



Financial Statements
September 30, 2018
McCulloch County

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	11
Statement of Activities.....	12
Fund Financial Statements	
Balance Sheet – Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Fiduciary Net Position – Fiduciary Funds	17
Notes to Financial Statements.....	18
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	45
Budgetary Comparison Schedule – Road and Bridge Fund.....	46
Schedule of Changes in Net Pension Asset and Related Ratios – Texas County & District Retirement System	47
Schedule of Employer Contributions – Texas County & District Retirement System	48
Notes to Required Supplementary Information	49
Combining Statements as Other Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds	51
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	54
Combining Statement of Fiduciary Assets and Liabilities – Fiduciary Funds.....	57
Other Supplementary Information	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	59
Schedule of Findings and Responses	61



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of McCulloch County, Texas (the County), as of and for the year September 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County as of September 30, 2018, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension plan schedules on pages 3 through 10 and 45 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining nonmajor fund financial statements and combining statement of fiduciary assets and liabilities are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and combining statement of fiduciary assets and liabilities are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated February 28, 2019 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



Abilene, Texas
February 28, 2019

This section of McCulloch County's annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year ended September 30, 2018. Please read it in conjunction with the County's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The County's total combined net position was \$14,615,691 at September 30, 2018. Of this amount, \$9,954,088 is invested in capital assets, net of related debt, \$71,562 is restricted for debt service, \$411,624 is restricted for pension, and \$1,101,610 is restricted for other purposes. Unrestricted net position is \$3,076,807.
- During the year, the County's expenses were \$845,546 less than the \$6,256,866 generated in taxes and other revenues for governmental activities.
- The general fund reported a fund balance this year of \$2,470,001.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Statements

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

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

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

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

Fund Financial Statements

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

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

The County has the following types of funds:

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

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

As noted earlier, net position can serve over time as a useful indicator of a government's financial position. In the case of McCulloch County, assets exceeded liabilities by \$14,615,691 at the close of the fiscal year ended September 30, 2018.

A portion of the County's net position (68.1%) comprises capital assets (for example, land, infrastructure, and buildings), net of the outstanding debt issued to finance their acquisition. The County uses these capital assets to provide services to citizens, and consequently, the assets are not available for future spending. Although, as mentioned, the County's investment in capital assets is reported net of related debt, it should be noted that the resources to re-pay this debt must be provided from other sources since the capital assets themselves cannot be used to do so. Total restricted net position is \$1,584,796 of which \$71,562 is restricted for repaying long term debt, \$1,726 is restricted for CETRZ grant road projects, \$105,923 is restricted for special ad valorem road projects, \$394,140 is restricted for the library, \$40,126 is restricted for the law library, \$3,268 is restricted for hot check reimbursement, \$153,866 is restricted for specially designated road repair projects, \$40,527 is restricted for archive fees, \$6,703 is restricted for court records preservation, \$54,290 is restricted for covering courthouse security cost, \$40,702 is restricted for pre-trial diversion programs, \$134,591 is restricted for records management, \$20,854 is restricted for restoration and preservation of County property, \$45,305 is restricted for County technology fees, \$4,335 is restricted for County video fees, \$18,000 is restricted for dam maintenance, \$8,671 is restricted for probate training, \$1,842 is restricted for a salary supplement excess for the county judge

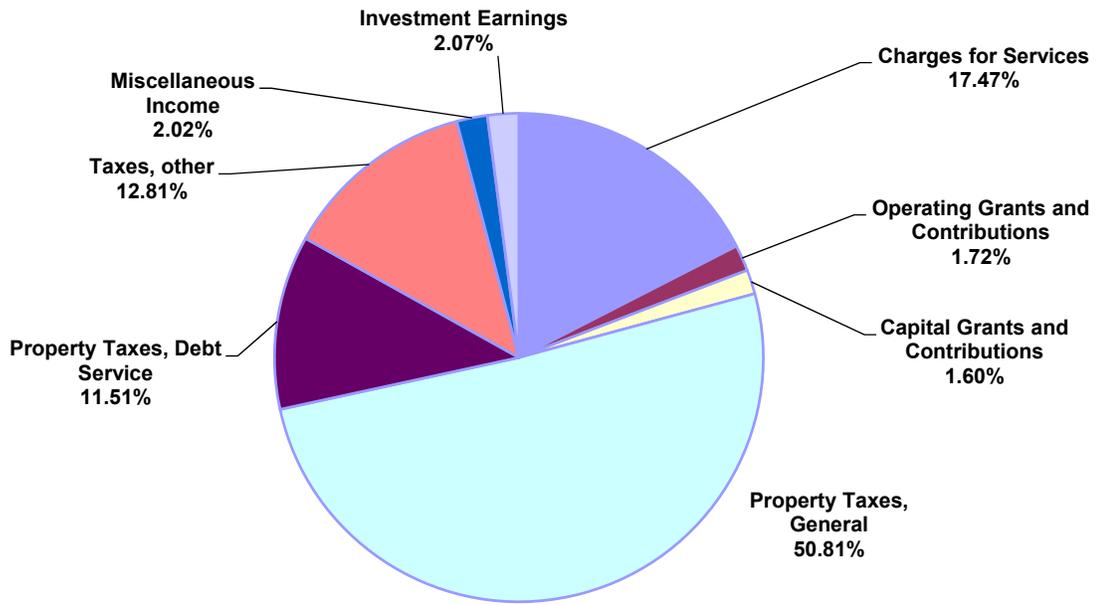
received from the state, \$25,908 is restricted for renting voting equipment, and \$833 is restricted for court reporter fees. The remaining balance of net position, \$3,076,807, is unrestricted and available to meet the government's ongoing obligations to citizens and creditors.

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 2,318,882	\$ 2,766,942
Investments	460,000	460,000
Prepaid expenses	-	68,387
Receivables (net of allowance for uncollectibles)		
Taxes	105,944	98,864
Fines, fees, and court costs	364,993	303,802
Other	90,488	70,799
	<u>3,340,307</u>	<u>3,768,794</u>
Capital assets		
Land	200,615	200,615
Construction in progress	11,103,185	1,842,624
Infrastructure	1,928,955	1,928,955
Buildings and improvements	8,093,299	8,093,299
Furniture and equipment	2,668,686	2,312,327
Vehicles	571,055	446,706
Less accumulated depreciation	<u>(4,326,078)</u>	<u>(3,796,845)</u>
	20,239,717	11,027,681
Noncurrent assets		
Net pension asset	431,389	28,280
Cash and cash equivalents - restricted	<u>2,919,077</u>	<u>10,098,543</u>
	<u>23,590,183</u>	<u>21,154,504</u>
	<u>26,930,490</u>	<u>24,923,298</u>
Deferred Outflows of Resources - Pension	<u>134,819</u>	<u>434,058</u>
	<u>\$ 27,065,309</u>	<u>\$ 25,357,356</u>

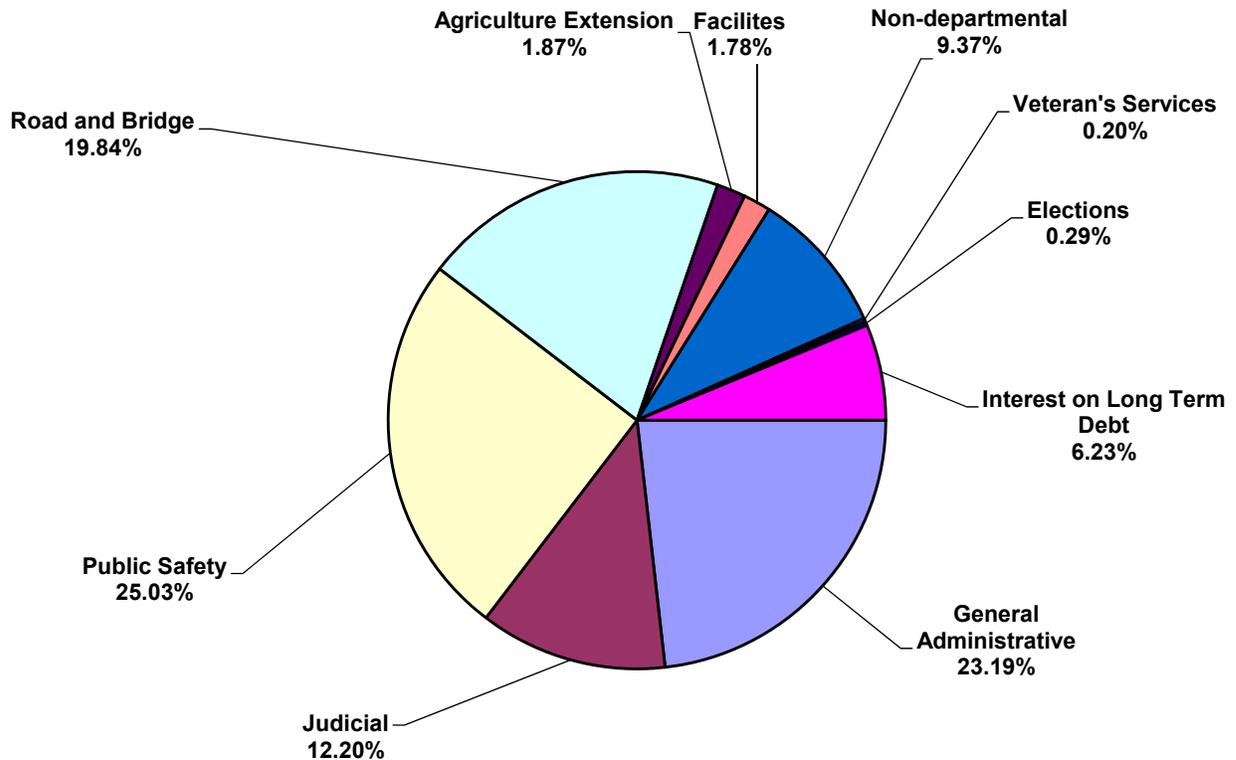
	Governmental Activities	
	2018	2017
Current liabilities		
Accounts payable and other current liabilities	\$ 1,195,138	\$ 164,487
Payroll liabilities	17,750	20,233
Accrued interest payable	56,900	145,285
Due to other governments	94,899	78,990
Unearned revenue	23,333	-
Total current liabilities	1,388,020	408,995
Noncurrent liabilities		
Due within one year	598,117	486,288
Due in more than one year	10,308,897	10,655,113
Total noncurrent liabilities	10,907,014	11,141,401
Total liabilities	12,295,034	11,550,396
Deferred Inflows of Resources - Pension	154,584	36,815
Net position		
Net investment in capital assets	9,954,088	8,238,949
Restricted	1,584,796	1,770,488
Unrestricted	3,076,807	3,760,708
Total net position	14,615,691	13,770,145
Total liabilities, deferred inflows of resources and net position	\$ 27,065,309	\$ 25,357,356

The County's net position increased by \$845,546. Since the County presently engages in no business-type activities, governmental activities account for all of the changes in net position at the government-wide reporting level.

Governmental Activities: The County's total revenues were \$6,256,866. A significant portion, 62.32%, of the County's revenue comes from property taxes. 17.47% comes from charges for services, and 3.32% comes from operating and capital grants and contributions.



The total cost of all County programs and services was \$5,411,320. 12.20% of these costs are for judicial services, 25.03% are for public safety, and 19.87% are for road and bridge.



	Governmental Activities	
	2018	2017
Program Revenues		
Charges for services	\$ 1,092,767	\$ 655,958
Operating grants and contributions	107,777	63,482
Capital grants and contributions	100,114	134,889
General Revenues		
Property taxes, levied for general purposes	3,178,842	2,902,681
Property taxes, levied for debt service	720,229	127,532
Taxes, other	801,225	727,032
Miscellaneous income	126,523	107,417
Investment income	129,389	74,682
Gain on disposal of assets	-	17,230
Total revenues	6,256,866	4,810,903
Expenses		
General administrative	1,254,866	1,337,150
Judicial	660,032	696,433
Public safety	1,354,456	1,268,054
Road and bridge	1,073,586	1,016,439
Ag extension	101,161	79,187
Facilities	96,335	86,360
Non-departmental	507,160	513,429
Veteran's service office	10,928	10,447
Elections	15,708	30,529
Debt service - interest on long-term debt	337,088	292,462
Total expenses	5,411,320	5,330,490
Change in Net Position	845,546	(519,587)
Beginning Balance, Net Position	13,770,145	14,289,732
Ending Balance, Net Position	\$ 14,615,691	\$ 13,770,145

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

The cost of all governmental activities this year was \$5,411,320.

However, the amount that our taxpayers paid for these activities through property taxes was only \$3,899,071. Some of the cost was paid by those who directly benefited from the programs (\$1,092,767) or by grants and contributions (\$207,891).

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

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

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

At the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$4,631,497, a decrease of \$8,706,538 in comparison with the prior year. The cause of this decrease in fund balances was due to the issuance of a bond in prior year. Of the total ending fund balances, \$2,470,001 constitutes unassigned fund balance, \$325,482 constitutes assigned fund balance, and \$1,836,014 constitutes restricted fund balance. Unassigned fund balance is available for spending at the County's discretion, assigned fund balance represents amounts that may only be used for special revenue fund purposes, committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by the Commissioners' Court, and restricted fund balance represents amounts that can be used only for the specific purposes of debt service, permanent improvements, and special road projects.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,470,001. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 66.17% of total general fund expenditures, and the total fund balance also represents 66.17% of that same amount.

The fund balance of the County's general fund decreased by \$295,297 during the current fiscal year. Key factors in this decline are as follows:

- Expending more money than produced through revenue activities.

General Fund Budgetary Highlights

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

During the year, expenditures were more than budgetary estimates. Major negative variances include:

- General administrative were more than budget by 0.87% (\$7,384).
- Facilities were more than budget by 7.30% (\$6,570).
- Elections were more than budget by 57.10% (\$5,708).
- Capital outlay were more than budget by \$185,099.
- Total general fund expenditures were 98.75% of the amended budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. At the end of 2018, the County had invested \$20,239,717 in a broad range of capital assets, including land, equipment, buildings, and vehicles. More detailed information about the County's capital assets is presented in Note 5 to the financial statements on page 28.

	Governmental Activities	
	2018	2017
Land	\$ 200,615	\$ 200,615
Construction in progress	11,103,185	1,842,624
Infrastructure	1,928,955	1,928,955
Buildings and improvements	8,093,299	8,093,299
Furniture and equipment	2,668,686	2,312,327
Vehicles	571,055	446,706
 Total at historical cost	 24,565,795	 14,824,526
 Total accumulated depreciation	 (4,326,078)	 (3,796,845)
 Net capital assets	 \$ 20,239,717	 \$ 11,027,681

LONG-TERM DEBT

Long-Term Debt. At year-end, the County had \$10,907,014 in notes payable, capital leases, compensated absences, and bonds payable outstanding, as shown in the table below. More detailed information about the County's debt is presented in Note 8 to the financial statements on pages 29 through 33.

	Governmental Activities	
	2018	2017
Notes payable	\$ 566,272	\$ 456,141
Capital lease payable	235,716	289,994
Compensated absences	12,606	27,156
Bonds payable	10,092,420	10,368,110
 Total long-term debt	 \$ 10,907,014	 \$ 11,141,401

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The County should maintain its financial health during the 2019 fiscal year. Taxable values for the County have increased, and budgeted expenditures for next fiscal year are approximately the same as they were for the 2018 fiscal year.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

McCulloch County
Statement of Net Position
September 30, 2018

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,318,882
Investments	460,000
Receivables (net of allowances)	
Taxes	105,944
Fines and fees	364,993
Other	90,488
Net pension asset	431,389
Capital assets (net of accumulated depreciation)	20,239,717
Restricted assets	
Pooled cash and cash equivalents	2,919,077
Total assets	26,930,490
Deferred Outflows of Resources	
Deferred outflows - pensions	134,819
Total assets and deferred outflows of resources	27,065,309
Liabilities	
Accounts payable and other current liabilities	1,195,138
Payroll liabilities	17,750
Accrued interest payable	56,900
Due to other governments	94,899
Unearned revenue	23,333
Noncurrent liabilities	
Due within one year	598,117
Due in more than one year	10,308,897
Total liabilities	12,295,034
Deferred Inflows of Resources	
Deferred inflows - pensions	154,584
Total liabilities and deferred inflows of resources	12,449,618
Net Position	
Net investment in capital assets	9,954,088
Restricted for long term debt	71,562
Restricted for pension	411,624
Restricted for other purposes	1,101,610
Unrestricted	3,076,807
Total net position	\$ 14,615,691

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General administrative	\$ 1,254,866	\$ 198,526	\$ 99,586	\$ 114
Judicial	660,032	350,692	-	-
Public safety	1,354,456	26,942	8,191	100,000
Road and bridge	1,073,586	516,607	-	-
Ag extension	101,161	-	-	-
Facilities	96,335	-	-	-
Non-departmental	507,160	-	-	-
Veteran's service office	10,928	-	-	-
Elections	15,708	-	-	-
Debt service - interest on long-term debt	337,088	-	-	-
Total governmental activities	5,411,320	1,092,767	107,777	100,114
Total primary government	\$ 5,411,320	\$ 1,092,767	\$ 107,777	\$ 100,114
General revenues				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Taxes, other				
Miscellaneous income				
Investment income				
Total general revenues				
Change in net position				
Net position at beginning of year				
Net position at end of year				

Net (Expense) Revenue and Changes in Net Position Primary Government	
Governmental Activities	Total
\$ (956,640)	\$ (956,640)
(309,340)	(309,340)
(1,219,323)	(1,219,323)
(556,979)	(556,979)
(101,161)	(101,161)
(96,335)	(96,335)
(507,160)	(507,160)
(10,928)	(10,928)
(15,708)	(15,708)
(337,088)	(337,088)
(4,110,662)	(4,110,662)
(4,110,662)	(4,110,662)
3,178,842	3,178,842
720,229	720,229
801,225	801,225
126,523	126,523
129,389	129,389
4,956,208	4,956,208
845,546	845,546
13,770,145	13,770,145
\$ 14,615,691	\$ 14,615,691

	General Fund	Road and Bridge Fund	Law Enforcement Center Fund	Library Fund
Assets				
Cash and cash equivalents	\$ 2,067,196	\$ 247,412	\$ -	\$ -
Investments	400,000	60,000	-	-
Prepaid expenses	-	-	-	-
Receivables (net of allowances)				
Taxes	100,360	-	-	-
Fines and fees	364,993	-	-	-
Other	59,396	25,372	-	481
Restricted Assets				
Cash and cash equivalents	-	-	1,299,385	566,876
Total assets	<u>\$ 2,991,945</u>	<u>\$ 332,784</u>	<u>\$ 1,299,385</u>	<u>\$ 567,357</u>
Liabilities				
Accounts payable and other current liabilities	\$ 96,557	\$ 7,095	\$ 918,879	\$ 172,477
Payroll related liabilities	13,362	3,648	-	740
Due to other governments	94,899	-	-	-
Unearned revenue	23,333	-	-	-
Total liabilities	<u>228,151</u>	<u>10,743</u>	<u>918,879</u>	<u>173,217</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	23,699	-	-	-
Unavailable revenue - fines and fees	270,094	-	-	-
Total deferred inflows of resources	<u>293,793</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Restricted fund balance				
Debt service	-	-	-	-
Construction	-	-	380,506	-
Other restricted fund balance	-	-	-	394,140
Assigned fund balance				
Road and bridge	-	322,041	-	-
Other assigned fund balance	-	-	-	-
Unassigned fund balance	2,470,001	-	-	-
Total fund balances	<u>2,470,001</u>	<u>322,041</u>	<u>380,506</u>	<u>394,140</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,991,945</u>	<u>\$ 332,784</u>	<u>\$ 1,299,385</u>	<u>\$ 567,357</u>

See Notes to Financial Statements

McCulloch County
Balance Sheet – Governmental Funds
September 30, 2018

Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 4,274	\$ 2,318,882
-	-	460,000
-	-	-
5,374	210	105,944
-	-	364,993
4,110	1,129	90,488
<u>118,978</u>	<u>933,838</u>	<u>2,919,077</u>
<u>\$ 128,462</u>	<u>\$ 939,451</u>	<u>\$ 6,259,384</u>
\$ -	\$ 130	\$ 1,195,138
-	-	17,750
-	-	94,899
-	-	23,333
<u>-</u>	<u>130</u>	<u>1,331,120</u>
2,837	137	26,673
<u>-</u>	<u>-</u>	<u>270,094</u>
<u>2,837</u>	<u>137</u>	<u>296,767</u>
125,625	-	125,625
-	228,273	608,779
-	707,470	1,101,610
-	-	322,041
-	3,441	3,441
<u>-</u>	<u>-</u>	<u>2,470,001</u>
<u>125,625</u>	<u>939,184</u>	<u>4,631,497</u>
<u>\$ 128,462</u>	<u>\$ 939,451</u>	<u>\$ 6,259,384</u>

McCulloch County
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 September 30, 2018

Total Fund Balances - Governmental Funds Balance Sheet		\$ 4,631,497
<p>Amounts reported for governmental activities in the statement of net position (A-1) are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds balance sheet. The net effect is to increase net position.</p>		
Governmental capital assets	\$ 24,565,795	
Accumulated depreciation	<u>(4,326,078)</u>	20,239,717
<p>Certain assets, such as property taxes receivable and imposed fines receivable, are not available to pay for current-period expenditures and are not recognized as revenue in the governmental funds. Deferred inflows of resources recognized in the government-wide financial statements results in a net increase to net position.</p>		
		296,767
<p>Long-term liabilities, including bonds payable and compensated absences and other postemployment benefits, are not due and payable in the current period and, therefore, are not reported in the governmental funds. The net effect is a decrease in net position.</p>		
		(10,907,014)
<p>Payables for bond interest which are not due in the current period are not reported in the funds. The net effect is a decrease in net position.</p>		
		(56,900)
<p>Included in the items related to debt is the recognition of the County's net pension asset in the amount of \$431,389, a deferred outflow of resources of \$134,819, and a deferred inflow of resources of \$154,584. The net effect is an increase in net position</p>		
		<u>411,624</u>
Net position of governmental activities - Statement of Net Position		<u><u>\$ 14,615,691</u></u>

	General Fund	Road and Bridge Fund	Law Enforcement Center Fund	Library Fund
Revenues				
Property taxes	\$ 3,176,433	\$ -	\$ -	\$ -
Other taxes	801,225	-	-	-
Fines and fees	467,813	495,200	-	4,817
Intergovernmental, grants, and contributions	90,086	-	8,191	9,614
Investment earnings	65,831	8,222	13,068	17,564
Miscellaneous	97,985	9,148	-	-
Total revenues	4,699,373	512,570	21,259	31,995
Expenditures				
Current				
General administrative	853,417	-	-	142,139
Judicial	656,067	-	-	-
Public safety	1,219,110	-	22,365	-
Road and Bridge	-	815,536	-	-
Agriculture extension service	100,905	-	-	-
Facilities	96,335	-	-	-
Non-departmental	492,210	-	-	-
Veteran's service office	10,928	-	-	-
Elections	15,708	-	-	-
Debt service				
Principal	76,755	126,820	-	-
Interest and fiscal charges	5,994	17,882	-	-
Capital outlay	205,599	175,109	8,548,071	712,490
Total expenditures	3,733,028	1,135,347	8,570,436	854,629
Excess (Deficiency) of revenue over expenditures	966,345	(622,777)	(8,549,177)	(822,634)
Other financing sources (uses)				
Issuance of debt	122,719	136,709	-	-
Transfers in (out)	(1,384,361)	332,522	800,000	186,335
Total other financing sources (uses)	(1,261,642)	469,231	800,000	186,335
Net change in fund balances	(295,297)	(153,546)	(7,749,177)	(636,299)
Fund balances at beginning of year	2,765,298	475,587	8,129,683	1,030,439
Fund balances at end of year	\$ 2,470,001	\$ 322,041	\$ 380,506	\$ 394,140

See Notes to Financial Statements

McCulloch County
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds
Year Ended September 30, 2018

Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 719,204	\$ 17,541	\$ 3,913,178
-	-	801,225
-	79,655	1,047,485
-	-	107,891
4,132	20,572	129,389
18,906	58	126,097
<u>742,242</u>	<u>117,826</u>	<u>6,125,265</u>
317	120,187	1,116,060
-	-	656,067
-	-	1,241,475
-	-	815,536
-	-	100,905
-	-	96,335
-	-	492,210
-	-	10,928
-	-	15,708
260,000	-	463,575
417,287	-	441,163
-	-	9,641,269
<u>677,604</u>	<u>120,187</u>	<u>15,091,231</u>
<u>64,638</u>	<u>(2,361)</u>	<u>(8,965,966)</u>
-	-	259,428
-	65,504	-
<u>-</u>	<u>65,504</u>	<u>259,428</u>
64,638	63,143	(8,706,538)
<u>60,987</u>	<u>876,041</u>	<u>13,338,035</u>
<u>\$ 125,625</u>	<u>\$ 939,184</u>	<u>\$ 4,631,497</u>

McCulloch County
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
 Funds to the Statement of Activities
 Year Ended September 30, 2018

Net Change in Fund Balances - Total Governmental Funds	\$ (8,706,538)
Amounts reported for governmental activities in the statement of activities (A-2) are different because:	
Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The net effect of including capital outlays is to increase net position.	9,641,269
In the statement of activities, donated capital is reported as a revenue, whereas in the governmental funds, revenue is not recorded as the donation increased capital assets. Thus, the change in net position differs from the change in fund balance by the net book value of the asset donated.	100,000
Depreciation expense is not reflected in the governmental funds but is recorded in the government-wide financial statements as an expense and an increase to accumulated depreciation. The net effect of recording current year depreciation expense is to decrease net position.	(529,233)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds. The current year increase in revenue recognized in the government-wide financial statements results in an increase in net position.	31,175
Current year long-term debt principal payments on long-term debt are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements. This results in an increase in net position.	463,575
The net decrease in compensated absences payable is an increase to net position.	14,550
Governmental funds report the effect of bond proceeds and issuance of other long-term debt, including capital leases, when debt is first issued. These amounts are deferred and amortized in the statement of activities which results in a decrease in net position.	(259,428)
The net decrease in accrued interest payable of \$88,385 increases net position.	88,385
Bond premiums are recorded as expenditures when paid in the fund financial statements but are capitalized and amortized in the government-wide financial statements. This is the current year amortization.	15,690
Certain expenditures for the pension that are recorded to the fund financial statements must be recorded as deferred outflows of resources. Increase in contributions made after the measurement date caused the change in net position to increase in the amount of \$1,110. The County's share of the unrecognized deferred inflows and outflows for TCDRS as of the measurement date must be amortized and the County's proportionate share of the pension expense must be recognized. These cause the change in net position to decrease in the amount of \$15,009. The net effect is a decrease in net position.	<u>(13,899)</u>
Change in net position of governmental activities - Statement of Activities	<u><u>\$ 845,546</u></u>

McCulloch County
Statement of Fiduciary Net Position – Fiduciary Funds
September 30, 2018

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 442,627
Accounts receivable	<u>2,323</u>
Total assets	<u>\$ 444,950</u>
Liabilities	
Accounts Payable	\$ 88,048
Due to others	<u>356,902</u>
Total liabilities	<u>\$ 444,950</u>

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

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

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

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

The County reports the following major governmental funds:

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

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

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

Library fund – This fund accounts for financial resources to be used in the construction of a new library.

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

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

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

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

Agency Funds

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

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

Government-Wide, Proprietary, and Fiduciary Fund Financial Statements

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

Governmental Fund Financial Statements

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

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

Cash and Cash Equivalents

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

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. The appraisal of property within the County is the responsibility of the McCulloch County Appraisal County as required by legislation passed by the Texas Legislature. The Appraisal County is required under such legislation to assess all property with the County on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The assessed value upon which the fiscal 2017-2018 levy was based was approximately \$588,257,430. The combined tax rate to finance general governmental services, including debt service, for the year ended September 30, 2018 was \$0.6546 per \$100 of assessed valuation.

Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available 1) when they become due or past due and receivable within the current period and 2) when they are expected to be collected during a 60-day period after the close of the fiscal year. Current tax collections for the year were 98.48% of the tax levy.

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

Capital Assets

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

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

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

Asset	Years
Buildings and improvements	20-50
Infrastructure	5-50
Vehicles	5
Equipment	2-15

Receivables and Payable Balances

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

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

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

Property taxes		\$	26,673
Fines and fees			270,094
			270,094
			\$ 296,767

Compensated Absences

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

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

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

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

Pensions

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

Interfund Activity

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

Use of Estimates

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

Long-term Obligations

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

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

Deferred Inflows/Outflows of Resources

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

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

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

Fair Value Measurements

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

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

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

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

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

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

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

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

Note 2 - Restricted Assets

Restricted cash and cash equivalents consisted of the following at September 30, 2018:

Description	Amount
Law Enforcement Center construction	\$ 1,299,385
Library donations	566,876
Debt service	118,978
Special Road Repairs Precinct 1 & 3	153,866
Enabling legislation	779,972
Total	\$ 2,919,077

Note 3 - Deposits and Investments

The County’s funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the County’s agent bank approved pledged securities in an amount sufficient to protect County funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Cash Deposits

The County’s cash deposits at September 30, 2018 were entirely covered by FDIC insurance or by pledged collateral held by the County’s bank in the County’s name.

On February 1, 2011, the County placed \$100,000 with West Texas Rural Counties Association (WTRCA) in the Designated Member Equity Fund. An additional \$5,000, \$10,000, \$11,500 and \$12,650 was deposited in May 2014, April 2015, March 2016 and April 2017 respectively, with an additional \$13,915 deposited May 2018, bringing the total to \$153,065. The funds remain the property of McCulloch County and are subject to the Designated Member Equity Fund Regulations established by the Board of Directors. Monies on deposit in this fund are designated member equity in a self-insurance pool, as allowed by statute. Monies on deposit in this fund are not an investment. An annual dividend of 10% was approved for McCulloch County on this equity fund for the current fiscal year by the WTRCA Board of Directors. Withdrawals of Designated Member Equity can be made with twelve (12) months written notice, or with WTRCA Board of Directors approval in the event of a financial emergency within the Member County.

Investments

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

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

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

The County’s investments at September 30, 2018 are shown below.

Investment or Investment Type	Maturity	Amount
Certificates of Deposit	less than one year	\$ 460,000

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

Investment Accounting Policy

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

Note 4 - Receivables

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

	Governmental						Total Governmental Funds
	General Fund	Road and Bridge Funds	Law Enforcement Center Fund	Library Fund	Debt Service Fund	Other Governmental Funds	
Receivables							
Taxes							
Property	\$ 78,519	\$ -	\$ -	\$ -	\$ 10,789	\$ 414	\$ 89,722
Sales	63,452	-	-	-	-	-	63,452
Fines and fees	2,155,163	-	-	-	-	-	2,155,163
Other receivables	59,396	25,372	-	481	4,110	1,129	90,488
Total gross receivables	2,356,530	25,372	-	481	14,899	1,543	2,398,825
Less: Allowance for uncollectibles							
Taxes	(41,611)	-	-	-	(5,415)	(204)	(47,230)
Fines and fees	(1,790,170)	-	-	-	-	-	(1,790,170)
Net total receivables	<u>\$ 524,749</u>	<u>\$ 25,372</u>	<u>\$ -</u>	<u>\$ 481</u>	<u>\$ 9,484</u>	<u>\$ 1,339</u>	<u>\$ 561,425</u>

Note 5 - Capital Assets

Capital asset activity for the period ended September 30, 2018 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 200,615	\$ -	\$ -	\$ 200,615
Construction in progress - jail	1,407,908	8,548,071	-	9,955,979
Construction in progress - library	434,716	712,490	-	1,147,206
Total capital assets, not being depreciated	2,043,239	9,260,561	-	11,303,800
Capital assets, being depreciated				
Infrastructure	1,928,955	-	-	1,928,955
Buildings and improvements	8,093,299	-	-	8,093,299
Furniture and equipment	2,312,327	356,359	-	2,668,686
Vehicles	446,706	124,349	-	571,055
Total capital assets, being depreciated	12,781,287	480,708	-	13,261,995
Less accumulated depreciation for				
Infrastructure	(366,969)	(96,448)	-	(463,417)
Buildings and improvements	(1,896,983)	(163,982)	-	(2,060,965)
Furniture and equipment	(1,272,567)	(188,963)	-	(1,461,530)
Vehicles	(260,326)	(79,840)	-	(340,166)
Total accumulated depreciation	(3,796,845)	(529,233)	-	(4,326,078)
Total capital assets being depreciated, net	8,984,442	(48,525)	-	8,935,917
Governmental activities capital assets, net	\$ 11,027,681	\$ 9,212,036	\$ -	\$ 20,239,717

The estimated costs to complete construction as of September 30, 2018 totaled \$1,288,283.

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

General administrative	\$ 151,900
Public safety	108,144
Road and Bridge	254,864
Library	9,170
Non-departmental	5,155
Total depreciation expense	\$ 529,233

Note 6 - Interfund Balances and Activity

Due to and from Other Funds

There were no balances to and from other funds at September 30, 2018.

Transfers to and from Other Funds

Transfers to and from other funds during year ended September 30, 2018, consisted of the following:

Transfers from	Transfers to	Amount	Purpose
General fund	Road and bridge funds	\$ 334,938	Transfer tax revenue allocated to and supplement other funds
General fund	Law enforcement center fund	800,000	Supplement construction of new jail
General fund	Library fund	186,335	Supplement construction of new library
General fund	Nonmajor governmental funds	63,088	Transfer tax revenue allocated to other funds
Road and bridge funds	Nonmajor governmental funds	2,416	Supplement other funds
Total		<u>\$ 1,386,777</u>	

Note 7 - Lease Commitments

The County has operating lease obligations as of September 30, 2018 for copiers leased for the District Clerk, County Clerk, Sheriff's office, Justice of the Peace, and a copier split between the Treasurer and Judge. These lease obligations have been recorded in the General Fund. The County's future minimum lease commitments on these operating leases are shown as follows:

<u>Year Ending September 30</u>	
2019	<u>\$ 3,381</u>
Total	<u>\$ 3,381</u>

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

Note 8 - Long-Term Obligations

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

Bonds Payable

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

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

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

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 385,000	\$ 293,722	\$ 678,722
2020	395,000	282,456	677,456
2021	410,000	269,538	679,538
2022	425,000	256,132	681,132
2023	435,000	242,311	677,311
2024-2028	2,405,000	987,825	3,392,825
2029-2033	2,795,000	598,875	3,393,875
2034-2037	2,560,000	156,600	2,716,600
Totals	<u>\$ 9,810,000</u>	<u>\$ 3,087,459</u>	<u>\$ 12,897,459</u>

Notes Payable

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

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

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

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

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

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

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

On February 23, 2018, the County entered into a note agreement with First National Bank of Abilene, TX in the amount of \$71,250 at an annual interest rate of 4.05% for a period of five years for the purpose of purchasing software for the Sheriff's office. Payments are due annually at an amount of \$16,022 with a final maturity in fiscal year 2023.

On April 23, 2018, the County entered into a note agreement with Citizens First Bank in the amount of \$119,209 at an annual interest rate of 4.413% for a period of four years for the purpose of purchasing a John Deere 33G Compact Track Loader with Fecon Mulcher. Payments are due annually at an amount of \$33,149 with a final maturity in fiscal year 2022.

On September 21, 2018, the County entered into a note agreement with First Financial Bank of Abilene, TX in the amount of \$51,469 at an annual interest rate of 4.841% for a period of five years for the purpose of purchasing a vehicle for the Extension office. Payments are due annually at an amount of \$12,559 for the first year and \$11,461 for the remaining four years, with a final maturity in fiscal year 2023.

On September 26, 2018, the County entered into a note agreement with Commercial National Bank of Brady, TX in the amount of \$17,500 at an annual interest rate of 4.5% for a period of one year for the purpose of purchasing a dump truck. Payments are due annually at an amount of \$17,500 with a final maturity in fiscal year 2019.

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

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 156,074	\$ 18,553	\$ 174,627
2020	273,067	15,066	288,133
2021	54,576	6,057	60,633
2022	56,974	3,658	60,632
2023	25,581	1,153	26,734
Totals	<u>\$ 566,272</u>	<u>\$ 44,487</u>	<u>\$ 610,759</u>

Capital Leases

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

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

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

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

Future minimum lease payments under capital leases are as follows:

Year Ending September 30,		
2019	\$	45,573
2020		23,968
2021		181,175
Total minimum lease payments		250,716
Less amount representing interest		15,000
Present value of minimum lease payments	\$	235,716

Total interest expense on capital leases for the year ended September 30, 2018 was \$8,566.

The following is an analysis of the leased assets:

Equipment	\$	543,679
Less accumulated depreciation		(201,934)
Net value of leased assets	\$	341,745

Compensated Absences

County employees are entitled certain compensated absences based on their length of employment. Accrued compensated absences at September 30, 2018 totaled \$12,606.

Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2018, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Note payable - Caterpillar Financial Services Corp.	\$ 124,716	\$ -	\$ (10,558)	\$ 114,158	\$ 14,418
Note payable - Government Capital Corporation	21,675	-	(21,675)	-	-
Note payable - Caterpillar Financial Services Corp.	126,525	-	(16,024)	110,501	14,516
Note payable - Commercial National Bank - Brady	25,960	-	(25,960)	-	-
Note payable - Commercial National Bank - Brady	20,000	-	(20,000)	-	-
Note payable - Government Capital Corporation	72,380	-	(23,240)	49,140	24,074
Note payable - First State Bank	64,885	-	(31,840)	33,045	33,045
Note payable - First Financial Bank	-	71,250	-	71,250	13,160
Note payable - Citizens First Bank	-	119,209	-	119,209	27,933
Note payable - First Financial Bank	-	51,469	-	51,469	11,428
Note payable - Commercial National Bank - Brady	-	17,500	-	17,500	17,500
Total notes payable	456,141	259,428	(149,297)	566,272	156,074
Bonds payable - Bond Series 2008	715,000	-	(110,000)	605,000	115,000
Bonds payable - Bond Series 2017	9,355,000	-	(150,000)	9,205,000	270,000
Bonds payable - Bond Premium	298,110	-	(15,690)	282,420	15,690
Total bonds payable	10,368,110	-	(275,690)	10,092,420	400,690
Capital lease - Welsh State Bank	16,489	-	(16,489)	-	-
Capital lease - John Deere Financial	41,393	-	(20,386)	21,007	21,007
Capital lease - John Deere Financial	232,112	-	(17,403)	214,709	17,825
Total capital leases payable	289,994	-	(54,278)	235,716	38,832
Compensated absences	27,156	-	(14,550)	12,606	2,521
Total governmental activities	<u>\$11,141,401</u>	<u>\$ 259,428</u>	<u>\$ (493,815)</u>	<u>\$10,907,014</u>	<u>\$ 598,117</u>

Note 9 - Pension Plan

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

Benefits Provided

The plan provisions are adopted by the governing body of the County, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service or with 20 years of service regardless of age or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump-sum are not entitled to any amounts contributed by their employer.

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

Membership. County membership in the TCDRS plan at December 31, 2017, consisted of the following:

Inactive Employees	
Receiving benefits	34
Entitled to but not receiving benefits	22
Active Employees	47

Contributions

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

	Contribution Rates	
	2017	2018
Member	7.0%	7.0%
Employers	7.0%	7.0%
Employer Contributions		\$ 110,105
Member Contributions		\$ 110,105

Actuarial Assumptions

The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2017
Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	0.0 years
Asset Valuation Method	5 year smoothed market
Discount Rate	8.10%
Long-term expected Investment Rate of Return*	8.10%
Salary Increases*	4.90%, average
Payroll Growth Rate	3.25%

**Includes Inflation of 2.75%*

The plan does not have an automatic cost-of-living adjustment and one is not considered to be substantively automatic under GASB No. 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculation or in the funding valuation. Each year, the plan may elect an ad-hoc COLA for its retirees.

Disability rates for males and females were as follows:

Age	Male and Female Occupational	Male and Female All Other Causes
28-29	-	0.00008
30	-	0.00009
31-32	-	0.00010
33	-	0.00011
34	-	0.00014
35	0.00001	0.00018
36	0.00001	0.00022
37	0.00002	0.00028
38	0.00002	0.00033
39	0.00002	0.00038
40	0.00002	0.00042
41	0.00003	0.00047
42	0.00003	0.00053
43	0.00004	0.00058
44	0.00004	0.00063
45	0.00004	0.00069
46	0.00005	0.00076
47	0.00006	0.00084
48	0.00007	0.00095
49	0.00009	0.00109
50	0.00010	0.00125
51	0.00012	0.00142
52	0.00013	0.00162
53	0.00015	0.00183
54	0.00018	0.00203
55	0.00018	0.00222
56	0.00018	0.00238
57	0.00018	0.00250
58	0.00018	0.00259
59	0.00018	0.00270
60 and above	0.00018	-

Mortality rates for depositing members were based on 90% of the RP-2014 Active Employee Mortality Table for males and females as appropriate, with adjustments, projected with 110% of the MP-2014 Ultimate Scale after 2014. Service retirees, beneficiaries, and non-depositing members were based on 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females as appropriate, with adjustments, projected with 110% of the MP-2014 Ultimate Scale after 2014. Disabled retirees were based on 130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the MP-2014 Disabled Annuitant Mortality Table for females as appropriate, with adjustments, projected with 110% of the MP-2014 Ultimate Scale after 2014.

Service retirement rates for males and females were as follows:

Age	Male and Female
40-44	0.045
45-49	0.090
50	0.010
51-53	0.009
54-57	0.100
58-61	0.120
62	0.200
63-64	0.150
65-66	0.250
67	0.220
68-69	0.200
70-74	0.220
75 & Over	1.000

The actuarial assumptions were developed from an actuarial experience investigation of TCDRS over the years 2013 - 2016. Assumptions were recommended by Milliman, Inc., adopted by the TCDRS Board of Trustees in 2017 and first used in the December 31, 2017 actuarial valuation.

There were no changes in methods reflected in the December 31, 2017 actuarial valuation. The following changes in actuarial assumptions were reflected in the December 31, 2017 actuarial valuation:

- Inflation assumptions decreased from 3.00% per year to 2.75% per year, with a corresponding decrease in the general wage growth assumption from 3.5% to 3.25%.
- Slightly adjusted all mortality rates to better reflect anticipated experience.
- Adjusted retirement rates to reflect people retiring at older ages.
- Lowered disability retirement rates.
- Adjustments made to termination rates.
- Lowered probability of withdrawal of contributions upon termination.
- Adjusted merit salary scale to reflect anticipated future experience.
- Adjusted payroll increase assumption to reflect the changes in the general wage growth assumption and to reflect changes in anticipated experience.

Discount Rate

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

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

1. TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
2. Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.

3. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
4. Any increased cost due to the adoption of a cost-of-living adjustment is required to be funded over a period of 15 years, if applicable.

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

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

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2018 information for a 10 year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2017 based on the period January 1, 2013 – December 31, 2016. Best estimates of geometric real rates of return for each major asset class included in the target asset allocation are summarized below:

Asset Class	Benchmark	Target Allocation ¹	Geometric Real Rate of Return (Expected minus Inflation) ²
US Equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.55%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ³	16.00%	7.55%
Global Equities	MSCI World (net) Index	1.50%	4.85%
International Equities – Developed	MSCI World Ex USA (net)	11.00%	4.55%
International Equities – Emerging	MSCI EM Standard (net) Index	8.00%	5.55%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	0.75%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	8.00%	4.12%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.06%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁴	2.00%	6.30%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.05%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	6.00%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁵	6.00%	6.25%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	18.00%	4.10%

¹Target asset allocation adopted at the April 2018 TCDRS Board meeting.

²Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.95%, per Cliffwater’s 2018 capital market assumptions.

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

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

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

Pension Asset, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2018 the County reported a net pension asset of \$431,389 measured at December 31, 2017. For the year ended September 30, 2018, the County recognized pension expense of \$125,540.

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

Changes in the net pension asset for the measurement year ended December 31, 2017 are as follows:

Changes in Net Pension Liability / (Asset)	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at December 31, 2016	\$ 5,067,901	\$ 5,096,181	\$ (28,280)
Changes for the Year			
Service cost	186,152	-	186,152
Interest on total pension liability ¹	412,727	-	412,727
Effect of plan changes ²	-	-	-
Effect of economic/demographic gains or losses	(81,744)	-	(81,744)
Effect of assumptions changes or inputs	36,936	-	36,936
Refund of contributions	(13,029)	(13,029)	-
Benefit payments	(310,599)	(310,599)	-
Administrative expenses	-	(3,810)	3,810
Member contributions	-	110,105	(110,105)
Net investment income	-	742,201	(742,201)
Employer contributions	-	110,105	(110,105)
Other ³	-	(1,421)	1,421
Balances as of December 31, 2017	\$ 5,298,344	\$ 5,729,733	\$ (431,389)

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

²No plan changes valued

³Relates to the allocation of system-wide items.

Discount Rate Sensitivity Analysis

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

	1% Decrease (7.1%)	Current Discount Rate (8.1%)	1% Increase (9.1%)
Total pension liability	\$ 5,956,558	\$ 5,298,344	\$ 4,743,593
Fiduciary net position	5,729,732	5,729,733	5,729,732
 Net pension liability / (asset)	 \$ 226,826	 \$ (431,389)	 \$ (986,139)

At December 31, 2017 the County reported its deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual economic experience	\$ 83,802	\$ 9,711
Changes in actuarial assumptions	-	42,907
Net difference between projected and actual investment earnings	70,782	-
Contributions paid to TCDRS subsequent to the measurement date	-	82,201
 Total	 \$ 154,584	 \$ 134,819

\$82,201 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as an increase of the net pension asset for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows or resources related to pensions, will be recognized in pension expense as follows:

Year Ended August 31	Pension Expense Amount
2018	\$ 25,895
2019	17,756
2020	(69,910)
2021	(75,707)
2022	-
Thereafter	-
 Total	 \$ (101,966)

Note 10 - Commitments and Contingencies

Contingencies

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

Litigation

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

Note 11 - Fund Balance

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

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

Nonspendable, such as fund balance associated with inventories, prepaid expenditures, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned).

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

Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Commissioners' Court (the County's highest level of decision-making authority).

Assigned fund balance classification includes amounts intended to be used by the County for specific purposes but that do not meet the criteria to be classified as restricted or committed.

Unassigned fund balance is the residual classification for the County's general fund and includes all spendable amounts not contained in the other classifications.

Restricted Fund Balance

At September 30, 2018, the restricted fund balance is composed of the following:

Law enforcement center	\$	380,506
Debt service		125,625
Permanent improvement		228,273
Special ad valorem		105,923
Library		394,140
Law library		40,126
Hot check		3,268
Special road repairs precinct 1 & 3		153,866
Archive fees		40,527
Court record preservation		6,703
Courthouse security		54,290
Pre-trial diversion		40,702
Records management		134,591
Restoration and preservation		20,854
Technology fees		45,305
Video fees		4,335
Conservation dam maintenance		18,000
Probate training		8,671
Salary supplement excess – county judge		1,842
CETRZ grant		1,726
Voting equipment rental		25,908
Court reporter fees		833
		833
		\$ 1,836,014

Committed Fund Balance

The County’s committed fund balance is the portion of the fund balance that may only be established and modified by a formal action of the Commissioners’ Court. At September 30, 2018, the following amounts of fund balance are committed by a formal action of the Commissioners’ Court:

None in the current year

Assigned Fund Balance

The Commissioners’ Court has the authority to assign fund balance to each of the four road & bridge precincts. At September 30, 2018, the following amounts of fund balance have been assigned:

Road and bridge operations	\$	303,074
Conservation dam maintenance		3,000
Child Abuse Prevention		341
Truancy Court		100
		100
		\$ 306,515

Order of Fund Balance Spending Policy

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

Minimum Fund Balance Policy

The County does not have a minimum fund balance policy.



Required Supplementary Information
September 30, 2018

McCulloch County

McCulloch County
 Budgetary Comparison Schedule – General Fund
 Year Ended September 30, 2018

	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues				
Property taxes	\$ 2,587,030	\$ 2,587,030	\$ 3,176,433	\$ 589,403
Other taxes	675,000	675,000	801,225	126,225
Fines and fees	384,850	384,850	467,813	82,963
Intergovernmental and grants	60,243	60,243	90,086	29,843
Investment earnings	36,000	36,000	65,831	29,831
Miscellaneous	54,095	54,095	97,985	43,890
Total revenues	3,797,218	3,797,218	4,699,373	902,155
Expenditures				
Current				
General administrative	846,033	846,033	853,417	(7,384)
Judicial	737,455	745,455	656,067	89,388
Public safety	1,210,246	1,230,246	1,219,110	11,136
Agriculture extension service	99,929	99,929	100,905	(976)
Facilities	89,765	89,765	96,335	(6,570)
Non-departmental	672,100	644,100	492,210	151,890
Veteran's service office	11,242	11,242	10,928	314
Elections	10,000	10,000	15,708	(5,708)
Debt service				
Principal	83,000	83,000	76,755	6,245
Interest and fiscal charges	-	-	5,994	(5,994)
Capital outlay	20,500	20,500	205,599	(185,099)
Total expenditures	3,780,270	3,780,270	3,733,028	47,242
Excess (Deficiency) of revenue over expenditures	16,948	16,948	966,345	949,397
Other financing sources (uses)				
Loan/capital lease proceeds	-	-	122,719	122,719
Sale of property	-	-	-	-
Transfers in (out)	(183,842)	(183,842)	(1,384,361)	(1,200,519)
Total other financing sources (uses)	(183,842)	(183,842)	(1,261,642)	(1,077,800)
Net change in fund balances	(166,894)	(166,894)	(295,297)	(128,403)
Fund balances at beginning of year	2,765,298	2,765,298	2,765,298	-
Fund balances at end of year	\$ 2,598,404	\$ 2,598,404	\$ 2,470,001	\$ (128,403)

McCulloch County
 Budgetary Comparison Schedule – Road and Bridge Fund
 Year Ended September 30, 2018

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues				
Fines and fees	\$ 452,700	\$ 452,700	\$ 495,200	\$ 42,500
Investment earnings	3,700	3,700	8,222	4,522
Miscellaneous	-	-	9,148	9,148
Total revenues	456,400	456,400	512,570	56,170
Expenditures				
Current				
Road and Bridge	1,018,095	1,018,095	815,536	202,559
Debt service				
Principal	115,000	115,000	126,820	(11,820)
Interest and fiscal charges	-	-	17,882	(17,882)
Capital outlay	154,000	154,000	175,109	(21,109)
Total expenditures	1,287,095	1,287,095	1,135,347	151,748
Excess (Deficiency) of revenue over expenditures	(830,695)	(830,695)	(622,777)	207,918
Other financing sources (uses)				
Loan/capital lease proceeds	-	-	136,709	136,709
Sale of property	-	-	-	-
Transfers in (out)	541,121	541,121	332,522	(208,599)
Total other financing sources (uses)	541,121	541,121	469,231	(71,890)
Net change in fund balances	(289,574)	(289,574)	(153,546)	136,028
Fund balances at beginning of year	475,587	475,587	475,587	-
Fund balances at end of year	\$ 186,013	\$ 186,013	\$ 322,041	\$ 136,028

McCulloch County
Schedule of Changes in Net Pension Asset and Related Ratios – Texas County & District Retirement System
Year Ended September 30, 2018

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Total Pension Liability				
Service cost	\$ 186,152	\$ 199,000	\$ 177,841	\$ 161,983
Interest on total pension liability	412,727	384,485	371,113	347,265
Effect of plan changes	-	-	(27,594)	-
Effect of assumption changes or inputs	36,936	-	53,432	-
Effect of economic/demographic (gains) or losses	(81,744)	19,422	(73,629)	56,461
Benefit payments/refunds of contributions	(323,628)	(361,306)	(307,312)	(276,740)
	<u>230,443</u>	<u>241,601</u>	<u>193,851</u>	<u>288,969</u>
Net change in total pension liability				
Total pension liability, beginning	<u>5,067,901</u>	<u>4,826,300</u>	<u>4,632,449</u>	<u>4,343,480</u>
Total pension liability, ending (a)	<u><u>\$ 5,298,344</u></u>	<u><u>\$ 5,067,901</u></u>	<u><u>\$ 4,826,300</u></u>	<u><u>\$ 4,632,449</u></u>
Fiduciary Net Position				
Employer contributions	\$ 110,105	\$ 103,981	\$ 103,900	\$ 94,570
Member contributions	110,105	103,981	103,900	94,570
Investment income net of investment expenses	742,201	359,990	(9,338)	322,177
Benefit payments/refunds of contributions	(323,628)	(361,306)	(307,312)	(276,740)
Administrative expenses	(3,810)	(3,915)	(3,561)	(3,781)
Other	(1,421)	27,872	(49,121)	12,949
	<u>633,552</u>	<u>230,603</u>	<u>(161,532)</u>	<u>243,745</u>
Net change in fiduciary net position				
Fiduciary net position, beginning	<u>5,096,181</u>	<u>4,865,578</u>	<u>5,027,110</u>	<u>4,783,365</u>
Fiduciary net position, ending (b)	<u><u>\$ 5,729,733</u></u>	<u><u>\$ 5,096,181</u></u>	<u><u>\$ 4,865,578</u></u>	<u><u>\$ 5,027,110</u></u>
Net pension liability / (asset), ending = (a) - (b)	<u><u>\$ (431,389)</u></u>	<u><u>\$ (28,280)</u></u>	<u><u>\$ (39,278)</u></u>	<u><u>\$ (394,661)</u></u>
Fiduciary net position as a percentage of total pension liability	108.14%	100.56%	100.81%	108.52%
Pensionable covered payroll	\$ 1,572,931	\$ 1,485,448	\$ 1,484,285	\$ 1,351,003
Net pension liability as a percentage of covered payroll	-27.43%	-1.90%	-2.65%	-29.21%

McCulloch County
Schedule of Employer Contributions – Texas County & District Retirement System
Year Ended September 30, 2018

<u>Year Ending September 30,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Pensionable Covered Payroll</u>	<u>Actual Contribution as a Percentage of Covered Payroll</u>
2009	\$ 29,141	\$ 71,076	\$ (41,935)	\$ 1,015,374	7.0
2010	43,737	74,856	(31,119)	1,069,374	7.0
2011	41,632	77,713	(36,081)	1,110,187	7.0
2012	52,215	81,585	(29,370)	1,165,505	7.0
2013	62,969	84,441	(21,472)	1,206,298	7.0
2014	80,114	94,570	(14,456)	1,351,003	7.0
2015	84,011	103,900	(19,889)	1,484,285	7.0
2016	84,225	103,981	(19,756)	1,485,448	7.0
2017	81,792	110,105	(28,313)	1,572,931	7.0
2018	82,616	111,215	(28,599)	1,588,786	7.0

Budgetary Information

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

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

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

The following General Fund expenditures exceeded budgeted amounts:

	2018			
	Original Budget	Final Budget	Actual	Variance from Final Budget
General Administrative	\$ 846,033	\$ 846,033	\$ 853,417	\$ (7,384)
Agriculture extension service	99,929	99,929	100,905	(976)
Facilities	89,765	89,765	96,335	(6,570)
Elections	10,000	10,000	15,708	(5,708)
Capital outlay	20,500	20,500	205,599	(185,099)
Transfers out	183,842	183,842	1,384,361	(1,200,519)

The following Road and Bridge Fund expenditures exceeded budgeted amounts

	2018			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Capital outlay	\$ 154,000	\$ 154,000	\$ 175,109	\$ (21,109)
Debt service	115,000	115,000	144,702	(29,702)

Net Pension Liability – Texas County & District Retirement System

Assumptions

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

Valuation date	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	0.0 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	4.9%, average, including inflation
Investment rate of return	8.00%, including inflation
Cost-of-living adjustments	Cost-of-living adjustments for the County are not considered to be substantively automatic. Therefore, no assumption for cost-of-living adjustments is included in the calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Mortality	Assumed life expectancies are based on the RP-2000 Active Employee Mortality Table for depositing members, the RP-2000 Combined Mortality Table for service retirees and the RP-2000 Disabled Mortality Table for disabled retirees.

Changes of Benefit Terms

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

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

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

Changes of Assumptions

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



Combining Statements as Supplementary Information
September 30, 2018

McCulloch County

	Special Ad Valorem	Law Library	Hot Check	Special Road Repairs Precinct 1 & 3
Assets				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Receivables (net of allowances)				
Taxes	210	-	-	-
Other	99	455	210	-
Restricted Assets				
Cash and cash equivalents	<u>105,751</u>	<u>39,715</u>	<u>3,144</u>	<u>153,866</u>
Total assets	<u>\$ 106,060</u>	<u>\$ 40,170</u>	<u>\$ 3,354</u>	<u>\$ 153,866</u>
Liabilities				
Accounts payable	<u>\$ -</u>	<u>\$ 44</u>	<u>\$ 86</u>	<u>\$ -</u>
Total liabilities	-	44	86	-
Deferred Inflows of Resources				
Unavailable revenue - property taxes	<u>137</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>137</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Restricted	105,923	40,126	3,268	153,866
Assigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>105,923</u>	<u>40,126</u>	<u>3,268</u>	<u>153,866</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 106,060</u>	<u>\$ 40,170</u>	<u>\$ 3,354</u>	<u>\$ 153,866</u>

McCulloch County
 Combining Balance Sheet – Nonmajor Governmental Funds
 September 30, 2018

Archive Fees	Court Record Preservation	Courthouse Security	Pre-Trial Diversion	Records Management	Restoration and Preservation
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
<u>40,527</u>	<u>6,703</u>	<u>54,290</u>	<u>40,702</u>	<u>134,591</u>	<u>20,854</u>
<u>\$ 40,527</u>	<u>\$ 6,703</u>	<u>\$ 54,290</u>	<u>\$ 40,702</u>	<u>\$ 134,591</u>	<u>\$ 20,854</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>40,527</u>	<u>6,703</u>	<u>54,290</u>	<u>40,702</u>	<u>134,591</u>	<u>20,854</u>
-	-	-	-	-	-
<u>40,527</u>	<u>6,703</u>	<u>54,290</u>	<u>40,702</u>	<u>134,591</u>	<u>20,854</u>
<u>\$ 40,527</u>	<u>\$ 6,703</u>	<u>\$ 54,290</u>	<u>\$ 40,702</u>	<u>\$ 134,591</u>	<u>\$ 20,854</u>

	Technology Fees	Video Fees	Conservation Dam Maintenance	Probate Training
Assets				
Cash and cash equivalents	\$ -	\$ -	\$ 3,000	\$ -
Receivables (net of allowances)				
Taxes	-	-	-	-
Other	-	-	-	-
Restricted Assets				
Cash and cash equivalents	45,305	4,335	18,000	8,671
Total assets	\$ 45,305	\$ 4,335	\$ 21,000	\$ 8,671
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-
Deferred Inflows of Resources				
Unavailable revenue - property taxes	-	-	-	-
Total deferred inflows of resources	-	-	-	-
Fund Balances				
Restricted	45,305	4,335	18,000	8,671
Assigned	-	-	3,000	-
Total fund balance	45,305	4,335	21,000	8,671
Total liabilities, deferred inflows of resources, and fund balances	\$ 45,305	\$ 4,335	\$ 21,000	\$ 8,671

McCulloch County
Combining Balance Sheet – Nonmajor Governmental Funds
September 30, 2018

Salary Supp. Excess Co. Judge	Voting Equipment Rental	Child Abuse Prevention	Truancy Court	CETRZ Grant Fund	Court Reporter Fees
\$ -	\$ -	\$ 341	\$ 100	\$ -	\$ 833
-	-	-	-	-	-
-	-	-	-	-	-
<u>1,842</u>	<u>25,908</u>	<u>-</u>	<u>-</u>	<u>1,726</u>	<u>-</u>
<u>\$ 1,842</u>	<u>\$ 25,908</u>	<u>\$ 341</u>	<u>\$ 100</u>	<u>\$ 1,726</u>	<u>\$ 833</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>1,842</u>	<u>25,908</u>	<u>-</u>	<u>-</u>	<u>1,726</u>	<u>833</u>
<u>-</u>	<u>-</u>	<u>341</u>	<u>100</u>	<u>-</u>	<u>-</u>
<u>1,842</u>	<u>25,908</u>	<u>341</u>	<u>100</u>	<u>1,726</u>	<u>833</u>
<u>\$ 1,842</u>	<u>\$ 25,908</u>	<u>\$ 341</u>	<u>\$ 100</u>	<u>\$ 1,726</u>	<u>\$ 833</u>

McCulloch County
Combining Balance Sheet – Nonmajor Governmental Funds
September 30, 2018

	Total Nonmajor Special Revenue Funds	Permanent Improvement Fund	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 4,274	\$ -	\$ 4,274
Receivables (net of allowances)			
Taxes	210	-	210
Other	764	365	1,129
Restricted Assets			
Cash and cash equivalents	705,930	227,908	933,838
	<u>711,178</u>	<u>228,273</u>	<u>939,451</u>
Total assets	<u>\$ 711,178</u>	<u>\$ 228,273</u>	<u>\$ 939,451</u>
Liabilities			
Accounts payable	\$ 130	\$ -	\$ 130
	<u>130</u>	<u>-</u>	<u>130</u>
Total liabilities	<u>130</u>	<u>-</u>	<u>130</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	137	-	137
	<u>137</u>	<u>-</u>	<u>137</u>
Total deferred inflows of resources	<u>137</u>	<u>-</u>	<u>137</u>
Fund Balances			
Restricted	707,470	228,273	935,743
Assigned	3,441	-	3,441
	<u>710,911</u>	<u>228,273</u>	<u>939,184</u>
Total fund balance	<u>710,911</u>	<u>228,273</u>	<u>939,184</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 711,178</u>	<u>\$ 228,273</u>	<u>\$ 939,451</u>

	Special Ad Valorem	Law Library	Hot Check	Special Road Repairs Precinct 1 & 3
Revenues				
Property taxes	\$ 17,541	\$ -	\$ -	\$ -
Fines and fees	-	4,970	790	-
Investment earnings	1,844	698	49	13,977
Miscellaneous	-	-	-	-
Total revenues	19,385	5,668	839	13,977
Expenditures				
Current				
General government	-	1,239	-	-
Total expenditures	-	1,239	-	-
Excess (Deficiency) of revenues over (under) expenditures	19,385	4,429	839	13,977
Other financing sources				
Transfers in (out)	-	279	-	-
Total other financing sources (uses)	-	279	-	-
Net change in fund balances	19,385	4,708	839	13,977
Fund balances at beginning of year	86,538	35,418	2,429	139,889
Fund balances at end of year	\$ 105,923	\$ 40,126	\$ 3,268	\$ 153,866

McCulloch County
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental
 Funds
 Year Ended September 30, 2018

Archive Fees	Court Record Preservation	Courthouse Security	Pre-Trial Diversion	Records Management	Restoration and Preservation
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17,192	2,587	10,737	13,560	16,180	1,888
-	-	-	-	-	-
-	-	-	-	-	-
17,192	2,587	10,737	13,560	16,180	1,888
54,688	4,011	9,393	4,281	-	2,242
54,688	4,011	9,393	4,281	-	2,242
(37,496)	(1,424)	1,344	9,279	16,180	(354)
-	-	-	-	-	-
-	-	-	-	-	-
(37,496)	(1,424)	1,344	9,279	16,180	(354)
78,023	8,127	52,946	31,423	118,411	21,208
<u>\$ 40,527</u>	<u>\$ 6,703</u>	<u>\$ 54,290</u>	<u>\$ 40,702</u>	<u>\$ 134,591</u>	<u>\$ 20,854</u>

	Technology Fees	Video Fees	Conservation Dam Maintenance	Probate Training
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
Fines and fees	9,738	302	-	235
Investment earnings	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	9,738	302	-	235
Expenditures				
Current				
General government	9,102	-	-	125
Total expenditures	9,102	-	-	125
Excess (Deficiency) of revenues over (under) expenditures	636	302	-	110
Other financing sources				
Transfers in (out)	-	-	2,000	-
Total other financing sources (uses)	-	-	2,000	-
Net change in fund balances	636	302	2,000	110
Fund balances at beginning of year	44,669	4,033	19,000	8,561
Fund balances at end of year	\$ 45,305	\$ 4,335	\$ 21,000	\$ 8,671

McCulloch County
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental
 Funds
 Year Ended September 30, 2018

Salary Supp. Excess Co. Judge	Voting Equipment Rental	Child Abuse Prevention	Truancy Court	CETRZ Grant Fund	Court Reporter Fees
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	241	50	-	1,185
-	-	-	-	31	-
-	58	-	-	-	-
-	58	241	50	31	1,185
-	-	-	-	-	352
-	-	-	-	-	352
-	58	241	50	31	833
-	-	-	-	-	-
-	-	-	-	-	-
-	58	241	50	31	833
1,842	25,850	100	50	1,695	-
\$ 1,842	\$ 25,908	\$ 341	\$ 100	\$ 1,726	\$ 833

McCulloch County
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental
Funds
Year Ended September 30, 2018

	Total Nonmajor Special Revenue Funds	Permanent Improvement Fund	Total Nonmajor Governmental Funds
Revenues			
Property taxes	\$ 17,541	\$ -	\$ 17,541
Fines and fees	79,655	-	79,655
Investment earnings	16,599	3,973	20,572
Miscellaneous	58	-	58
	<u>113,853</u>	<u>3,973</u>	<u>117,826</u>
Expenditures			
Current			
General government	85,433	34,754	120,187
	<u>85,433</u>	<u>34,754</u>	<u>120,187</u>
Excess (Deficiency) of revenues over (under) expenditures	28,420	(30,781)	(2,361)
Other financing sources			
Transfers in (out)	2,279	63,225	65,504
	<u>2,279</u>	<u>63,225</u>	<u>65,504</u>
Net change in fund balances	30,699	32,444	63,143
Fund balances at beginning of year	680,212	195,829	876,041
Fund balances at end of year	<u>\$ 710,911</u>	<u>\$ 228,273</u>	<u>\$ 939,184</u>

	Tax Accessor/ Collector	Tax Accessor/ Collector Chapter 19	District Clerk Excess Tax	District Clerk
Assets				
Cash and cash equivalents	\$ 88,966	\$ 4	\$ 37,981	\$ 7,936
Accounts receivable	-	-	-	-
Due from other funds	-	-	-	-
	<u>88,966</u>	<u>4</u>	<u>37,981</u>	<u>7,936</u>
Total assets	<u>\$ 88,966</u>	<u>\$ 4</u>	<u>\$ 37,981</u>	<u>\$ 7,936</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to others	88,966	4	37,981	7,936
Due to other funds	-	-	-	-
	<u>88,966</u>	<u>4</u>	<u>37,981</u>	<u>7,936</u>
Total liabilities	<u>\$ 88,966</u>	<u>\$ 4</u>	<u>\$ 37,981</u>	<u>\$ 7,936</u>

McCulloch County
 Combining Statement of Fiduciary Assets and Liabilities – Fiduciary Funds
 September 30, 2018

District Clerk Trust	County Clerk Escrow	County Clerk Fees	County Clerk Trust	Sheriff's Department	Sheriff's Forfeiture
\$ 117,751	\$ 21,202	\$ 27,916	\$ 137	\$ 1,614	\$ 7,050
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 117,751</u>	<u>\$ 21,202</u>	<u>\$ 27,916</u>	<u>\$ 137</u>	<u>\$ 1,614</u>	<u>\$ 7,050</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
117,751	21,202	27,916	137	1,614	7,050
-	-	-	-	-	-
<u>\$ 117,751</u>	<u>\$ 21,202</u>	<u>\$ 27,916</u>	<u>\$ 137</u>	<u>\$ 1,614</u>	<u>\$ 7,050</u>

	Sheriff's LEOSE	DREAM	Inmate Trust	Commissary Profit
Assets				
Cash and cash equivalents	\$ 2,171	\$ 1,542	\$ 11,432	\$ 4,568
Accounts receivable	-	-	-	-
Due from other funds	-	-	-	-
Total assets	\$ 2,171	\$ 1,542	\$ 11,432	\$ 4,568
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ 2,962
Due to others	2,171	1,542	11,432	1,606
Due to other funds	-	-	-	-
Total liabilities	\$ 2,171	\$ 1,542	\$ 11,432	\$ 4,568

McCulloch County
 Combining Statement of Fiduciary Assets and Liabilities – Fiduciary Funds
 September 30, 2018

Justice of the Peace	Prosecutor's Collection	State Trust	Payroll Clearing	Richards Memorial Library	Total Agency Funds
\$ 16,738	\$ 3,498	\$ 57,580	\$ 33,810	\$ 731	\$ 442,627
-	-	-	2,323	-	2,323
-	-	-	-	-	-
<u>\$ 16,738</u>	<u>\$ 3,498</u>	<u>\$ 57,580</u>	<u>\$ 36,133</u>	<u>\$ 731</u>	<u>\$ 444,950</u>
\$ -	\$ -	\$ 54,436	\$ 30,650	\$ -	\$ 88,048
16,738	3,498	3,144	5,483	731	356,902
-	-	-	-	-	-
<u>\$ 16,738</u>	<u>\$ 3,498</u>	<u>\$ 57,580</u>	<u>\$ 36,133</u>	<u>\$ 731</u>	<u>\$ 444,950</u>



Other Supplementary Information
September 30, 2018

McCulloch County



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable Judge and
Members of the Commissioners’ Court
McCulloch County
Brady, Texas

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of McCulloch County, Texas (the County), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which comprise the County’s basic financial statements and have issued our report thereon dated February 28, 2019.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be a material weakness. See Finding 2018-003.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. See Finding 2018-001 and Finding 2018-002.

Compliance and Other Matters

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

McCulloch County, Texas' Response to Findings

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Eide Sully LLP".

Abilene, Texas
February 28, 2019

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor’s report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

Section II – Financial Statement Findings

Finding 2018-001:

Financial Reporting

Type of Finding:

Significant Deficiency

Criteria:

Management of the County is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP). This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Condition:

The County does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In conjunction with the completion of our audit, we were requested to draft the financial statements and accompanying notes to those financial statements. Additionally, we proposed several audit adjustments to the County’s recorded account balances, which if not detected by our auditing procedures, could have resulted in a material misstatement of the County’s financial statements.

Cause:

The County does not prepare and has not developed an internal control system to provide for the preparation of the financial statements and related disclosures in accordance with generally accepted accounting principles.

Effect: Although this circumstance is not unusual for an organization of your size, the preparation of financial statements and adjusting journal entries as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by County personnel. The need for the audit adjustments indicates that the County's interim financial information may not be materially correct, which may affect management decisions made during the course of the year.

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

Views of Responsible Officials: Management agrees with the noted finding. Refer to Corrective Action Plan.

Finding 2018-002:

County Clerk Refund Process

Type of Finding: Significant Deficiency

Criteria: County policies require dual signatures on the Request for Reimbursement form for any issued refunds.

Condition: We examined one refund transaction that had been made without the required dual signatures.

Cause: The dual signer was out of the office on the date of the refund.

Effect: There was a lack of an appropriate level of segregation of duties over this transaction as it was approved and funds were disbursed by the same individual.

Recommendation: County personnel should be cross trained so that appropriate approvals occur when individuals are out of the office.

Views of Responsible Officials: Management agrees with the noted finding. Refer to Corrective Action Plan.

<u>Finding 2018-003:</u>	County Clerk Account Reconciliation
Type of Finding:	Material Weakness
Criteria:	Bank reconciliations should be performed in order to document that an account balance is correct.
Condition:	We examined the reconciliation for the County Clerk bank account for August 2018 noting only receipts are reconciled to the deposits on the bank statements. The remaining balance is not reconciled.
Cause:	The balance of the account is not reconciled during monthly reconciliations.
Effect:	The lack of an appropriate reconciliation increases the risk of material misstatement in the financial statements, either due to error or fraud.
Recommendation:	The County should design and implement a reconciliation process where the balance of the bank account is reconciled.
Views of Responsible Officials:	Management agrees with the noted finding. Refer to Corrective Action Plan.



Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan
September 30, 2018

Prepared by Management of
McCulloch County

Financial Reporting

Finding 2017-A

Initial Fiscal Year Finding Occurred: 2017

Finding Summary: We requested that Eide Bailly LLP draft the financial statements and accompanying notes to those financial statements. Additionally, Eide Bailly LLP recorded approximately 14 audit adjustments to the County's recorded account balances, which if not recorded, would have resulted in a material misstatement of the Authority's financial statements.

Status: Refer to Finding 2018-001.

Reconciliation of Fund Balance, Long-Term Obligations, and Capital Assets

Finding 2017-B

Initial Fiscal Year Finding Occurred: 2017

Finding Summary: The County does not have a process for the preparation of reconciliation of the fund balance, long-term obligations and capital assets.

Status: Processes implemented in 2018.

Financial Reporting

Finding 2018-001

Finding Summary: We requested that Eide Bailly LLP prepare the draft financial statements and accompanying notes to the financial statements. .

Responsible Individuals: Steven Estes, County Treasurer

Corrective Action Plan: It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes. We requested that our auditors, Eide Bailly LLP, prepared the financial statements and the accompanying notes to the financial statements as a part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed with and agree with the adjustments proposed during the audit.

Anticipated Completion Date: Ongoing

County Clerk Refund Process

Finding 2018-002

Finding Summary: A transaction was refunded without the required dual signatures on the Request for Reimbursement form.

Responsible Individuals: Christine Jones-Patterson, County Clerk

Corrective Action Plan: The County will enhance its refunding procedures to include cross-training to ensure that all refunds have appropriate dual signatures prior to disbursement.

Anticipated Completion Date: 2019 Fiscal year

County Clerk Account Reconciliation

Finding 2018-003

Finding Summary: Bank reconciliations performed only reconciled receipts to bank statements. The remaining balance was not reconciled.

Responsible Individuals: Christine Jones-Patterson, County Clerk

Corrective Action Plan: The County will enhance its reconciliation process for the County Clerk bank account.

Anticipated Completion Date: 2019 Fiscal year