuant to the Inter-local Cooperation Act of the State of Texas. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure.

TexPool operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in the pools is the same as the value of the shares.

As of September 30, 2016, the County had \$515 invested with TexSTAR. TexSTAR is a local government pool emphasizing safety, liquidity, convenience, and competitive yields. TexSTAR provides Texas public entities a safe and competitive investment alternative. TexSTAR invests only in securities allowed by the Texas Public Funds Investment Act. The pool is governed by a board of trustees, elected annually by its participants. TexSTAR is rated ‘AAAm’ by Standard and Poor’s Rating Service.

As of September 30, 2016, the County had \$500 invested with Texas Cooperative Liquid Assets Securities System (Texas CLASS). Texas CLASS is a local government pool emphasizing safety, liquidity, convenience, and competitive yields. Since 1966, Texas CLASS has provided Texas public entities a safe and competitive investment alternative. Texas CLASS invests only in securities allowed by the Texas Public Funds Investment Act. The pool is governed by a board of trustees, elected annually by its participants. Texas CLASS is rated ‘AAAm’ by Standard and Poor’s Rating Service.

Continued

WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS – Continuation

Interest rate risk is the risk that adverse changes in interest rates will result in an adverse effect on the fair value of an investment. The County manages its exposure to interest rate risk by maintaining its cash in interest-bearing demand accounts, or in certificates of deposit with weighted average maturities of one year or less.

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. State law and County policy limit investments in local government pools to those rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single insurer. As of September 30, 2016, 1.96% of the County's carrying value of cash was invested in pooled investment accounts. All other cash was deposited with the County's depository bank and was adequately secured as described above.

NOTE 4 – PROPERTY TAX

The State of Texas Constitutional tax rate limit for both operations and debt service is \$.80 on each \$100 of assessed valuation. The tax rate on the 2015 tax roll was \$.20844 per \$100, which means that the County has a tax margin of \$.59156 per \$100 and could raise up to \$18,126,957 additional revenue from the 2015 assessed valuation of \$3,064,263,420 before the limit is reached.

The State of Texas Constitutional tax rate limit for the maintenance of farm-to-market roads is \$.30 on each \$100 of assessed valuation. The tax rate on the 2015 tax roll was \$.03749 per \$100, which means that the County has a tax margin of \$.26251 per \$100 and could raise up to \$8,043,998 additional revenue from the 2015 assessed valuation of \$3,064,263,420 before the limit is reached.

The State of Texas Constitutional tax rate limit for lateral roads is \$.15 on each \$100 of assessed valuation. The tax rate on the 2015 tax roll was \$.03713 per \$100, which means that the County has a tax margin of \$.11287 per \$100 and could raise up to \$3,458,634 additional revenue from the 2015 assessed valuation of \$3,064,263,420 before the limit is reached.

Real and personal property values are assessed for the period January 1 to December 31, as of January 1 at which date property taxes attach as an enforceable lien on property. Taxes are levied by October 1 of the current year and are collected from October 1 to June 30 of the following year. Payments received after February 1 are considered late and are subject to penalty and interest. Taxes become delinquent on July 1 of the following year.

**WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 5 – CAPITAL ASSETS

Capital assets are recorded at cost or, if donated, at fair market value at the date of receipt. In accordance with GASB Statement No. 34, depreciation policies were adopted to include useful lives and classification by function. As stated earlier, the County has opted to report its infrastructure retroactively.

Capital asset activity for the year ended September 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital asset, not being depreciated:				
Land	\$ 95,476	\$ -	\$ -	\$ 95,476
Total capital assets, not being depreciated	<u>95,476</u>	<u>-</u>	<u>-</u>	<u>95,476</u>
Capital asset, being depreciated				
Buildings and improvements	13,500,444	186,575	-	13,687,019
Infrastructure	4,182,391	-	-	4,182,391
Machinery and equipment	<u>12,659,095</u>	<u>1,471,716</u>	<u>(851,781)</u>	<u>13,279,030</u>
Total capital assets, being depreciated	<u>30,341,930</u>	<u>1,658,291</u>	<u>(851,781)</u>	<u>31,148,440</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,951,423)	(420,865)	-	(3,372,288)
Infrastructure	(3,724,052)	(26,259)	-	(3,750,311)
Machinery and equipment	<u>(7,984,458)</u>	<u>(1,443,822)</u>	<u>584,889</u>	<u>(8,843,391)</u>
Total accumulated depreciation	<u>(14,659,933)</u>	<u>(1,890,946)</u>	<u>584,889</u>	<u>(15,965,990)</u>
Total capital assets, being depreciated, net	<u>15,681,997</u>	<u>(232,655)</u>	<u>(266,892)</u>	<u>15,182,450</u>
Governmental activities capital assets, net	<u>\$ 15,777,473</u>	<u>\$ (232,655)</u>	<u>\$ (266,892)</u>	<u>\$ 15,277,926</u>

Continued

**WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 5 – CAPITAL ASSETS – Continuation

Depreciation expense for the year ended September 30, 2016 was charged to the functions/programs of the primary government as follows:

Governmental activities	
Administrative	\$ 151,909
Judicial	6,367
Public facilities	42,901
Public safety	426,868
Road and bridge	1,119,627
Public services	<u>143,274</u>
 Total Depreciation Expense	 <u><u>\$ 1,890,946</u></u>

NOTE 6 – RETIREMENT PLAN

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

Benefits Provided: The plan provisions are adopted by the governing body of the County (employer), within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the County.

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.

Employees Covered by Benefit Terms: At September 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	41
Inactive employees entitled to but not yet receiving benefits	52
Active employees	83

Continued

**WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 6 – RETIREMENT PLAN – Continuation

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

The County contributed using the actuarially determined rate of 11.00% for the months of the accounting year in 2015 and in 2016. The contribution rate payable by the employee members is 7.0% for fiscal year 2016 as adopted by the governing body of the County. The employee contribution rate and the employer contribution rate may be changed by the governing body of the County within the options available in the TCDRS Act.

Net Pension Liability: The County’s net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date.

Actuarial Assumptions: The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	Varies by age and service. 4.9% average over career including inflation
Investment rate of return	8%, net of investment expenses, including inflation
Cost-of-living adjustments	None

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.

The actuarial assumptions that determined the total pension liability as of December 31, 2015 were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information are provided by TCDRS’ investment consultant based on January 2015 information for a 7 – 10 year time horizon. 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.

Continued

WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 6 – RETIREMENT PLAN – Continuation

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate: The discount rate used to measure the total pension liability was 8.10%. The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan’s fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.
2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years.

Continued

WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 6 – RETIREMENT PLAN – Continuation

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan's fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternatives methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by the employer we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. Our alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

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

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

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used a discount rate of 8.10%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

Continued

WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 6 – RETIREMENT PLAN – Continuation

Changes in the Net Pension Liability / (Asset):

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) - (b)
Balances as of December 31, 2014	\$ 9,331,769	\$ 9,451,622	\$ (119,853)
Changes for the year:			
Service cost	382,205	-	382,205
Interest on total pension liability (1)	757,530	-	757,530
Effect of plan changes (2)	(43,806)	-	(43,806)
Effect of economic/demographic gains or losses	(278,996)	-	(278,996)
Effect of assumptions changes or inputs	106,083	-	106,083
Refund of contributions	(36,170)	(36,170)	-
Benefit payments	(366,596)	(366,596)	-
Administrative expenses	-	(6,815)	6,815
Member contributions	-	207,766	(207,766)
Net investment income	-	(50,043)	50,043
Employer contributions	-	326,490	(326,490)
Other (3)	-	(40,600)	40,600
Balances as of December 31, 2015	\$ 9,852,019	\$ 9,485,654	\$ 366,365

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

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

(3) Relates to allocation of system-wide items.

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

	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	\$ 11,060,734	\$ 9,852,019	\$ 8,839,466
Fiduciary net position	9,485,654	9,485,654	9,485,654
Net pension liability / (asset)	\$ 1,575,080	\$ 366,365	\$ (646,188)

Continued

**WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 6 – RETIREMENT PLAN – Continuation

Pension plan fiduciary net position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued TCDRS financial report.

Pension Expense / (Income):

	January 1, 2015 to December 31, 2015
Service cost	\$ 382,205
Interest on total pension liability (1)	757,530
Effect of plan changes	(43,806)
Administrative expenses	6,815
Member contributions	(207,766)
Expected investment return net of investment expenses	(775,735)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	(21,111)
Recognition of assumption changes or inputs	26,521
Recognition of investment gains or losses	190,120
Other (2)	40,600
 Pension expense / (income)	 \$ 355,373

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

(2) Relates to allocation of system-wide items.

Deferred Inflows / Outflows of Resources: As of December 31, 2015, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 209,247	\$ 97,276
Changes of assumptions	-	79,562
Net difference between projected and actual earnings	-	735,516
Contributions made subsequent to measurement date	N/A	245,628

Continued

**WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 6 – RETIREMENT PLAN – Continuation

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year ended December 31:	
2016	\$ 195,529
2017	195,529
2018	146,892
2019	165,157
2020	-
Thereafter	-

NOTE 7 – CONCENTRATION OF TAXPAYERS

As of September 30, 2016, the following taxpayer, involved in the railroad industry, accounted for a significant portion of the County's total tax levy.

<u>Taxpayer</u>	<u>Industry</u>	<u>Tax Amount</u>	<u>Percent of Total Levy</u>
Taxpayer A	Oil & Gas	\$ 2,325,883	27.14 %
Taxpayer B	Oil & Gas	686,587	8.01
Taxpayer C	Oil & Gas	660,288	7.70
Taxpayer D	Oil & Gas	652,534	7.61
Taxpayer E	Oil & Gas	622,995	7.27

**WHEELER COUNTY, TEXAS
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NOTE 8 – INTER-FUND RECEIVABLES, PAYABLES AND TRANSFERS

Individual Fund Inter-fund Receivables and Payables

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 1,690,000	\$ -
Special Revenue Funds:		
Road and Bridge	-	1,951,000
County Clerk Records Management	11,000	-
Courthouse Security	180,000	-
Justice Court Technology	70,000	-
	<u>\$ 1,951,000</u>	<u>\$ 1,951,000</u>

The primary purpose of inter-fund receivables and payables is the reimbursement of the General Fund for expenditures paid on behalf of the special revenue funds.

Individual Inter-fund Transfers

Fund	Interfund Transfers In	Interfund Transfers Out
General Fund	\$ -	\$ 115,076
Special Revenue Funds:		
Road and Bridge	<u>115,076</u>	<u>-</u>

Transfers are primarily utilized to use unrestricted revenues from the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9 – LONG-TERM LIABILITIES

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital lease: Precinct 4	\$ 136,690	\$ -	\$ (136,690)	\$ -	\$ -
Compensated absences	<u>127,322</u>	<u>203,641</u>	<u>(199,083)</u>	<u>131,880</u>	<u>13,200</u>
Governmental activity long-term liabilities	<u>\$ 264,012</u>	<u>\$ 203,641</u>	<u>\$ (335,773)</u>	<u>\$ 131,880</u>	<u>\$ 13,200</u>

The County paid \$4,575 of interest during the fiscal year ended September 30, 2016.

**WHEELER COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
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NOTE 10 – LEASES

Operating Leases:

The County has entered into agreements to lease various pieces of office equipment. Commitments under these agreements provide for minimum future payments as of September 30, 2016, as follows:

For Year Ended:		
2017	\$	20,605
2018		19,821
2019		15,427
2020		5,484
2021		<u>775</u>
Total future lease payments	\$	<u><u>62,112</u></u>

NOTE 11 – RISK MANAGEMENT

The County’s major areas of risk management are: public officials’, law enforcement, and automobile liability, general comprehensive liability and property damage, workers’ compensation, and employee health insurance. The County has obtained insurance with an insurance company and a public entity risk pool in which all risk is transferred to those entities for all the above areas. The County pays a deductible per incident except on the employee health insurance in which the deductible is the responsibility of the employee. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded insurance coverage for the current year or the previous three years.