

COUNTY OF RUNNELS  
 Annual Financial Report  
 Year Ended September 30, 2017

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## FINANCIAL SECTION



A Limited Liability Partnership

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## INDEPENDENT AUDITOR'S REPORT

The Honorable County Judge  
and Commissioners' Court  
County of Runnels  
P.O. Box 310  
Ballinger, TX 76821-0310

### **Report on the Financial Statements**

We have audited the accompanying modified cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Runnels, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Section I., Note C.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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. 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 County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Runnels, Texas, as of September 30, 2017, and the respective changes in modified cash-basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Section I., Note C.

***Basis of Accounting***

We draw attention to Section I., Note C. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

***Other Matters***

*Other Information*

The management's discussion and analysis, budgetary comparison information, and net pension liability and contributions information for the Texas County & District Retirement System on pages 3 through 7, 34 through 37, and 38 through 39, respectively, are presented to supplement the basic financial statements. We have applied certain limited procedures to this 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.

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Runnels' basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2018, on our consideration of the County of Runnels' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County of Runnels' internal control over financial reporting and compliance.

*Eckert & Company, LLP*

February 6, 2018

# RUNNELS COUNTY



## COMMISSIONERS COURT

RUNNELS COUNTY COURTHOUSE  
613 HUTCHINGS AVENUE, ROOM 103  
BALLINGER, TEXAS 76821

Barry Hilliard, County Judge

Robert Moore, Precinct 1  
Roy Mints, Precinct 3

Ronald Presley, Precinct 2  
Richard W. Strube, Precinct 4

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the County of Runnels' financial performance provides an overview of the County's financial activities for the year ended September 30, 2017, within the limitations of the County's modified cash basis of accounting. It should be read in conjunction with the County's basic financial statements and independent auditor's report.

### Financial Highlights - Modified Cash Basis of Accounting

The County's assets exceeded its liabilities at the end of the current year by \$6,090,018 (net position). Of this amount, \$3,231,463 (unrestricted) may be used to meet the County's ongoing obligations.

The County's total net position increased by \$269,176 or 5% as a result of current year operations. The County's statement of activities shows total revenues of \$6,860,418 and total expenses of \$6,591,242.

The total fund balance of the General Fund is \$2,028,256 which is an increase of \$104,389 or 5% compared to the prior year.

### Overview of the Financial Statements

The County's financial statements are presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the County's modified cash basis of accounting.

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-Wide Financial Statements** - The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

### Overview of the Financial Statements - Continued

The statement of net position presents information on all of the County's assets and liabilities resulting from the use of the modified cash basis of accounting, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County's net position changed during the current year while keeping in mind the limitations of the modified cash basis of accounting.

The governmental activities of the County include public transportation through roads and bridges, judicial, public safety, corrections and rehabilitation, public health and welfare, and culture and recreation, as well as general administrative and support services.

The County has no component units.

**Fund Financial Statements** - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds.

**Governmental Funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the current year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet - modified cash basis and the governmental fund statement of revenues, expenditures, and changes in fund balances - modified cash basis provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet - modified cash basis and in the governmental fund statement of revenues, expenditures, and changes in fund balances - modified cash basis for the General Fund, the Road and Bridge Fund, the Jury Fund and the Paving Fund, all of which are considered to be major funds. Data from other governmental funds are combined into a single, aggregated presentation.

The County adopts a budget for its General Fund, Special Revenue Funds, and Debt Service Fund.

**Fiduciary Funds** - Fiduciary funds are used to account for resources which are collected by the County in a trustee capacity or as an agent for individuals, private organizations, other governments, or other County funds. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

### Government-Wide Financial Analysis

**Net Position** - A summary of the County's net position is presented below:

#### NET POSITION - MODIFIED CASH BASIS

	Governmental Activities	
	September 30,	
	2017	2016
Current and Other Assets	\$ 3,753,000	\$ 3,914,618
Capital Assets	2,458,540	2,151,831
Total Assets	\$ 6,211,540	\$ 6,066,449
Long-Term Liabilities Outstanding	\$ 98,497	\$ 195,000
Other Liabilities	23,025	50,607
Total Liabilities	\$ 121,522	\$ 245,607
Net Position		
Net Investment in Capital Assets	\$ 2,458,540	\$ 1,956,831
Restricted	400,015	364,016
Unrestricted	3,231,463	3,499,995
Total Net Position	\$ 6,090,018	\$ 5,820,842

A portion of the County's net position resulting from modified cash basis transactions (\$2,458,540) reflects the County's investment in capital assets, less any related debt used to acquire those assets that is still outstanding. These assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the County's net position (\$400,015) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$3,231,463) may be used to meet the County's ongoing obligations.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

### Government-Wide Financial Analysis - Continued

**Governmental Activities** - Governmental activities increased the County's net position resulting from modified cash basis transactions by \$269,176 and \$337,999 for the fiscal years ended September 30, 2017 and 2016, respectively. Key elements of these increases are as follows:

#### CHANGES IN NET POSITION - MODIFIED CASH BASIS

	Governmental Activities	
	Year Ended September 30,	
	2017	2016
Revenues		
Program Revenues		
Charges for Services	\$ 1,351,929	\$ 1,458,243
Operating Grants and Contributions	353,624	242,427
Capital Grants and Contributions	114,533	158,408
General Revenues		
Maintenance and Operations Taxes	4,118,563	4,102,435
Debt Service Taxes	184,729	198,659
Sales Taxes	497,908	504,988
Interest Earnings	63,396	39,663
Other Revenues	175,736	158,275
Total Revenues	\$ 6,860,418	\$ 6,863,098
Expenses		
General Government	\$ 1,899,524	\$ 1,944,906
Roads and Bridges	1,927,353	1,757,351
Justice System	552,801	537,269
Public Safety	829,706	832,294
Corrections and Rehabilitation	1,090,935	1,060,195
Public Health and Welfare	272,803	369,742
Culture and Recreation	11,325	11,322
Debt Service	6,795	12,020
Total Expenses	\$ 6,591,242	\$ 6,525,099
Change in Net Position	\$ 269,176	\$ 337,999
Net Position - Beginning	5,820,842	5,482,843
Net Position - Ending	\$ 6,090,018	\$ 5,820,842

## MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

### Financial Analysis of the County's Funds

The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental 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 financing requirements. The unassigned fund balance may serve as a useful measure of the County's net resources available for spending at the end of the current year within the limitations of the County's modified cash basis of accounting.

The County's governmental funds reported combined ending fund balances on the modified cash basis of accounting of \$3,729,975, a decrease of \$134,036 or 3% in comparison with the prior year. These fund balances are reported in various governmental funds as follows:

General Fund \$2,028,256. Of this balance \$98,497 is committed for capital purchases.

Special Revenue Funds \$1,671,183. Of this balance \$1,301,704 is committed to special programs and \$369,479 is restricted by legislation.

Debt Service Fund \$30,536. This balance is restricted for payment of long-term debt principal and interest.

### General Fund Budget

The original budget for the General Fund was \$3,991,300, and the final amended budget was \$3,983,828 which represents a \$7,472 decrease in appropriations. Variances between the original budget and the final amended budget are shown on page 34 in the other information section of the audit report.

The County has adopted a budget for the General Fund in the amount of \$4,144,568 for the fiscal year 2018, which is an increase of \$160,740 from the fiscal year 2017.

### Capital Assets and Debt - Modified Cash Basis

**Capital Assets** - Financial statement footnote III., D. discloses the County's capital asset activity for the year ended September 30, 2017.

**Long-Term Debt** - Financial statement footnote III., F. discloses the County's debt activity for the year ended September 30, 2017.

### Requests for Information

The financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Barry Hilliard, County Judge, County of Runnels, P.O. Box 310, Ballinger, TX 76821-0310.

Basic Financial Statements

COUNTY OF RUNNELS  
Statement of Net Position - Modified Cash Basis  
September 30, 2017

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 3,681,079
Due from Fiduciary Funds	53,992
Due from Other Governments	17,929
Capital Assets (Net of Accumulated Depreciation):	
Land	47,007
Buildings and Improvements	1,591,137
Machinery and Equipment	<u>820,396</u>
Total Assets	<u>\$ 6,211,540</u>
<u>LIABILITIES</u>	
Due to Others	\$ 16,126
Unearned Revenues	6,899
Long-Term Liabilities:	
Due Within One Year	18,647
Due in More Than One Year	<u>79,850</u>
Total Liabilities	<u>\$ 121,522</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	\$ 2,458,540
Restricted for Debt Service	30,536
Restricted by Legislation	369,479
Unrestricted	<u>3,231,463</u>
Total Net Position	<u><u>\$ 6,090,018</u></u>

The accompanying notes are an integral part of this financial statement.

COUNTY OF RUNNELS  
Statement of Activities - Modified Cash Basis  
Year Ended September 30, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General Government	\$ 1,899,524	\$ 222,921	\$ 25,200	\$ 0	\$ (1,651,403)
Roads and Bridges	1,927,353	656,979	24,715	114,533	(1,131,126)
Justice System	552,801	89,852	42,908	0	(420,041)
Public Safety	829,706	100,714	7,805	0	(721,187)
Corrections and Rehabilitation	1,090,935	275,424	0	0	(815,511)
Public Health and Welfare	272,803	6,039	252,996	0	(13,768)
Culture and Recreation	11,325	0	0	0	(11,325)
Interest on Long-Term Debt	6,045	0	0	0	(6,045)
Fees on Long-Term Debt	750	0	0	0	(750)
	<u>\$ 6,591,242</u>	<u>\$ 1,351,929</u>	<u>\$ 353,624</u>	<u>\$ 114,533</u>	<u>\$ (4,771,156)</u>
General Revenues:					
Property Taxes - Maintenance and Operations					\$ 4,118,563
Property Taxes - Debt Service					184,729
Sales Taxes					497,908
Interest Earnings					63,396
Other Revenues					175,736
					<u>\$ 5,040,332</u>
					Change in Net Position
					\$ 269,176
					Net Position - Beginning
					<u>5,820,842</u>
					Net Position - Ending
					<u>\$ 6,090,018</u>

The accompanying notes are an integral part of this financial statement.

COUNTY OF RUNNELS  
Balance Sheet - Modified Cash Basis  
Governmental Funds  
September 30, 2017

	General	Road and Bridge	Jury	Paving	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 1,935,924	\$ 889,621	\$ 217,653	\$ 76,664	\$ 561,217	\$ 3,681,079
Due from Other Funds	84,066	11,877	801	403	6,845	103,992
Due from Other Governments	17,929	0	0	0	0	17,929
<b>Total Assets</b>	<b>\$ 2,037,919</b>	<b>\$ 901,498</b>	<b>\$ 218,454</b>	<b>\$ 77,067</b>	<b>\$ 568,062</b>	<b>\$ 3,803,000</b>
<b>LIABILITIES</b>						
Due to Other Funds	\$ 0	\$ 0	\$ 0	\$ 50,000	\$ 0	\$ 50,000
Deferred Revenue	6,899	0	0	0	0	6,899
Other Payables	2,764	0	13,362	0	0	16,126
<b>Total Liabilities</b>	<b>\$ 9,663</b>	<b>\$ 0</b>	<b>\$ 13,362</b>	<b>\$ 50,000</b>	<b>\$ 0</b>	<b>\$ 73,025</b>
<b>FUND BALANCES</b>						
Restricted Fund Balance:						
Debt Service	\$ 0	\$ 0	\$ 0	\$ 0	\$ 30,536	\$ 30,536
Legislation	0	0	0	0	369,479	369,479
Committed Fund Balance:						
General Fund	98,497	0	0	0	0	98,497
Special Revenue Funds	0	901,498	205,092	27,067	168,047	1,301,704
Unassigned Fund Balance	1,929,759	0	0	0	0	1,929,759
<b>Total Fund Balances</b>	<b>\$ 2,028,256</b>	<b>\$ 901,498</b>	<b>\$ 205,092</b>	<b>\$ 27,067</b>	<b>\$ 568,062</b>	<b>\$ 3,729,975</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,037,919</b>	<b>\$ 901,498</b>	<b>\$ 218,454</b>	<b>\$ 77,067</b>	<b>\$ 568,062</b>	<b>\$ 3,803,000</b>

The accompanying notes are an integral part of this financial statement.

COUNTY OF RUNNELS  
 Reconciliation of the Governmental Funds Balance Sheet to the  
 Statement of Net Position - Modified Cash Basis  
 September 30, 2017

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 3,729,975</b>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The net effect of including the beginning balances for capital assets (net of depreciation) is to increase net position.	2,151,831
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The net effect of including the beginning balances of long-term debt is to decrease net position.	(195,000)
Current year capital outlays are expenditures in the fund financial statements but 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.	625,948
Current year long-term debt principal payments are expenditures in the fund financial statements but are shown as reductions of long-term debt in the government-wide financial statements. The net effect of including long-term debt principal payments is to increase net position.	195,000
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(315,155)
Debt proceeds are shown as other financing sources in the fund financial statements. The net effect of reclassifying debt proceeds as an increase in debt payable is to decrease net position.	(98,497)
The net effect of other various miscellaneous adjustments related to capital assets (i.e., sales, trades, and disposals) is to decrease net position.	<u>(4,084)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 6,090,018</u></b>

The accompanying notes are an integral part of this financial statement.

COUNTY OF RUNNELS  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis  
Governmental Funds  
Year Ended September 30, 2017

	General	Road and Bridge	Jury	Paving	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 3,037,759	\$ 1,051,642	\$ 145,914	\$ 102,140	\$ 463,745	\$ 4,801,200
Fees and Fines	209,831	607,526	7,884	0	81,347	906,588
Intergovernmental	444,421	0	19,575	4,800	400,049	868,845
Interest	37,009	16,097	2,859	1,513	5,918	63,396
Miscellaneous	45,185	45,666	0	0	130,622	221,473
	<u>\$ 3,774,205</u>	<u>\$ 1,720,931</u>	<u>\$ 176,232</u>	<u>\$ 108,453</u>	<u>\$ 1,081,681</u>	<u>\$ 6,861,502</u>
<b>EXPENDITURES</b>						
Current:						
General Government	\$ 1,520,331	\$ 236,104	\$ 0	\$ 0	\$ 260,365	\$ 2,016,800
Roads and Bridges	0	1,585,227	0	183,053	139,248	1,907,528
Justice System	377,222	0	175,735	0	10,063	563,020
Public Safety	876,029	0	0	0	11,166	887,195
Corrections and Rehabilitation	969,472	0	0	0	269,868	1,239,340
Public Health and Welfare	14,456	0	0	0	252,576	267,032
Culture and Recreation	11,325	0	0	0	0	11,325
Debt Service:						
Principal	0	0	0	0	195,000	195,000
Interest	0	0	0	0	6,045	6,045
Fees	0	0	0	0	750	750
	<u>\$ 3,768,835</u>	<u>\$ 1,821,331</u>	<u>\$ 175,735</u>	<u>\$ 183,053</u>	<u>\$ 1,145,081</u>	<u>\$ 7,094,035</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 5,370</u>	<u>\$ (100,400)</u>	<u>\$ 497</u>	<u>\$ (74,600)</u>	<u>\$ (63,400)</u>	<u>\$ (232,533)</u>

OTHER FINANCING SOURCES (USES)

Transfers In	\$ 522	\$ 0	\$ 0	\$ 0	\$ 0	\$ 522
Transfers Out	0	0	0	0	(522)	(522)
Debt Proceeds	<u>98,497</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>98,497</u>
Total Other Financing Sources (Uses)	<u>\$ 99,019</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (522)</u>	<u>\$ 98,497</u>
Net Change in Fund Balances	\$ 104,389	\$ (100,400)	\$ 497	\$ (74,600)	\$ (63,922)	\$ (134,036)
Fund Balances - Beginning	<u>1,923,867</u>	<u>1,001,898</u>	<u>204,595</u>	<u>101,667</u>	<u>631,984</u>	<u>3,864,011</u>
Fund Balances - Ending	<u><u>\$ 2,028,256</u></u>	<u><u>\$ 901,498</u></u>	<u><u>\$ 205,092</u></u>	<u><u>\$ 27,067</u></u>	<u><u>\$ 568,062</u></u>	<u><u>\$ 3,729,975</u></u>

The accompanying notes are an integral part of this financial statement.

COUNTY OF RUNNELS  
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and  
 Changes in Fund Balances to the Statement of Activities - Modified Cash Basis  
 Year Ended September 30, 2017

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ (134,036)</b>
Current year capital outlays are expenditures in the fund financial statements but are shown as increases in capital assets in the government-wide financial statements. The net effect of removing capital outlays is to increase net position.	625,948
Current year long-term debt principal payments are expenditures in the fund financial statements but are shown as reductions of long-term debt in the government-wide financial statements. The net effect of removing long-term debt principal payments is to increase net position.	195,000
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(315,155)
Debt proceeds are shown as other financing sources in the fund financial statements. The net effect of reclassifying debt proceeds as an increase in debt payable is to decrease net position.	(98,497)
The net effect of other various miscellaneous adjustments related to capital assets (i.e., sales, trades, and disposals) is to decrease net position.	<u>(4,084)</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u><u>\$ 269,176</u></u></b>

The accompanying notes are an integral part of this financial statement.

COUNTY OF RUNNELS  
Statement of Fiduciary Net Position - Modified Cash Basis  
Fiduciary Funds  
September 30, 2017

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$ 318,519</u>
<u>LIABILITIES</u>	
Due to Other Funds	\$ 53,992
Due to Other Governments	99,304
Due to Others	<u>165,223</u>
Total Liabilities	<u>\$ 318,519</u>

The accompanying notes are an integral part of this financial statement.

COUNTY OF RUNNELS  
Notes to the Financial Statements  
September 30, 2017

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The County of Runnels, Texas, prepares its basic financial statements on the modified cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America.

**A. Reporting Entity**

The County of Runnels, Texas, was organized by an Act of the Texas Legislature in 1880. The County is governed by the Commissioners' Court, a five-member group consisting of an elected County Judge and four County Commissioners elected from individual precincts. Services provided by the County include public transportation through roads and bridges, judicial, public safety, corrections and rehabilitation, public health and welfare, and culture and recreation, as well as general administrative and support services. There are no component units included within the reporting entity.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities include programs supported primarily by taxes, grants, and other intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges for services - payments from parties that purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment of the County and (2) grants and contributions - payments from organizations outside the County that are restricted to meeting the operational or capital requirements of a particular function or segment of the County. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

All interfund transactions between governmental funds are eliminated in the government-wide financial statements. Interfund activities between governmental funds and fiduciary funds remain as interfund receivables and payables on the government-wide statement of net position.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other funds.

**C. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

The government-wide financial statements are presented using the economic resources measurement focus within the limitations of the modified cash basis of accounting, as are the fiduciary fund financial statements.

The fund financial statements are reported using the current financial resources measurement focus as applied to the modified cash basis of accounting.

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C. Measurement Focus and Basis of Accounting - Continued**

Governmental funds utilize a current financial resources measurement focus. Current financial assets and liabilities are generally the only items included on their balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. Fund balance is used to measure available spendable financial resources at the end of the period.

**Basis of Accounting**

The government-wide financial statements and the fund financial statements are presented using the modified cash basis of accounting. This basis of accounting recognizes assets, liabilities, net position, fund equity, revenues, expenditures, and expenses when they result from cash transactions with a provision for depreciation in the government-wide financial statements. The modified cash basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America.

The use of the modified cash basis of accounting results in certain assets and their related revenues (such as accounts receivable and revenues for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable, expenses for goods or services received but not yet paid, and accrued expenses and liabilities) not being recorded in these financial statements.

The government reports the following major governmental funds:

General Fund - This Fund is the general operating fund of the County. It is used to account for all revenues except those required to be accounted for in other funds.

Road and Bridge Fund - This Fund is a special revenue fund and is used to account for revenues for the road and bridge precincts.

Jury Fund - This Fund is a special revenue fund and is used to account for revenues for the County and District Courts.

Paving Fund - This Fund is a special revenue fund and is used to account for revenues for the Road and Bridge paving projects.

Additionally, the government reports the following fund type:

Fiduciary Funds - These Funds are used to account for resources which are collected by the County in a trustee capacity or as an agent for individuals, private organizations, other governments, or other County funds.

**D. Interfund Receivables and Payables**

Activity between individual funds may result in amounts owed between funds which are classified as Due To and From Other Funds. Other than amounts due to or from fiduciary funds these balances are eliminated in the statement of net position.

**E. Capital Assets**

In the government-wide financial statements, capital assets arising from modified cash basis transactions are reported in the statement of net position. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed.

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**E. Capital Assets - Continued**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	20-30
Machinery and Equipment	5-10

In the fund financial statements, capital assets arising from modified cash basis transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**F. Long-Term Debt**

Long-term debt arising from modified cash basis transactions to be repaid from governmental resources is reported as liabilities in the government-wide financial statements.

Long-term debt arising from modified cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources, and payments of principal and interest are reported as expenditures.

**G. Compensated Absences**

County employees are entitled to vacation and sick leave based on their length of employment. Sick leave accumulates but does not vest. Vacation leave does not accumulate or vest. Employees who retire or voluntarily terminate employment will be paid for 50 days of unused sick leave if they have worked for the County for more than eight years and have accumulated more than 50 days of sick leave. Employees who voluntarily terminate employment will be paid for any unused vacation leave.

**H. Net Position on the Statement of Net Position**

Net position on the statement of net position includes the following:

Net Investment in Capital Assets - This component of net position represents the difference between capital assets net of accumulated depreciation and the outstanding balance of debt, excluding any unspent debt proceeds, which is directly attributable to the acquisition, construction, or improvement of those assets.

Restricted for Debt Service - This component of net position represents the difference between assets and liabilities of the Debt Service Fund that consists of assets with constraints placed on their use by creditors.

Restricted by Legislation - This component of net position represents the difference between assets and liabilities of certain Special Revenue Funds that consists of assets with constraints placed on their use by state legislation.

Unrestricted - This is the difference between assets and liabilities that is not reported as Net Investment in Capital Assets, Restricted for Debt Service, or Restricted by Legislation.

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**I. Fund Balances**

In the fund financial statements, governmental funds report the following classifications of fund balance:

Restricted - Amounts that can be spent only for specific purposes because usage restraints have been imposed by external sources such as creditors (through a debt covenant), grantors, contributors, or laws or regulations of other governments.

Committed - Amounts that can be used only for specific purposes determined by a formal action of the Commissioners' Court, the County's highest level of decision-making authority. Commitments may be modified or rescinded only through formal action by the Commissioners' Court.

Unassigned - Amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the General Fund.

The details of the fund balances are included in the governmental funds balance sheet.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the County considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Commissioners' Court has provided otherwise in its commitment or assignment actions.

**J. Property Tax Revenues**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all property located in the County in conformity with Subtitle E, Texas Property Tax Code. 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 taxes are recognized as revenues when they are collected.

**K. Interfund Transfers**

Permanent relocations of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budget**

The County prepares and adopts a budget for governmental funds prior to the beginning of each fiscal year. The County holds public meetings for the purpose of obtaining comments from citizens prior to adopting the budget. Once a budget is approved, it can be amended only by approval of a majority of the members of the Commissioners' Court. The budget was amended during the year.

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - Continued**

**A. Budget - Continued**

Budgets for the General Fund, Special Revenue Funds, and Debt Service Fund are adopted on a modified cash basis and cover a one-year period. Appropriations lapse at year end.

**III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS**

**A. Deposits and Investments**

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the County to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the County to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers' acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the County has adopted a deposit and investment policy.

**Custodial Credit Risk - Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the County's deposits and investments in certificates of deposit may not be returned to it. The County's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state and local governments by pledging securities in excess of the highest cash balance of the government. The County is not exposed to custodial credit risk for its deposits since they are covered by depository insurance and pledged securities held by a third party in the County's name.

**Concentration of Credit Risk:** The investment policy of the County contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. The County is not exposed to this risk as described in the preceding paragraph.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At September 30, 2017, the County was not significantly exposed to credit risk.

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued**

**A. Deposits and Investments - Continued**

Interest Rate Risk: Not applicable

Foreign Currency Risk: Not applicable

**B. Due from Other Governments**

The County participates in a variety of federal and state programs from which it receives funds to partially or fully finance certain activities. Amounts due from other governments are summarized as follows:

	<u>Other</u>
General Fund	<u>\$ 17,929</u>

**C. Interfund Receivables, Payables, and Transfers**

1. The following is a summary of amounts due from and due to other funds:

	<u>Due From</u>	<u>Due To</u>	<u>Purpose</u>
General Fund			
Major Special Revenue Funds	\$ 50,000	\$ 0	Operating Advance
Fiduciary Funds	<u>34,066</u>	<u>0</u>	Unremitted Fees
	<u>\$ 84,066</u>	<u>\$</u>	
Major Special Revenue Funds			
Major Special Revenue Funds	\$ 0	\$ 50,000	Operating Advance
Fiduciary Funds	<u>13,081</u>	<u>0</u>	Unremitted Fees
	<u>\$ 13,081</u>	<u>\$ 50,000</u>	
Nonmajor Governmental Funds			
Fiduciary Funds	<u>6,845</u>	<u>0</u>	Unremitted Fees
	<u>\$ 6,845</u>	<u>\$ 0</u>	
Fiduciary Funds			
General Fund	\$ 0	\$ 34,066	Unremitted Fees
Major Special Revenue Funds	0	13,081	Unremitted Fees
Nonmajor Governmental Funds	<u>0</u>	<u>6,845</u>	Unremitted Fees
	<u>\$ 0</u>	<u>\$ 53,992</u>	
Totals	<u>\$ 103,992</u>	<u>\$ 103,992</u>	

All amounts due are expected to be repaid within one year.

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued**

**C. Interfund Receivables, Payables, and Transfers - Continued**

2. Interfund transfers consist of the following:

Transfers From	Transfers To	Amount	Purpose
Nonmajor Governmental Funds	General Fund	<u>\$ 522</u>	Operations

**D. Capital Assets**

Capital asset activity for the year ended September 30, 2017, was as follows:

Governmental Activities	Beginning Balance	Additions	Deletions	Reclassifications	Ending Balance
<b>Capital Assets</b>					
Land	\$ 47,007	\$ 0	\$ 0	\$ 0	\$ 47,007
Buildings and Improvements	4,937,741	381,170	0	119,682	5,438,593
Machinery and Equipment	3,222,950	234,699	(104,628)	0	3,353,021
Construction in Progress	109,603	10,079	0	(119,682)	0
Total Capital Assets	<u>\$ 8,317,301</u>	<u>\$ 625,948</u>	<u>\$ (104,628)</u>	<u>\$ 0</u>	<u>\$ 8,838,621</u>
<b>Less Accumulated Depreciation</b>					
Buildings and Improvements	\$ (3,739,243)	\$ (108,213)	\$ 100,544	\$ 0	\$ (3,746,912)
Machinery and Equipment	(2,426,227)	(206,942)	0	0	(2,633,169)
Total Accumulated Depreciation	<u>\$ (6,165,470)</u>	<u>\$ (315,155)</u>	<u>\$ 100,544</u>	<u>\$ 0</u>	<u>\$ (6,380,081)</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,151,831</u>	<u>\$ 310,793</u>	<u>\$ (4,084)</u>	<u>\$ 0</u>	<u>\$ 2,458,540</u>

Depreciation expense was charged to governmental activities programs as follows:

General Government	\$ 37,651
Roads and Bridges	145,447
Justice System	1,881
Public Safety	37,140
Corrections and Rehabilitation	87,265
Public Health and Welfare	<u>5,771</u>
Total	<u>\$ 315,155</u>

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued**

**E. Capital Leases**

The County has entered into lease agreements to finance the acquisition of heavy equipment for the Road and Bridge Department. These lease agreements qualify as capital leases for accounting purposes. Future minimum lease payments are as follows:

Year Ending September 30,	Capital Leases		Total
	Principal	Interest	
2018	\$ 156,191	\$ 15,954	\$ 172,145
2019	113,583	15,326	128,909
2020	82,936	11,156	94,092
2021	221,481	10,264	231,745
2022	45,332	1,493	46,825
Totals	<u>\$ 619,523</u>	<u>\$ 54,193</u>	<u>\$ 673,716</u>

The following is a summary of the changes in capital leases for the year ended September 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance
Road and Bridge	<u>\$ 536,994</u>	<u>\$ 214,310</u>	<u>\$ 131,781</u>	<u>\$ 619,523</u>

**F. Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended September 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-Term Financing	\$ 0	\$ 98,497	\$ 0	\$ 98,497	\$ 18,647
General Obligation Refunding Bonds	195,000	0	195,000	0	0
Totals	<u>\$ 195,000</u>	<u>\$ 98,497</u>	<u>\$ 195,000</u>	<u>\$ 98,497</u>	<u>\$ 18,647</u>

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued**

**F. Long-Term Debt - Continued**

The County's outstanding long-term financing is as follows:

Long-term financing for the purchase of hardware and software for the Sheriff's Department. Due in yearly installments through May 21, 2022, with an interest rate of 3.69%.

\$ 98,497

The annual debt service requirements are as follows:

<u>Year Ending September 30,</u>	<u>Long-Term Financing</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2018	\$ 18,647	\$ 3,190	\$ 21,837
2019	18,891	2,946	21,837
2020	19,588	2,249	21,837
2021	20,311	1,527	21,838
2022	<u>21,060</u>	<u>777</u>	<u>21,837</u>
Totals	<u>\$ 98,497</u>	<u>\$ 10,689</u>	<u>\$ 109,186</u>

**IV. OTHER INFORMATION**

**A. Defined Benefit 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 statewide Texas County & District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. This report is available at [www.tcdrs.org](http://www.tcdrs.org). TCDRS' CAFR may also be obtained by writing to the Texas County & District Retirement System, P.O. Box 2034, Austin, TX 78768-2034, or by calling 1-800-823-7782.

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**IV. OTHER INFORMATION** - Continued

**A. Defined Benefit Pension Plan** - Continued

The plan provisions are adopted by the governing body of the employer within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated deposits in the plan to receive any employer-financed benefit. Members who withdraw their personal deposits 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 deposits 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.

**Funding Policy** - The employer 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 employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. However, the governing body chose to contribute at an elected rate in both 2016 and 2017 that exceeded the actuarially determined rate as allowed by the provisions of the TCDRS Act. The rate contributed for the months of the accounting year in 2016 was 9.25% and was 9.25% for the months of the accounting year in 2017.

The deposit rate payable by the employee members for calendar year 2017 is 7% as adopted by the governing body of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

**Actuarial Assumptions** - All actuarial methods and assumptions used for this GASB analysis were the same as those used in the December 31, 2016 funding valuation, except as noted below and throughout this report. Please see the County's December 31, 2016 Summary Valuation Report for further details.

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**IV. OTHER INFORMATION - Continued**

**A. Defined Benefit Pension Plan - Continued**

Following are the key assumptions and methods used in this GASB analysis:

Valuation Timing	Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age Normal <sup>(1)</sup>
Amortization Method	
Recognition of Economic/Demographic Gains or Losses	Straight-Line Amortization Over Expected Working Life
Recognition of Assumptions Changes or Inputs	Straight-Line Amortization Over Expected Working Life
Asset Valuation Method	
Smoothing Period	5 Years
Recognition Method	Non-Asymptotic
Corridor	None
Inflation	3.0%
Salary Increases	4.9%
Investment Rate of Return	8.1%
Cost-of-Living Adjustments	Cost-of-Living Adjustments for the County are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Members eligible for service retirement are assumed to retire at various rates based upon age and gender. Deferred members are assumed to retire (100% probability) at the later of age 60 or earliest retirement eligibility. For all eligible members ages 75 and later, retirement is assumed to occur immediately.
Turnover	New employees are assumed to replace any terminated members and have similar entry ages.
Mortality	Mortality rates for depositing members are based on the gender-distinct RP-2000 Active Employee Mortality Table with a two-year set-forward for males and a four-year setback for females. Service retirees, beneficiaries, and non-depositing members are based on the RP-2000 Combined Mortality Table with a one-year set-forward for males and no age adjustment for females. Disabled retirees are based on the gender-distinct RP-2000 Disabled Mortality Table with no age adjustment for males and a two-year set-forward for females. The rates are projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.

<sup>(1)</sup> Individual entry age normal cost method, as required by GASB 68, used for GASB calculations. Note that a slightly different version of the entry age normal cost method is used for the funding actuarial valuation.

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**IV. OTHER INFORMATION - Continued**

**A. Defined Benefit Pension Plan - Continued**

**Long-Term Expected Rate of Return** - 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 2017 information for a 7-10 year time horizon.

Note the valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is set based on a 30-year time horizon; the most recent analysis was performed in 2013.

Asset Class	Benchmark	Target Allocation <sup>(1)</sup>	Geometric Real Rate of Return (Expected Minus Inflation) <sup>(2)</sup>
U.S. Equities	Dow Jones U.S. Total Stock Market Index	13.50%	4.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index <sup>(3)</sup>	16.00%	7.70%
Global Equities	MSCI World (Net) Index	1.50%	5.00%
International Equities - Developed Markets	MSCI World Ex USA (Net)	10.00%	4.70%
International Equities - Emerging Markets	MSCI EM Standard (Net) Index	7.00%	5.70%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	0.60%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.70%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	3.83%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.15%
Distressed Debt	Cambridge Associates Distressed Securities Index <sup>(4)</sup>	3.00%	6.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FTSE EPRA/NAREIT Global Real Estate Index	2.00%	3.85%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.60%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index <sup>(5)</sup>	6.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	20.00%	3.85%

<sup>(1)</sup> Target asset allocation adopted at the April 2017 TCDRS Board meeting.

<sup>(2)</sup> Geometric real rates of return equal the expected return minus the assumed inflation of 2% per 2017 capital market assumptions.

<sup>(3)</sup> Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

<sup>(4)</sup> Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

<sup>(5)</sup> Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**IV. OTHER INFORMATION - Continued**

**A. Defined Benefit Pension Plan - Continued**

**Depletion of Plan Assets/GASB Discount Rate** - The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

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

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

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

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

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

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**IV. OTHER INFORMATION - Continued**

**A. Defined Benefit Pension Plan - Continued**

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

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used a discount rate of 8.1%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8%, net of all expenses, increased by 0.1% to be gross of administrative expenses.

**Changes in Net Pension Liability/(Asset)** - The following presents the increases/(decreases) in net pension liability/(asset):

<u>Changes in the Net Pension Liability/(Asset)</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Fiduciary Net Position (b)</u>	<u>Net Pension Liability/(Asset) (a) - (b)</u>
Balance as of December 31, 2015	\$ 11,964,326	\$ 11,549,250	\$ 415,076
Changes for the Year:			
Service Cost	\$ 306,522	\$ 0	\$ 306,522
Interest on Total Pension Liability <sup>(1)</sup>	952,025	0	952,025
Effect of Plan Changes <sup>(2)</sup>	0	0	0
Effect of Economic/Demographic Gains or Losses	(259,615)	0	(259,615)
Effect of Assumptions Changes or Inputs	0	0	0
Refund of Contributions	(36,672)	(36,672)	0
Benefit Payments	(700,076)	(700,076)	0
Administrative Expenses	0	(9,286)	9,286
Member Contributions	0	177,900	(177,900)
Net Investment Income	0	842,493	(842,493)
Employer Contributions	0	235,085	(235,085)
Other <sup>(3)</sup>	0	(202,208)	202,208
Net Changes	<u>\$ 262,184</u>	<u>\$ 307,236</u>	<u>\$ (45,052)</u>
Balance as of December 31, 2016	<u>\$ 12,226,510</u>	<u>\$ 11,856,486</u>	<u>\$ 370,025</u> <sup>(4)</sup>

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

<sup>(2)</sup> No plan changes valued.

<sup>(3)</sup> Relates to allocation of system-wide items.

<sup>(4)</sup> Variance due to rounding.

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**IV. OTHER INFORMATION - Continued**

**A. Defined Benefit Pension Plan - Continued**

**Sensitivity Analysis** - The following presents the net pension liability/(asset) of the County, calculated using the discount rate of 8.1%, as well as what the County's net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (7.1%) or 1 percentage point higher (9.1%) than the current rate.

	<u>1% Decrease in Discount Rate (7.1%)</u>	<u>Current Discount Rate (8.1%)</u>	<u>1% Increase in Discount Rate (9.1%)</u>
Total Pension Liability	\$ 13,465,173	\$ 12,226,510	\$ 11,168,466
Fiduciary Net Position	<u>11,856,486</u>	<u>11,856,486</u>	<u>11,856,486</u>
Net Pension Liability/(Asset)	<u>\$ 1,608,687</u>	<u>\$ 370,025</u>	<u>\$ (688,020)</u>

**Pension Expense/Income** - The following presents the components of pension expense/income:

<u>Pension Expense (Income)</u>	<u>January 1, 2016 to December 31, 2016</u>
Service Cost	\$ 306,522
Interest on Total Pension Liability <sup>(1)</sup>	952,025
Effect of Plan Changes	0
Administrative Expenses	9,286
Member Contributions	(177,900)
Expected Investment Return Net of Investment Expenses	(914,233)
Recognition of Deferred Inflows/Outflows of Resources:	
Recognition of Economic/Demographic Gains or Losses	(187,872)
Recognition of Assumption Changes or Inputs	45,494
Recognition of Investment Gains or Losses	185,514
Other <sup>(2)</sup>	<u>202,208</u>
Total Pension Expense (Income)	<u>\$ 421,044</u>

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

<sup>(2)</sup> Relates to allocation of system-wide items.

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**IV. OTHER INFORMATION - Continued**

**A. Defined Benefit Pension Plan - Continued**

**Deferred Inflows/Deferred Outflows of Resources** -As of December 31, 2016, the deferred inflows and outflows of resources are as follows:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 231,518	\$ -
Changes in Assumptions	-	45,494
Net Differences Between Projected and Actual Earnings	-	545,415
Contributions Made Subsequent to Measurement Date <sup>(3)</sup>	<u>-</u>	<u>170,923</u>
Totals	<u>\$ 231,518</u>	<u>\$ 761,832</u>

(3) Any eligible employer contributions made subsequent to the measurement date through the employer's fiscal year-end should be reflected as outlined in Appendix D of the TCDRS GASB 68 Report.

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

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2017	\$ 86,029
2018	98,975
2019	160,039
2020	14,348
2021	0
Thereafter <sup>(4)</sup>	0

(4) Total remaining balance to be recognized in future years, if any. Note that additional future deferred inflows and outflows of resources may impact these numbers.

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**IV. OTHER INFORMATION - Continued**

**A. Defined Benefit Pension Plan - Continued**

**Schedule of Deferred Inflows and Outflows of Resources** - The following presents the components of deferred inflows and outflows of resources:

	Original Amount	Date Established	Original Recognition Period <sup>(1)</sup>	Amount Recognized in 12/31/16 Expense <sup>(1)</sup>	Balance of Deferred Inflows 12/31/16	Balance of Deferred Outflows 12/31/16
Investment (Gains) or Losses						
\$ 71,741	12/31/16	5	\$ 14,348	\$ -	\$ 57,393	
728,455	12/31/15	5	145,691	-	437,073	
127,372	12/31/14	5	25,474	-	50,949	
Economic/Demographic (Gains) or Losses						
(259,615)	12/31/16	3	(86,538)	173,077	-	
(175,323)	12/31/15	3	(58,441)	58,441	-	
(128,677)	12/31/14	3	(42,892)	-	-	
Assumption Changes or Inputs						
-	12/31/16	3	-	-	0	
136,483	12/31/15	3	45,494	-	45,494	
-	12/31/14	3	-	-	-	
Employer Contributions Made Subsequent to Measurement Date <sup>(2)</sup>						170,923

<sup>(1)</sup> Investment (gains)/losses are recognized in pension expense over a period of five years; economic/demographic (gains)/losses and assumption changes or inputs are recognized over the average remaining service life for all active, inactive, and retired members.

<sup>(2)</sup> Any eligible employer contributions made subsequent to the measurement date through the employer's fiscal year end should be reflected as deferred outflows as outlined in Appendix D of the TCDRS GASB 68 Report.

The net pension liability/(asset), deferred resource inflows, and deferred resource outflows related to the pension liability/(asset) are reported in the notes to the financial statements. Due to the County's reporting on the OCBOA - modified cash basis, these items are not reflected in the financial statements.

**B. Other Postemployment Benefits**

Plan Description - The County participates in a cost-sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas County & District Retirement System (TCDRS). This plan is referred to as the Group Term Life Fund (GTLF). This optional plan provides group term life insurance coverage to current eligible employees and, if elected by employers, to retired employees. The coverage provided to retired employees is a postemployment benefit other than pension benefits (OPEB). Retired employees are insured for \$5,000.

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**IV. OTHER INFORMATION** - Continued

**B. Other Postemployment Benefits** - Continued

The GTLF is a separate trust administered by the TCDRS' Board of Trustees. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the GTLF. This report is available at [www.tcdrs.org](http://www.tcdrs.org). TCDRS' CAFR may also be obtained by writing to the Texas County & District Retirement System, P.O. Box 2034, Austin, TX 78768-2034, or by calling 1-800-823-7782.

Funding Policy - Each participating employer contributes to the GTLF at a contractually required rate. An annual actuarial valuation is performed, and the contractual rate is determined using the unit credit method for providing one-year term life insurance. The County contributions to the GTLF for the years ended September 30, 2017, 2016, and 2015, were \$18,028, \$22,353 and \$21,429, respectively, which equaled the contractually required contributions each year.

**C. Self-Insurance**

The County has entered into an interlocal participation agreement with the Texas Association of Counties Workers' Compensation Self-Insurance Fund (the Fund). The Fund is an unincorporated association of counties and other county-related political subdivisions of the State of Texas that was created to provide workers' compensation benefits for its members pursuant to the provisions of Article 8309h, Texas Revised Civil Statutes Annotated. The Fund provides for the self-insurance of certain defined risks jointly among the Fund members. The Fund is required to provide stop-loss coverage; however, the amount of this coverage may be adjusted at the discretion of the Fund's Board of Trustees. The County's participation in the Fund is on a nonassessable basis. The County has no joint and several liability other than the maximum annual contribution required to be paid into the Fund. The County made contributions to the Fund based upon its standard annual premium which was computed using the Texas State Board of Insurance workers' compensation rates and adjusted by the County's experience modifier. Contributions are adjusted annually based upon the County's experience modifier; however, contributions are subject to adjustments on an interim basis if such adjustments are the result of changes mandated by state law.

The County has entered into an interlocal participation agreement with the Texas Association of Counties County Government Risk Management Pool (the Pool). The Pool is an unincorporated association of counties that was created to provide liability coverage to its members pursuant to the provisions of Article 4413 (32i), Texas Revised Civil Statutes Annotated. The Pool provides for the self-insurance of certain defined risks jointly among the Pool members. The Pool provides stop-loss coverage at the discretion of the Pool's Board of Trustees. The County made contributions to the Pool based upon a rating system approved by the Pool's Board of Trustees. Contributions are adjusted annually based upon the County's loss experience; however, the Pool has the right to impose a surcharge for any year in which the County's loss experience is higher than was projected in the rating system. The County's participation in the Pool provides coverage for public officials' liability, law enforcement liability, comprehensive auto liability, comprehensive general liability, and heavy equipment.

COUNTY OF RUNNELS  
Notes to the Financial Statements - Continued  
September 30, 2017

**IV. OTHER INFORMATION - Continued**

**C. Self-Insurance - Continued**

The County has entered into an interlocal participation agreement with the Texas Association of Counties Property and Casualty Self-Insurance Fund (the Fund). The Fund is an unincorporated association of counties and other political subdivisions of the State of Texas that was created to provide property and casualty insurance to its members pursuant to Article 715C, Texas Revised Civil Statutes Annotated. Coverage provided by the Fund may differ from member to member depending on the nature of the risk to be covered. The County made contributions to the Fund based upon rates approved by Board of Trustees of the Fund. Contributions are adjusted annually based upon the County's loss experience. The County's participation in the Fund is on a nonassessable basis. The County has no joint and several liability other than the maximum annual contribution required to be paid into the Fund; however, this contribution may include surcharges specifically related to the County's loss experience. The County's participation in the Fund provides coverage for property damage.

**D. Subsequent Events**

The County's management has evaluated subsequent events through February 6, 2018, the date which the financial statements were available for issue.

Other Information

COUNTY OF RUNNELS  
Statement of Revenues, Expenditures, and Changes in Fund Balance -  
Modified Cash Basis - Budget and Actual  
General Fund  
Year Ended September 30, 2017

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
<b><u>REVENUES</u></b>				
Taxes	\$ 2,989,498	\$ 2,989,498	\$ 3,037,759	\$ 48,261
Fees and Fines	206,260	206,260	209,831	3,571
Intergovernmental	443,095	443,095	444,421	1,326
Interest	16,000	16,000	37,009	21,009
Miscellaneous	34,364	37,029	45,185	8,156
Total Revenues	<u>\$ 3,689,217</u>	<u>\$ 3,691,882</u>	<u>\$ 3,774,205</u>	<u>\$ 82,323</u>
<b><u>EXPENDITURES</u></b>				
Current:				
General Government	\$ 1,629,902	\$ 1,591,693	\$ 1,520,331	\$ 71,362
Justice System	382,215	382,241	377,222	5,019
Public Safety	913,078	915,841	876,029	39,812
Corrections and Rehabilitation	996,863	1,011,963	969,472	42,491
Public Health and Welfare	47,917	70,765	14,456	56,309
Culture and Recreation	11,325	11,325	11,325	0
Total Expenditures	<u>\$ 3,981,300</u>	<u>\$ 3,983,828</u>	<u>\$ 3,768,835</u>	<u>\$ 214,993</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (292,083)</u>	<u>\$ (291,946)</u>	<u>\$ 5,370</u>	<u>\$ 297,316</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Loan Proceeds	\$ 0	\$ 0	\$ 98,497	\$ 98,497
Transfer In	0	0	522	522
Transfer Out	(10,000)	0	0	0
Total Other Financing Sources (Uses)	<u>\$ (10,000)</u>	<u>\$ 0</u>	<u>\$ 99,019</u>	<u>\$ 99,019</u>
Net Change in Fund Balance	\$ (302,083)	\$ (291,946)	\$ 104,389	\$ 396,335
Fund Balances - Beginning	<u>1,923,867</u>	<u>1,923,867</u>	<u>1,923,867</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 1,621,784</u>	<u>\$ 1,631,921</u>	<u>\$ 2,028,256</u>	<u>\$ 396,335</u>

COUNTY OF RUNNELS  
 Statement of Revenues, Expenditures, and Changes in Fund Balance -  
 Modified Cash Basis - Budget and Actual  
 Road and Bridge Fund  
 Year Ended September 30, 2017

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>REVENUES</u></b>				
Taxes	\$ 1,047,355	\$ 1,047,355	\$ 1,051,642	\$ 4,287
Fees	150,000	150,000	607,526	457,526
Interest	0	0	16,097	16,097
Miscellaneous	8,000	49,098	45,666	(3,432)
Total Revenues	<u>\$ 1,205,355</u>	<u>\$ 1,246,453</u>	<u>\$ 1,720,931</u>	<u>\$ 474,478</u>
<b><u>EXPENDITURES</u></b>				
Current:				
General Government	\$ 235,951	\$ 238,051	\$ 236,104	\$ 1,947
Roads and Bridges	1,596,049	1,635,047	1,585,227	49,820
Total Expenditures	<u>\$ 1,832,000</u>	<u>\$ 1,873,098</u>	<u>\$ 1,821,331</u>	<u>\$ 51,767</u>
Net Change in Fund Balance	\$ (626,645)	\$ (626,645)	\$ (100,400)	\$ 526,245
Fund Balance - Beginning	<u>1,001,898</u>	<u>1,001,898</u>	<u>1,001,898</u>	<u>0</u>
Fund Balance - Ending	<u><u>\$ 375,253</u></u>	<u><u>\$ 375,253</u></u>	<u><u>\$ 901,498</u></u>	<u><u>\$ 526,245</u></u>

COUNTY OF RUNNELS  
 Statement of Revenues, Expenditures, and Changes in Fund Balance -  
 Modified Cash Basis - Budget and Actual  
 Jury Fund  
 Year Ended September 30, 2017

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>REVENUES</u></b>				
Taxes	\$ 145,319	\$ 145,319	\$ 145,914	\$ (595)
Fees and Fines	6,700	6,700	7,884	(1,184)
Intergovernmental	13,500	13,500	19,575	(6,075)
Interest	1,900	1,900	2,859	(959)
	<u>167,419</u>	<u>167,419</u>	<u>176,232</u>	<u>(8,813)</u>
<b><u>EXPENDITURES</u></b>				
Current:				
Justice	194,265	194,265	175,735	18,530
Net Change in Fund Balance	\$ (26,846)	\$ (26,846)	\$ 497	\$ (27,343)
Fund Balance - Beginning	<u>204,595</u>	<u>204,595</u>	<u>204,595</u>	<u>0</u>
Fund Balance - Ending	<u><u>\$ 177,749</u></u>	<u><u>\$ 177,749</u></u>	<u><u>\$ 205,092</u></u>	<u><u>\$ (27,343)</u></u>

COUNTY OF RUNNELS  
 Statement of Revenues, Expenditures, and Changes in Fund Balance -  
 Modified Cash Basis - Budget and Actual  
 Paving Fund  
 Year Ended September 30, 2017

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Taxes	\$ 101,723	\$ 101,723	\$ 102,140	\$ (417)
Intergovernmental	0	6,000	4,800	1,200
Interest	300	300	1,513	(1,213)
	<u>300</u>	<u>300</u>	<u>1,513</u>	<u>(1,213)</u>
Total Revenues	\$ 102,023	\$ 108,023	\$ 108,453	\$ (430)
<u>EXPENDITURES</u>				
Current:				
Road and Bridge	<u>155,750</u>	<u>205,750</u>	<u>183,053</u>	<u>22,697</u>
Net Change in Fund Balance	\$ (53,727)	\$ (97,727)	\$ (74,600)	\$ (23,127)
Fund Balance - Beginning	<u>101,667</u>	<u>101,667</u>	<u>101,667</u>	<u>0</u>
Fund Balance - Ending	<u>\$ 47,940</u>	<u>\$ 3,940</u>	<u>\$ 27,067</u>	<u>\$ (23,127)</u>

COUNTY OF RUNNELS  
Schedule of Changes in Net Pension Liability and Related Ratios -  
Texas County & District Retirement System  
Year Ended September 30, 2017

	Year Ended December 31,		
	2016	2015	2014
Total Pension Liability			
Service Cost	\$ 306,522	\$ 278,520	\$ 286,024
Interest on Total Pension Liability	952,025	922,324	889,693
Effect of Plan Changes	0	(16,414)	0
Effect of Assumptions Changes or Inputs	0	136,483	0
Effect of Economic/Demographic (Gains) or Losses	(259,615)	(175,323)	(128,677)
Benefit Payments/Refunds of Contributions	<u>(736,748)</u>	<u>(730,913)</u>	<u>(669,020)</u>
Net Change in Total Pension Liability	\$ 262,184	\$ 414,677	\$ 378,020
Total Pension Liability, Beginning	<u>11,964,326</u>	<u>11,549,649</u>	<u>11,171,629</u>
Total Pension Liability, Ending	<u>\$ 12,226,510</u>	<u>\$ 11,964,326</u>	<u>\$ 11,549,649</u>
Fiduciary Net Position			
Employer Contributions	\$ 235,085	\$ 232,393	\$ 225,919
Member Contributions	177,900	175,863	170,965
Investment Income Net of Investment Expenses	842,493	213,800	779,631
Benefit Payments/Refunds of Contributions	(736,748)	(730,913)	(669,020)
Administrative Expenses	(9,286)	(8,369)	(8,837)
Other	<u>(202,208)</u>	<u>(49,566)</u>	<u>(17,350)</u>
Net Change in Fiduciary Net Position	\$ 307,236	\$ (166,792)	\$ 481,308
Fiduciary Net Position, Beginning	<u>11,549,250</u>	<u>11,716,042</u>	<u>11,234,734</u>
Fiduciary Net Position, Ending	<u>\$ 11,856,486</u>	<u>\$ 11,549,250</u>	<u>\$ 11,716,042</u>
Net Pension Liability/(Asset), Ending	<u>\$ 370,025</u>	<u>\$ 415,076</u>	<u>\$ (166,393)</u>
Fiduciary Net Position as a % of Total Pension Liability	96.97%	96.53%	101.44%
Pensionable Covered Payroll	\$ 2,541,429	\$ 2,512,323	\$ 2,442,356
Net Pension Liability as a % of Covered Payroll	14.56%	16.52%	-6.81%

This schedule is presented to illustrate the requirement to show information for ten years. However, recalculations of prior years are not required; therefore, only the years for which the new GASB statements have been implemented are shown. The data in this schedule is presented for the time period covered by the measurement date as opposed to the County's fiscal year.

COUNTY OF RUNNELS  
Schedule of Employer Contributions -  
Texas County & District Retirement System  
Year Ended September 30, 2017

<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<sup>(1)</sup></u>	<u>Actual Contribution as a % of Covered Payroll</u>
2015	\$ 232,498	\$ 232,498	\$ 0	\$ 2,513,462	9.3%
2016	236,988	236,988	0	2,562,002	9.3%
2017	228,339	228,339	0	2,468,498	9.3%

<sup>(1)</sup> Payroll is calculated based on contributions as reported to TCDRS.

This schedule is presented to illustrate the requirement to show information for ten years. However, recalculations of prior years are not required; therefore, only the years for which the new GASB statements have been implemented are shown. The data in this schedule is presented for the time period covered by the County's fiscal year as opposed to the time period covered by the measurement date.

COUNTY OF RUNNELS  
Notes to the Other Information  
September 30, 2017

Note A - Net Pension Liability

Changes in Benefit Terms

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

Valuation Timing	Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age Normal <sup>(1)</sup>
Amortization Method	
Recognition of Economic/ Demographic Gains or Losses	Straight-Line Amortization Over Expected Working Life
Recognition of Assumptions Changes or Inputs	Straight-Line Amortization Over Expected Working Life
Asset Valuation Method	
Smoothing Period	5 Years
Recognition Method	Non-Asymptotic
Corridor	None
Inflation	3.0%
Salary Increases	4.9%
Investment Rate of Return	8.1%
Cost-of-Living Adjustments	Cost-of-Living Adjustments for the County are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Members eligible for service retirement are assumed to retire at various rates based upon age and gender. Deferred members are assumed to retire (100% probability) at the later of age 60 or earliest retirement eligibility. For all eligible members ages 75 and later, retirement is assumed to occur immediately.
Turnover	New employees are assumed to replace any terminated members and have similar entry ages.
Mortality	Mortality rates for depositing members are based on the gender-distinct RP-2000 Active Employee Mortality Table with a two-year set-forward for males and a four-year setback for females. Service retirees, beneficiaries, and non-depositing members are based on the RP-2000 Combined Mortality Table with a one-year set-forward for males and no age adjustment for females. Disabled retirees are based on the gender-distinct RP-2000 Disabled Mortality Table with no age adjustment for males and a two-year set-forward for females. The rates are projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.

<sup>(1)</sup> Individual entry age normal cost method, as required by GASB 68, used for GASB calculations. Note that a slightly different version of the entry age normal cost method is used for the funding actuarial valuation.

Supplementary Information

COUNTY OF RUNNELS  
TxCDG Grant  
Year Ended September 30, 2017

Federal Grantor: U.S. Department of Housing and Urban Development  
 Pass Through Grantor: Texas Department of Agriculture  
 Type of Grant: Community Development Block Grant  
 CFDA Number: 14.228  
 Project Number: 7215449  
 Project Period: October 15, 2015 to October 14, 2017  
 Runnels County Pass Through to Rowena Water Supply Corporation

	<u>Budget</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>	<u>Variance</u>
<u>REVENUES</u>					
Grant Revenues	\$ 275,000	\$ 0	\$ 248,724	\$ 248,724	\$ 26,276
<u>EXPENDITURES</u>					
Water Facilities	\$ 198,000	\$ 0	\$ 184,821	\$ 184,821	\$ 13,179
Engineering	49,500	0	39,163	39,163	10,337
Administration	27,500	0	24,740	24,740	2,760
Total Expenditures	\$ 275,000	\$ 0	\$ 248,724	\$ 248,724	\$ 26,276
Excess Revenues (Expenditures)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

COMPLIANCE AND INTERNAL CONTROLS SECTION



A Limited Liability Partnership

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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 County Judge  
and Commissioners' Court  
County of Runnels  
P.O. Box 310  
Ballinger, TX 76821-0310

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Runnels, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated February 6, 2018.

### Internal Control Over Financial Reporting

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

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

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Runnels' financial statements are free of 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*.

**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 County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Eckert & Company, LLP*

February 6, 2018