



County of Eastland

EASTLAND COUNTY, TEXAS

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

September 30, 2019

EASTLAND COUNTY, TEXAS

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May 14, 2020

**The Honorable County Judge and Commissioners
Comprising the Commissioner's Court of
Eastland County, Texas**

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eastland County, Texas as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion 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 general-purpose 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Eastland County, Texas as of September 30, 2019, and the respective changes in financial position, for the year then ended in conformity with the 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 on pages 3 through 9, Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - General Fund on page 38, Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - Road and Bridge Fund on page 39, Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Grants Fund on page 40, Schedule of Changes in Net Pension Liability and Related Ratios - Pension Plan on page 41, Schedule of Contributions - Pension Plan on page 42, Schedule of Changes in Net OPEB Liability and Related Ratios - Other Postemployment Benefits - Group Term Life on page 43, and Schedule of Changes in Net OPEB Liability and Related Ratios - Other Postemployment Benefits - Health Care on page 44 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 basic financial statements. The combining and individual nonmajor and fiduciary fund financial statements (as listed in the table of contents) and Schedule of Expenditures of Federal Awards, as required by title 2 U.S. Code of Federal Regulations (CFR) part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor and fiduciary fund financial statements and Schedule of Expenditures of Federal Awards, 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 combining and individual nonmajor and fiduciary fund financial statements and Schedule of Expenditures of Federal Awards 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 May 14, 2020 on our consideration of the Eastland County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Eastland County, Texas' internal control over financial reporting and compliance.

Condly and Company, L.L.P.

Certified Public Accountants

EASTLAND COUNTY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2019

Our discussion and analysis of the County's financial performance provides an overview of the County's financial activities for the fiscal year ended September 30, 2019. Please read it in conjunction with the County's financial statements that begin on page 10.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34.

Report Components

This annual report consists of five parts as follows:

Government-Wide Financial Statements

The statement of net position and the statement of activities (pages 10-11) provide information about the activities of the County government-wide (or "as a whole") and present a longer term view of the County's finances.

Fund Financial Statements

Fund financial statements (pages 12-17) focus on the individual parts of the County government. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant ("major") funds. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information

Management's discussion and analysis (pages 3-9), budgetary comparison schedules (pages 38-40), pension schedules (pages 41-42), and OPEB schedules (pages 42-43) represent financial information required by accounting principles generally accepted in the United States of America to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

Supplementary Information

This part of the annual report (pages 45-58) includes optional financial information such as combining statements for nonmajor funds (which are added together and shown in the fund financial statements in a single column). Also included in this section are fiduciary fund statements which provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong. This supplementary information is provided to address certain specific needs of various users of the County's annual report.

Reporting the County as a Whole

The County's Reporting Entity Presentation

This annual report includes all activities for which the County is fiscally responsible.

The Government-Wide Statement of Net Position and the Statement of Activities

Our financial analysis of the County as a whole begins on page 10. The government-wide financial statements are presented on pages 10 through 11. One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?"

The statement of net position and the statement of activities report information about the County as a whole and about its activities in a way that helps answer this question.

These two statements report the County's net position and changes in them. The statement of net position presents information on all of Eastland County's assets and liabilities, with the difference between the two being reported as net position. Over time, increases or decreases in the County's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the County's sales tax base and the condition of the County's capital assets, to assess the overall health of the County. In the statement of activities we present information showing how the government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

Reporting the County's Most Significant Funds

The Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds of the County as a whole, but do not portray the County as a whole. Some funds are required to be established by State law; however, the County establishes certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two kinds of funds - governmental and fiduciary - use different accounting approaches.

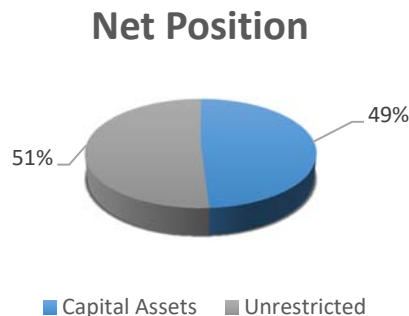
Governmental funds - Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliations on pages 13 and 15. The County considers the general fund and the road and bridge fund to be its significant or major governmental funds. All other governmental funds are aggregated in a single column entitled other nonmajor governmental funds.

Fiduciary funds - The County is the trustee, or fiduciary, for certain funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 16-17. Fiduciary funds are not reflected in the government-wide financial statements because the County cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Position

Eastland County's combined net position was approximately \$9.9 million at September 30, 2019. Approximately 49% of the County's net position reflects its investment in capital assets (e.g. land, buildings, machinery, equipment), less accumulated depreciation and any related outstanding debt. The remaining balance of unrestricted net position may be used to meet the County's ongoing obligations to citizens and creditors.



Eastland County's combined total assets amounted to \$12,537,635. This amount included current and other assets of \$7,558,436 and capital assets of \$4,979,199. Deferred outflows of resources totaled \$1,787,605 at September 30, 2019 and relate to pensions and OPEB. Total liabilities of the County at September 30, 2019 (excluding deferred inflows) were \$4,000,482. The portion of liabilities classified as current was \$856,551 and long-term liabilities were \$3,143,931. Deferred inflows of resources totaled \$445,153 at September 30, 2019, and relate to pensions and OPEB. See **Table 1** for additional variances between September 30, 2019 and 2018.

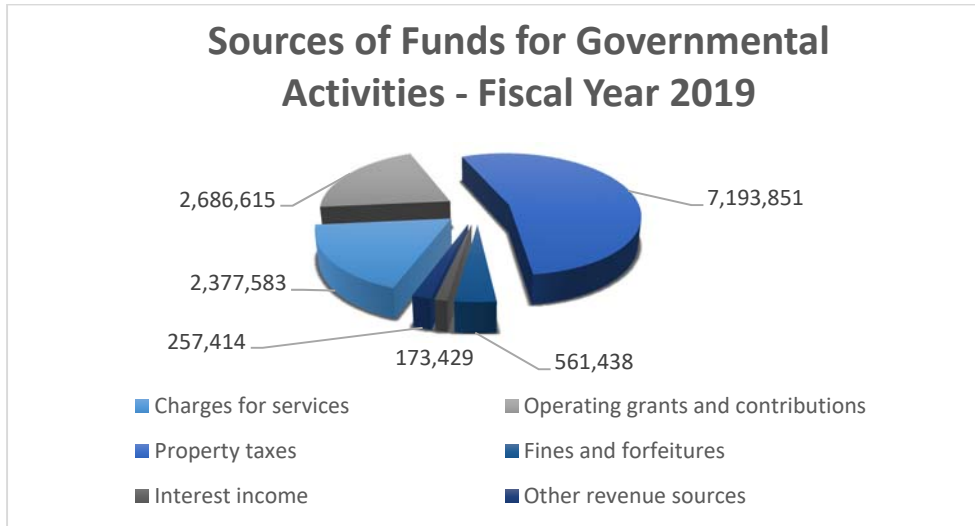
Table 1

	Governmental Activities	
	2019	2018
Assets:		
Current and other assets	\$ 7,558,436	\$ 7,866,390
Capital assets	4,979,199	4,866,489
Total Assets	\$ 12,537,635	\$ 12,732,879
 Deferred Outflows of Resources	 \$ 1,787,605	 \$ 702,686
Liabilities:		
Current liabilities	\$ 856,551	\$ 1,661,394
Noncurrent liabilities	3,143,931	1,904,671
Total Liabilities	\$ 4,000,482	\$ 3,566,065
 Deferred Inflows of Resources	 \$ 445,153	 \$ 293,423
Net position:		
Invested in capital assets, net of related debt	\$ 4,863,356	\$ 4,694,667
Unrestricted	5,016,249	4,881,410
Total Net Position	\$ 9,879,605	\$ 9,576,077

Total assets decreased primarily because of a decrease in due from accounts and grants receivable that was partially offset by an overall increase in cash, investments and capital assets. Grants receivable decreased \$644,073 from September 30, 2018 to September 30, 2019. Liabilities increased primarily due to an increase in net pension liability of \$1,298,188, partially offset by a decrease in unearned revenue of \$541,553 and a decrease in accounts payable and accrued expenses of \$278,301.

Changes in Net Position

Eastland County's net position increased \$303,528 for the year ended September 30, 2019. Total revenues for the year ended September 30, 2019 were \$13,250,330. Approximately 54% of the County's revenue comes from property taxes. Charges for services increased by \$44,157 and fines and forfeitures and other taxes increased by \$24,196. Operating grants and contributions increased \$889,178. Property taxes decreased by \$18,918, and miscellaneous revenue (including interest income) decreased by \$59,214.



For the years ended September 30, 2019 and 2018, net position of the primary government changed as follows:

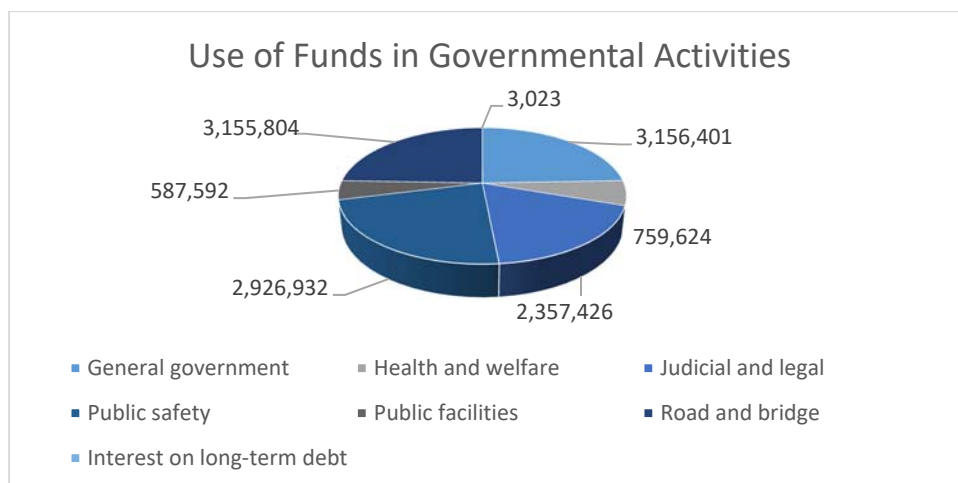
Table 2	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
Revenues:		
Program revenues:		
Charges for services	\$ 2,377,583	\$ 2,333,426
Operating grants and contributions	2,686,615	1,797,437
General revenues:		
Property taxes	7,193,851	7,212,769
Fines and forfeitures and other taxes	561,438	537,242
Miscellaneous	257,414	277,377
Interest income	173,429	94,252
Total revenues	<u>13,250,330</u>	<u>12,252,503</u>
Expenses:		
General government	3,156,401	3,149,111
Judicial and legal	2,357,426	2,382,445
Public safety	2,926,932	2,780,159
Public facilities	587,592	596,832
Road and bridge	3,155,804	2,727,667
Health and welfare	759,624	509,903
Interest on long-term debt	3,023	8,192
Total expenses	<u>12,946,802</u>	<u>12,154,309</u>
Change in net position	303,528	98,194
Net position - beginning	9,576,077	9,867,745
Prior period adjustment	-	(389,862)
Net position - beginning, as restated	9,576,077	9,477,883
Net position - ending	<u>\$ 9,879,605</u>	<u>\$ 9,576,077</u>

Governmental Activities

To aid in the understanding of the statement of activities, some additional explanation is given. Of particular interest is the format that is significantly different from a typical statement of revenues, expenses, and changes in fund balance. You will notice that expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a net (expense)/revenue. This type of format highlights the relative financial burden of each of the functions on the County's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

Expenditures increased overall by \$792,493 from the prior year, primarily due to an increase in expenditures related to infrastructure repair as a result of flood damage as well as other general infrastructure repairs and maintenance.

The County's governmental resources were used as follows during the year ended September 30, 2019:



Total expenses for governmental activities amounted to \$12,946,802 during the year ended September 30, 2019. Of these total expenses, taxpayers and other general revenues funded \$7,882,604 while those directly benefiting from the program funded \$2,686,615 from grants and other contributions and \$2,377,583 was provided from charges for services for the year ended September 30, 2019.

A FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

Fund Financial Highlights

- As of the end of the fiscal year, Eastland County's governmental funds reported a combined fund balance of \$6,500,429, an increase of \$506,694 or 8% in comparison with the prior year.
- The General Fund is the chief operating fund of the County. At the end of the fiscal year, \$4,121,002 of the general fund's fund balance total of \$4,153,659 is unassigned. As a measure of the fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 54% of total general fund expenditures.
- The County's total revenues exceeded total expenses by \$506,694 for the year.

General Fund Budgetary Highlights

Over the course of the year, the County revised the general fund budget at various times. With these adjustments, actual expenditures (including transfers) were \$496,611 lower than final budgeted amounts. The most significant positive variance from budgeted expenses resulted from less public safety expenditures than anticipated. The actual revenues were \$171,829 lower than expected.

Road and Bridge Fund Budgetary Highlights

Over the course of the year, the County revised the road and bridge fund budget at various times. With these adjustments, actual expenditures were \$57,951 lower than final budgeted amounts. Actual revenues (including transfers and capital lease proceeds) were \$52,137 lower than expected.

Grants Fund Budgetary Highlights

Over the course of the year, the County revised the grants fund budget at various times. With these adjustments, actual expenditures were \$2,086,506 (including transfers out) higher than final budgeted amounts. Actual revenues were \$136,571 lower than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2019, the County had a net balance of \$4,979,199 in a broad range of capital assets including land, buildings, roads, bridges and equipment. This amount represents a net increase (including additions, retirements and adjustments) of \$112,710 or 2% over last year. See **NOTE 5** in the notes to the financial statements for additional details.

Primary Government Capital Assets - (Net of accumulated depreciation)

		Governmental Activities 2019
Land	\$	158,678
Buildings and improvements		1,619,210
Infrastructure		631,889
Furniture and equipment		2,569,422
		<hr/>
Total	\$	4,979,199

Capital Leases

At year end, the County had outstanding capital leases totaling \$115,843 that were obtained in order to finance acquisition of various equipment. See **NOTE 6** in the notes to the financial statements for additional details.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

For the upcoming fiscal year ending September 30, 2020, the County's budget is fairly consistent with this year. Budgeted expenditures for next fiscal year are approximately the same as they were for the 2018-2019 year. The County's fund balance is projected to remain consistent.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Eastland 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 Auditor's office at: Eastland County, Texas, 100 W. Main Street, Suite 205, Eastland, Texas 76448.

EASTLAND COUNTY, TEXAS

STATEMENT OF NET POSITION

September 30, 2019

	<u>Governmental Activities</u>
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$ 5,276,276
Investments	1,852,533
Taxes receivable - net of allowance for uncollectible taxes of \$260,543	260,544
Due from other funds	7,808
Due from other governments	104,537
Grants receivable	7,420
Prepaid expenses and other assets	49,318
Capital Assets:	
Land	158,678
Buildings and improvements	4,710,435
Infrastructure	21,198,688
Furniture and equipment	7,852,995
Less accumulated depreciation	<u>(28,941,597)</u>
 TOTAL ASSETS	 <u>12,537,635</u>
 DEFERRED OUTFLOWS OF RESOURCES:	
Deferred outflows of resources related to pensions	1,754,151
Deferred outflows of resources related to OPEB	<u>33,454</u>
 TOTAL DEFERRED OUTFLOWS OF RESOURCES	 <u>1,787,605</u>
 LIABILITIES:	
Current Liabilities:	
Accounts payable and accrued expenses	352,525
Accrued wages	342,734
Accrued interest payable	1,823
Due to other funds	8,179
Due to other governments	40,885
Unearned revenue	53,141
Leases payable - current	57,264
Noncurrent Liabilities:	
Leases payable - long term	58,579
Net pension liability	2,663,508
Net OPEB liability	<u>421,844</u>
 TOTAL LIABILITIES	 <u>4,000,482</u>
 DEFERRED INFLOWS OF RESOURCES:	
Deferred inflows of resources related to pensions	422,708
Deferred inflows of resources related to OPEB	<u>22,445</u>
 TOTAL DEFERRED INFLOWS OF RESOURCES	 <u>445,153</u>
 NET POSITION:	
Invested in capital assets, net of related debt	4,863,356
Unrestricted	<u>5,016,249</u>
 TOTAL NET POSITION	 <u>\$ 9,879,605</u>

The accompanying notes are an integral part of the financial statements.

EASTLAND COUNTY, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019

		Program Revenues		Net (Expense) Revenues and Changes in Net Position
Function/Program Activities	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
Primary Government:				
Governmental Activities:				
General government	\$ 3,156,401	\$ 865,060	\$ 56,650	\$ (2,234,691)
Judicial and legal	2,357,426	572,197	517,288	(1,267,941)
Public safety	2,926,932	679,448	3,020	(2,244,464)
Public facilities	587,592	16,726	30,163	(540,703)
Road and bridge	3,155,803	227,350	2,079,494	(848,959)
Health and welfare	759,624	16,802		(742,822)
Interest on long-term debt	3,023			(3,023)
Total governmental activities	12,946,801	2,377,583	2,686,615	(7,882,603)
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				7,193,851
Fines and forfeitures				561,438
Loss on sale of assets				(7,372)
Other revenue				264,786
Interest income				173,429
Total General Revenues and Transfers				8,186,132
Change in Net Position				303,529
Net position - Beginning				9,576,077
Net position - Ending				\$ 9,879,606

The accompanying notes are an integral part of the financial statements.

EASTLAND COUNTY, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2019

<u>ASSETS</u>	<u>General</u>	<u>Road and Bridge</u>	<u>Grants</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 2,714,985	\$ 1,053,288	\$ 55,398	\$ 1,452,605	\$ 5,276,276
Investments	1,852,533				1,852,533
Taxes receivable	521,087				521,087
Allowance for uncollectible taxes	(260,543)				(260,543)
Grants receivable			7,420		7,420
Due from other funds			4,188	3,620	7,808
Due from other governments	71,671	3,410		29,456	104,537
Prepaid expenses and other assets	32,130	16,829		359	49,318
 Total Assets	 <u>\$ 4,931,863</u>	 <u>\$ 1,073,527</u>	 <u>\$ 67,006</u>	 <u>\$ 1,486,040</u>	 <u>\$ 7,558,436</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>					
Liabilities:					
Accounts payable and accrued expenses	\$ 289,997	\$ 48,529	\$	\$ 13,999	\$ 352,525
Accrued wages	212,651	39,103		90,980	342,734
Due to other funds	8,179				8,179
Due to other governments	6,834		34,051		40,885
Unearned Revenue			53,141		53,141
 Total Liabilities	 <u>517,661</u>	 <u>87,632</u>	 <u>87,192</u>	 <u>104,979</u>	 <u>797,464</u>
Deferred Inflows of Resources:					
Unavailable revenue - property taxes	260,543				260,543
 Total Deferred Inflows of Resources	 <u>260,543</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>260,543</u>
Fund Balances:					
Non-spendable	32,130	16,829		359	49,318
Restricted		969,066	(20,186)	1,140,748	2,089,628
Committed	527				527
Assigned				239,954	239,954
Unassigned	4,121,002				4,121,002
 Total Fund Balances	 <u>4,153,659</u>	 <u>985,895</u>	 <u>(20,186)</u>	 <u>1,381,061</u>	 <u>6,500,429</u>
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	 <u>\$ 4,931,863</u>	 <u>\$ 1,073,527</u>	 <u>\$ 67,006</u>	 <u>\$ 1,486,040</u>	 <u>\$ 7,558,436</u>

The accompanying notes are an integral part of the financial statements.

EASTLAND COUNTY, TEXAS

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

September 30, 2019

Fund Balances - Total Governmental funds \$ 6,500,429

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental capital assets	\$ 33,920,796	
Less accumulated depreciation	<u>(28,941,597)</u>	4,979,199

Deferred outflows of resources related to pensions.	1,754,151
Deferred outflows of resources related to OPEB.	33,454

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.

Interest payable	(1,823)	
Governmental leases payable	(115,843)	
Net pension liability	(2,663,508)	
OPEB	<u>(421,844)</u>	(3,203,018)

Property tax revenue considered unavailable for the governmental funds and recorded as a deferred inflow of resources in the governmental funds.	260,543
--	---------

Deferred inflows of resources related to pensions.	(422,708)
Deferred inflows of resources related to OPEB.	<u>(22,445)</u>

Net position of governmental activities \$ 9,879,605

The accompanying notes are an integral part of the financial statements.

EASTLAND COUNTY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended September 30, 2019

	General Fund	Road and Bridge	Grants	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes	\$ 7,203,294	\$	\$	\$	\$ 7,203,294
Grants and contributions	92,384	27,356	2,052,138	514,737	2,686,615
Charges for services	822,917	469,350		1,085,316	2,377,583
Fines and forfeitures	524,875			36,563	561,438
Interest income	115,629	23,087		34,713	173,429
Other revenue	194,217	42,052		28,517	264,786
Total Revenues	8,953,316	561,845	2,052,138	1,699,846	13,267,145
EXPENDITURES:					
Current:					
General government	2,927,055			600	2,927,655
Judicial and legal	1,323,929			982,670	2,306,599
Public safety	2,343,378			520,060	2,863,438
Public facilities	288,478			172,088	460,566
Road and bridge		2,861,700	601,899		3,463,599
Health and welfare	726,380			12,214	738,594
Total Expenditures	7,609,220	2,861,700	601,899	1,687,632	12,760,451
Excess (Deficit) Revenues Over (Under) Expenditures	1,344,096	(2,299,855)	1,450,239	12,214	506,694
OTHER FINANCING SOURCES AND (USES):					
Transfers in (out)	(1,067,903)	3,360,614	(2,433,533)	140,822	-
Total Sources (Uses):	(1,067,903)	3,360,614	(2,433,533)	140,822	-
Excess (Deficit) Revenues and Other Financing Sources Over (Under) Expenditures and Financing Uses	276,193	1,060,759	(983,294)	153,036	506,694
Fund Balances, Beginning of Year	3,877,466	(74,864)	963,108	1,228,025	5,993,735
Fund Balances, End of Year	\$ 4,153,659	\$ 985,895	\$ (20,186)	\$ 1,381,061	\$ 6,500,429

The accompanying notes are an integral part of the financial statements.

EASTLAND COUNTY, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019

Net change in fund balances - total governmental funds \$ 506,694

Amounts reported for governmental activities in the statement of activities are different because:

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the capital outlays and debt principal payments is to increase net position. 797,288

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. (620,303)

The change in net pension and OPEB liability and the related deferred outflows and inflows of resources reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as an expenditure in the governmental funds. (363,336)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing gains and losses on the sale of fixed assets based on book value and the adjustment of other accrual accounts. The net effect of these reclassifications and recognitions is to increase net position. (16,815)

Change in net position of governmental activities \$ 303,528

The accompanying notes are an integral part of the financial statements.

EASTLAND COUNTY, TEXAS

STATEMENT OF FIDUCIARY NET POSITION

September 30, 2019

	Employee Retirement Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS:		
Cash and cash equivalents	\$	\$ 1,649,764
Certificates of deposit and savings		142,760
Due from others		16,444
Investments at fair value	<u>467,170</u>	<u> </u>
Total Assets	<u>467,170</u>	<u>1,808,968</u>
LIABILITIES:		
Accrued liabilities		132,830
Due to others		1,674,406
Bonds held in trust	<u> </u>	<u>1,732</u>
Total Liabilities	<u> </u>	<u>1,808,968</u>
NET POSITION:		
Held in trust for pension benefits and other purposes	<u>\$ 467,170</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

EASTLAND COUNTY, TEXAS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended September 30, 2019

	<u>Employee Retirement Funds</u>
ADDITIONS:	
Contributions:	
Employee	\$ <u>49,899</u>
Investment Earnings:	
Investment gains	6,908
Less Investment Expenses:	
Asset fees	<u>2,686</u>
Net Investment Gain	<u>4,222</u>
Total Additions	<u>54,121</u>
DEDUCTIONS:	
Benefits paid	<u>5,729</u>
Net increase	48,392
Net Position - Beginning of Year	<u>418,778</u>
Net Position - End of Year	\$ <u><u>467,170</u></u>

The accompanying notes are an integral part of the financial statements.

EASTLAND COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2019

NOTE 1: REPORTING ENTITY

The authority of county governments and their specific functions and responsibilities are created by and dependent upon laws and legal regulations of the Texas State Constitution. Eastland County (the "County") operates under a county judge/commissioners court type of government as provided by state statute. The financial and reporting policies of the County conform to generally accepted accounting principles ("GAAP") applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), which includes all statements and interpretations of the National Council on Governmental Accounting unless modified by the GASB, and those principles prescribed by the American Institute of Certified Public Accountants Audit and Accounting Guide entitled *State and Local Governments*.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements include all funds, organizations, agencies, boards, commissions, and authorities for which the County is financially accountable. The County has also considered all other potential organizations for which the nature and significance of their relationships with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a majority of an organization's governing body, and 1) the ability of the County to impose its will on that organization, or 2) the potential for that organization to provide specific benefits to or impose specific financial burdens on the County. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

NOTE 2: GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the County. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues. The statement of net position and the statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

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.

Interfund activities between governmental funds appear as due to/due from on the Governmental Fund Balance Sheet and as other resources and other uses on the

Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the County or meets the following criteria:

Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and

Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The general fund is the primary operating fund of the County and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the County. The following special revenue funds are reported as major funds:

Road and Bridge Fund – The road and bridge fund is established to account for the resources devoted to maintaining the County's roads and bridges.

Grants Fund – The grants fund is established to account for the resources devoted to account for the resources related to federal grant awards.

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

Non-spendable, 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 resources 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 does 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.

Non-spendable Fund Balance

The County's non-spendable fund balance as of September 30, 2019 totaling \$49,318 relates to prepaid insurance.

Restricted Fund Balance

The County's restricted fund balance as of September 30, 2019, which relates to use of external resources and resources created by enabling legislation for the purpose of the legislation, is comprised of the following:

<u>Restriction</u>	<u>Amount</u>
Texas Department of Criminal Justice grants and contracts	\$ 223,588
District attorney forfeitures	250,001
Record and statistic preservation	216,104
Road maintenance	969,066
Court technology	83,062
Law library	84,266
Courthouse security	59,304
Jury fund	34,852
Record archival	129,808
Other grants	(20,186)
Sheriff's commissary	24,536
Law enforcement officers standards and education	20,576
Election service	11,641
Sherriff's seizure fund	<u>3,010</u>
Total Restricted Fund Balance	<u>\$ 2,089,628</u>

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. The County's committed fund balance as of September 30, 2019, is comprised of the following:

<u>Commitment</u>	<u>Amount</u>
County infrastructure transportation reinvestment zone	\$ <u>527</u>
Total Committed Fund Balance	<u>\$ 527</u>

Assigned Fund Balance

The County's management has the authority to assign funds in accordance with various internal programs. The County's assigned fund balance as of September 30, 2019 is comprised of the following:

<u>Assignment</u>	<u>Amount</u>
County farm	\$ 28,561
Cooperative dispatch	208,106
Historical commission	<u>3,287</u>
Total Assigned Fund Balance	<u>\$ 239,954</u>

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.

Fiduciary Funds

The County reports the following fiduciary fund types:

Agency Funds – Accounts for assets the County holds on behalf of others as their agent. They are custodial in nature (assets equal liabilities), and do not involve measurement or results of operations.

Employee Retirement Fund – Accounts for resources that are required to be held in trust for the members and beneficiaries of the deferred compensation plan.

Measurement Focus/Basis of Accounting

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the County; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of expenditure, and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

Budget

The County's annual budget is a management tool that assists its users in analyzing financial activity for its fiscal year ending September 30.

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

Budgeted amounts are as originally adopted, or as amended during the fiscal year by the Commissioners' Court.

Cash and Cash Equivalents

Cash and cash equivalents reflected in the financial statements includes petty cash, cash in banks and state investment pools. Petty cash amounts are maintained in various County offices for purposes of collections of payments made to the County.

For purposes of reporting cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Property Tax Calendar

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 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 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

Capital Assets

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the statement of net position. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the assets. Donated fixed assets are recorded at their estimated fair value at the date of donation. The County's infrastructure network is valued at historical cost.

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight line method of depreciation. A capitalization threshold of \$5,000 is used to report capital assets.

The range of estimated useful lives by type of asset is as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	40
Building improvements	15
Vehicles	5
Equipment	5-10
Office equipment	5-7
Infrastructure	20-40

Fund Financial Statements

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

Long-Term Debt

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as a liability in the government-wide statements.

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

Equity Classification

Government-Wide Statements

Equity is classified as net position and displayed in two components:

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Unrestricted net position – All other net position that do not meet the definition of the “restricted” or “invested in capital assets, net of related debt”.

Fund Financial Statements

Governmental fund equity is classified as fund balance.

Recent Accounting Pronouncements

Not Adopted

GASB Statement No. 84

In January 2017, the GASB issued *Statement No. 84, Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of governments and for identifying fiduciary component units and post-employment benefit arrangements that are fiduciary activities. The statement will become effective for financial statements beginning after December 15, 2018.

GASB Statement No. 87

In June 2017, the GASB issued *Statement No. 87, Leases*. This statement changes the recognition requirements for certain lease assets and liabilities for leases that are currently classified as operating leases. The statement will become effective for financial statements for periods beginning after December 15, 2019.

GASB Statement No. 90

In August 2018, the GASB issued *Statement No. 90, Majority Equity Interest-an amendment of GASB Statements No. 14 and No. 61*. This statement will improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this statement become effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 91

In May 2019, the GASB issued *Statement No. 91, Conduit Debt Obligations*. This statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements

associated with conduit debt obligations, and 3) related note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

GASB Statement No. 92

In January 2020, the GASB Issued *Statement No. 92, Omnibus 2020*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements related to Statement 87 and Implementation Guide 2019-3 are effective upon issuance. The other requirements of this statement are effective for fiscal years beginning after June 15, 2020.

The County will fully analyze the impact of these new Statements prior to the effective dates for the Statements listed above.

Use of Estimates

The preparation of financial statements by the County requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through May 14, 2020, the date the financial statements were available to be issued.

NOTE 3: LEGAL COMPLIANCE - BUDGETS

The County's budgetary process requires that expending agencies of the County submit appropriation requests by mid May of each year. After review by the budget officer and department heads, the requests are combined and submitted to the Commissioners' Court. In August, the proposed budget is filed with the County Clerk for public inspection at least fifteen days prior to hearings, which are open to the public. A final budget must be adopted prior to October 1. At the fund level, actual expenditures cannot exceed budgeted appropriations.

NOTE 4: CASH AND INVESTMENTS

In addition to the \$250,000 insurance on accounts provided by Federal Deposit Insurance Corporation ("FDIC") regulations, securities in the amount of \$10,816,518 were pledged by the depository bank to secure all bank deposits and investments. The largest cash balance amounted to \$7,426,951 and occurred on February 6, 2019. The pledged securities plus FDIC coverage were sufficient to cover the largest cash balance for the County. Cash deposits at September 30, 2019, totaling \$5,276,276 (all funds), were in checking, money market or state investment pool accounts during the year which are allowable types of deposits.

The County's investments held at September 30, 2019 are not subject to classifications where securities related to the government cannot be identified. Investments at September 30, 2019 included certificates of deposit totaling \$1,852,533 with a weighted average maturity of 123.13 days and interest rates ranging from 1.0% - 2.25%.

For an indication of the level of risk assumed by the District, all cash deposits are categorized as Category 1, insured by FDIC or collateralized with securities held by the County (or public trust) or by its agent in its name.

Investments

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area, conducted as a part of the audit of the general purpose financial statements, disclosed that in the areas of investment practices, management reports and

establishment of appropriate policies, the County adhered to the requirements of the Act. Additionally, investment practices of the County were in accordance with local policies.

Investment Policy

The County has adopted the provisions of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Pools" ("Statement"). Those provisions require that certain investments be reported at fair value, rather than at cost or amortized cost, and that the changes in the fair value of investments be recognized as investment revenue. The Statement further provides that the County has the option of continuing to report certain investments at cost or amortized cost, but must disclose its policy in that regard.

In accordance with the Statement, 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 non-participating interest-earning investment contracts using the cost-based measure. However, if the 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 that 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 deposits are examples of nonparticipating interest-earning investment contracts. The cost basis was equivalent to the fair value of the investments at year end.

Public Funds Investments Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Inter-local Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: (1) have an advisory board composed of participants in the Pool and other persons who do not have a business relationship with the Pool and are qualified to advise the Pool; (2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and (3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its share.

The County's investments in Pools are reported at an amount determined by the fair value per share of the Pool's underlying portfolio, unless the Pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one, which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Investment Risks

GASB Statement No. 40 requires a determination as to whether the County was exposed to the following specific investments risks at year end and if so, the reporting of certain related disclosures.

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, 2019, the County was not exposed to credit risk.

Custodial credit risk relates to deposits that are exposed to the risk that they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities, held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the County's name. At September 30, 2019, the County was not exposed to custodial credit risk.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At September 30, 2019, the County was not exposed to concentration of credit risk.

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. At September 30, 2019, the County was not exposed to interest rate risk.

Foreign currency risk is the risk that exchange rates will adversely affect the fair value of an investment. At September 30, 2019, the County was not exposed to foreign currency risk.

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2019, follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Non-depreciable assets:				
Land and improvements	\$ 158,678	\$	\$	\$ 158,678
Depreciable assets:				
Buildings and improvements	4,673,834	36,601		4,710,435
Infrastructure – roads and bridges	21,198,688			21,198,688
Furniture and equipment	7,164,205	703,785	(14,995)	7,852,995
Total at historical cost	<u>33,195,405</u>	<u>740,386</u>	<u>(14,995)</u>	<u>33,920,796</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,958,348)	(132,877)		(3,091,225)
Infrastructure – roads and bridges	(20,496,452)	(70,347)		(20,566,799)
Furniture and equipment	(4,874,116)	(417,079)	7,622	(5,283,573)
Total accumulated depreciation	<u>(28,328,916)</u>	<u>(620,303)</u>	<u>7,622</u>	<u>(28,941,597)</u>
Governmental activity capital assets, net	<u>\$ 4,866,489</u>	<u>\$ 120,083</u>	<u>\$ (7,373)</u>	<u>\$ 4,979,199</u>

Depreciation expense was charged to functions as follows:

General government	\$ 152,706
Judicial and legal	1,650
Public safety	23,644
Public facilities	113,912
Road and bridge	<u>328,391</u>
	<u>\$ 620,303</u>

NOTE 6: LONG-TERM OBLIGATIONS

As of September 30, 2019, the long-term debt, arising from cash transactions, payable from governmental fund resources consisted of the following:

Capital leases:

A capital lease obtained for the purchase of equipment, payable in annual installments of \$59,925 including interest at 2.30%, secured by equipment, final payment due June 2021.	\$ 115,843
Total capital leases	<u>\$ 115,843</u>

Changes in long-term obligations for the year ended September 30, 2019, are as follows:

	October 1, 2018	Increases	Decreases	September 30, 2019	Amount Due Within One Year
Capital leases	\$ 171,822	\$	\$ (55,979)	\$ 115,843	\$ 57,264
Net pension liability	1,365,320	1,298,188		2,663,508	
Net OPEB liability	423,507		(1,663)	421,844	
Compensated absences	128,830	5,591		134,421	134,421

Interest expense on long-term obligations during the year ended September 30, 2019 totaled \$3,023.

The County is obligated under leases accounted for as capital leases. Capital assets with an original cost basis of \$435,593 were acquired under the capital leases. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2019.

	Year Ending September 30,	
	2020	\$ 59,925
	2021	59,925
Minimum lease payments for capital lease		<u>119,850</u>
Less: Amount representing interest		<u>(4,007)</u>
Present value of minimum lease payments		<u>\$ 115,843</u>

NOTE 7: FEDERAL/STATE SOURCE REVENUES

The majority of the federal grant funds received are for Federal Emergency Management Agency (FEMA) in response to and recovery from disasters. State grant funds received and recorded in the general fund are primarily for tobacco grants, salary supplements, and additional law enforcement personnel. These grant funds have been awarded and accounted for by the County.

NOTE 8: DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense / expenditure) until then. See Notes 9 and 10 below for a description of deferred outflows of resources related to pension plans and other postemployment benefits as of September 30, 2019.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. See Notes 9 and 10 below for a description of deferred inflows of resources related to pension plans as of September 30, 2019.

NOTE 9: PENSION PLANS

Pension Plan Description

The County provides pension, disability and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 575 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.

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 regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by 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 with the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death or disability the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

As of the most recent measurement date which was December 31, 2018, membership data for the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits	82
Inactive employees entitled to but not yet receiving benefits	80
Active employees	117
Total participants	<u>279</u>

Funding Policy

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer, based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The County contributed using the actuarially determined rate of 11.64% from October 2018 through December 2018 and 11.57% from January 2019 through September 2019. The contribution rate payable by the employee members is the rate of 7% as adopted by the governing body of the County. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

For the employer's accounting year ending September 30, 2019, the annual pension cost for the TCDRS plan for its employees was \$500,480 and the actual contributions were \$500,480.

Net Pension Liability

The net pension liability (NPL) is the difference between the total pension liability (TPL) and the plan's fiduciary net position. The TPL is the present value of pension benefits that are allocated to current members due to past service by entry age normal actuarial cost method. The TPL includes benefits related to projected salary and service. The fiduciary net position is determined on the same basis used by the pension plans. The County's NPL was measured as of December 31, 2018, and the TPL used to calculate the NPL was determined by an actuarial valuation as of that date.

Total pension liability	\$	18,305,162
Fiduciary net position		<u>15,641,654</u>
Net pension liability	\$	<u><u>2,663,508</u></u>

Actuarial Assumptions

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of actuarial experience studies. The experience study was for the period January 1, 2013 – December 31, 2016, except where required to be different by GASB Statement No. 68.

The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75%	
Overall payroll growth	3.25%	
Investment rate of return	8.10%	This rate reflects the long-term rate of return funding valuation assumption of 8.00%, plus 0.10% adjustment to be gross of administrative expenses as required by GASB Statement No. 68

Salary increases were based on a service-related table. Mortality rates for active members, was based on the gender-specific RP-2014 Active Employee Mortality Table with a two-year set-forward for males and a four-year set-back for females, both with the projection scale AA and then projected with 110% of the MP-2014 Ultimate scale after that. For service retirees, beneficiaries, and non-depositing members, the gender-specific RP-2014 Healthy Annuitant Mortality Table with the projection scale AA and then projected with 110% of the MP-2014 Ultimate scale after that and a one-year set-forward for males and no age adjustment for females was used. For disabled annuitants, gender-specific RP-2014 Disabled Mortality Table is used with slight adjustments and then projected with 110% of the MP-2014 Ultimate scale after that.

The long-term expected rate of return on pension plan investments is 8.10%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. Plan assets are managed based on expected long-term real returns and reflecting expected volatility and correlation. The valuation assumption for the long-term expected return is re-assessed at a minimum of every four years and is set based on a thirty-year time horizon. The most recent analysis was performed in 2017.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized below:

Asset Class	Target Allocation	Geometric Real Rate of Return (expected minus inflation)
US equities	10.50%	5.40%
Private equity	18.00%	8.40%
Global equities	2.50%	5.70%
International equities - developed	10.00%	5.40%
International equities - emerging	7.00%	5.90%
Investment-grade bonds	3.00%	1.60%
Strategic credit	12.00%	4.39%
Direct lending	11.00%	7.95%
Distressed debt	2.00%	7.20%
REIT equities	2.00%	4.15%
Master limited partnerships	3.00%	5.35%
Private real estate partnerships	6.00%	6.30%
Hedge funds	13.00%	3.90%

The discount rate used to measure the total pension liability was 8.10%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in the statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Schedule of Changes in the Net Pension Liability

Changes in the County's net pension liability presented below is calculated on the same basis as the plan.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of December 31, 2017	\$ 17,327,705	\$ 15,962,385	\$ 1,365,320
Changes for the year:			
Service cost	552,613		552,613
Interest on total pension liability	1,409,777		1,409,777
Effect of economic / demographic gains or losses	(14,710)		(14,710)
Effect of assumption changes or inputs			
Refund of contributions	(45,106)	(45,106)	-
Benefit payments	(925,117)	(925,117)	-
Administrative expenses		(12,563)	12,563
Member contributions		297,919	(297,919)
Net investment income		(297,509)	297,509
Employer contributions		660,397	(660,397)
Other		1,248	(1,248)
Balances as of December 31, 2018	\$ 18,305,162	\$ 15,641,654	\$ 2,663,508

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the County calculated using the discount rate of 8.10% as well as what the County net pension liability would have been if it were calculated using a discount rate that is 1% lower and 1% higher than the current rate:

	1% Decrease (7.10%)	Current Rate (8.10%)	1% Increase (9.10%)
Total pension liability	\$ 20,458,700	\$ 18,305,162	\$ 16,474,607
Fiduciary net position	15,641,654	15,641,654	15,641,654
Net pension liability (asset)	\$ 4,817,046	\$ 2,663,508	\$ 832,953

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

For the year ended September 30, 2019, the County recognized total pension expense of \$914,869.

As of September 30, 2019, the County reported on the Statement of Net Position deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred (Inflows) of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ (42,749)	\$ 54,723
Difference between projected and actual investment earnings	(379,959)	1,071,101
Changes in assumptions and other inputs	-	53,411
Contributions made subsequent to measurement date	-	574,916
Total	<u>\$ (422,708)</u>	<u>\$ 1,754,151</u>

Deferred outflows of resources related to contributions subsequent to the measurement date of \$574,916 will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Remaining net deferred outflows of resources related to pensions totaling \$756,527 will be recognized in pension expense for the years ending September 30, 2020, 2021, 2022, and 2023 in the amounts of \$251,228, \$153,286, \$272,537, and \$79,476, respectively.

NOTE 10: OTHER POSTEMPLOYMENT BENEFITS – GROUP TERM LIFE

Plan Description

The County also participates in a statewide, 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.

Contributions

The County determines rates based on an actuarially determined rate. The County's average contribution rate was 6.90% of covered payroll as of the measurement date of December 31, 2018. Employees are not required to contribute to the plan.

Employees covered by benefit terms

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	70
Inactive employees entitled to but not yet receiving benefits	17
Active employees	<u>117</u>
Total participants	204

Membership counts for inactive employees currently receiving or entitled to but not yet receiving benefits will differ from GASB 68 as they include only those eligible for GTL benefits.

Actuarial Assumptions

The total OPEB Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	Does not apply
Salary increases	Does not apply
Investment rate of return	4.10%, which represents the assumed return, net of all investment and administrative expenses

Actuarial assumptions used in the December 31, 2018, valuation were based on the results of actuarial experience studies. The experience study in TCDRS was for the period January 1, 2013 through December 31, 2016, first used in the December 31, 2017 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2013 through 2016, and dated December 31, 2016. Assumptions are reviewed annually. No additional changes were made for the 2018 valuation.

Discount Rate

The discount rate used to measure the Total OPEB Liability was 4.10%. The discount rate was based on the Fidelity Index's "20-Year Bond GO Index" rate as of December 31, 2018. Due to the GTL being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contribution for retirees.

Changes in Net OPEB Liability

	<u>Total OPEB Liability</u>
Balances as of December 31, 2017	\$ 310,974
Changes for the year:	
Service cost	11,119
Interest on total OPEB liability	10,928
Effect of economic/demographic Experience	111
Changes in assumptions	(30,727)
Benefit payments	<u>(8,938)</u>
Balances as of December 31, 2018	<u>\$ 293,467</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District calculated using the discount rate of 4.10% as well as what the District's net OPEB liability would have been if it were calculated using a discount rate that is 1% lower and 1% higher than the current rate:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
	<u>(3.10%)</u>	<u>(4.10%)</u>	<u>(5.10%)</u>
Net OPEB liability	\$ 341,965	\$ 293,467	\$ 254,797

OPEB Expense

Contributions subsequent to measurement date	\$ 15,789
Change in OPEB liability	<u>621</u>
Total OPEB expense	<u>\$ 16,410</u>

Deferred (Inflows)/Outflows of Resources

For the year ended September 30, 2019, the County recognized OPEB expense of \$621. The County reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred (Inflows) of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,254
Difference between projected and actual investment earnings	-	3,685
Changes in assumptions and other inputs	(23,045)	7,052
Contributions made subsequent to measurement date	-	15,789
Total	<u>\$ (23,045)</u>	<u>\$ 27,780</u>

Deferred outflows of resources related to contributions subsequent to measurement date of \$15,789 will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2019. Remaining net deferred (inflows) of resources related to OPEB totaling (\$11,054) will be recognized in OPEB expense for the years ending September 30, 2020, 2021, and 2022 in the amounts of (\$4,913), (\$4,913), and (\$1,228), respectively.

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 OGTLF. This report may be obtained by writing to the Texas County & District Retirement System, P.O. Box 2034, Austin, TX 78768-2034, or by calling 800-823-7782. TCDRS' CAFR is also available at www.tcdrs.org.

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS – HEALTH CARE

Plan Description

The County provides certain health care benefits through a single-employer defined benefit OPEB plan. Permanent full-time employees who retire under TCDRS eligibility rules are eligible to participate in the county's health care plan as a retiree at their own expense. The retiree pays 100% of the premiums for the insurance. Members are eligible at any age with 20 years of service or at age 60 with 8 years of service or when the retirees age plus years of service equals 75. Spouses and dependents of retirees are also eligible. As of the date of the latest actuarial valuation, the County has 111 active employees and 6 retirees participating in the plan.

Texas Local Government Code Section 157.101 assigns the authority to establish and amend benefit provisions to the Commissioners Court. The plan is not administered by a trust and there are no assets accumulated in a trust.

Employees covered by benefit terms

At the September 30, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Retired employees currently receiving benefits	5
Active employees	94
Total participants	<u>99</u>

Actuarial Assumptions

The total OPEB Liability in the September 30, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	Does not apply
Salary increases	3.50%
Discount rate	2.66% (-0.34% real rate of return plus 3.00% inflation)

Actuarial assumptions used in the September 30, 2019 valuation were based on the results of actuarial experience studies. The experience study was for the period October 1, 2017 through September 30, 2019. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2015 through 2018, and dated September 30, 2019. Assumptions are reviewed annually. No additional changes were made for the 2019 valuation.

Discount Rate

The discount rate used to measure the Total OPEB Liability was 2.66%. The discount rate was based on the Fidelity Index's "20-Year Bond GO Index" rate as of December 31, 2018.

Changes in Net OPEB Liability

	<u>Total OPEB Liability</u>
Balances as of September 30, 2018	\$ 112,533
Changes for the year:	
Service cost	8,511
Interest on total OPEB liability	4,811
Effect of demographic / economic experience	(6,283)
Changes in assumptions	13,921
Benefit payments	<u>(5,116)</u>
Balances as of September 30, 2019	<u>\$ 128,377</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the County calculated using the discount rate of 2.66% as well as what the County's net OPEB liability would have been if it were calculated using a discount rate that is 1% lower and 1% higher than the current rate:

	1% Decrease <u>(1.66%)</u>	Current Rate <u>(2.66%)</u>	1% Increase <u>(3.66%)</u>
Net OPEB liability	\$ 116,607	\$ 128,377	\$ 141,376

Deferred (Inflows)/Outflows of Resources

For the year ended September 30, 2019, the County recognized OPEB expense of \$9,570. The County reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred (Inflows) of Resources</u>	<u>Deferred Outflows of Resources</u>
Difference between projected and actual investment earnings	\$ (5,161)	\$ -
Changes in assumptions and other inputs	<u>-</u>	<u>11,435</u>
Total	<u>\$ (5,161)</u>	<u>\$ 11,435</u>

Due to the measurement date being the same as fiscal year end, no deferred outflows of resources related to contributions subsequent to measurement date of will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2019. Remaining net deferred outflows of resources related to OPEB totaling \$6,274 will be recognized in OPEB expense for the years ending December 31, 2020, 2021, 2022, 2023, and 2024 in the amounts of \$1,364, \$1,364, \$1,364, \$1,364, and \$818, respectively.

NOTE 12: RISK MANAGEMENT

The County's risks of significant losses from auto and property damage and general, law enforcement, and public official liability are covered by participation in the Texas Association of counties (TAC) Risk Management Pool. Coverage with TAC is handled like commercial insurance by both parties. There have been no significant reductions in insurance coverage for the current year.

NOTE 13: INTERFUND TRANSACTIONS

The composition of interfund balances as of September 30, 2019, are as follows:

Due from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other governmental funds	General fund	\$ <u>7,808</u>
		<u>\$ 7,808</u>

The above balances reflect temporary cash advances.

The remaining due to other funds in the general fund totaling \$371 represent amounts due to agency funds.

Transfers:

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various County operations and re-allocations of special revenues. The following schedule briefly summarizes the County's transfer activity:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General fund	Road and bridge fund	\$ 971,919
General fund	Courthouse security fund	141,022
General fund	Juries fund	2,000
Grants fund	General fund	44,838
Grants fund	Road and bridge fund	2,388,695
Cooperative dispatch	General fund	<u>2,200</u>
		<u>\$ 3,550,674</u>

NOTE 14: TAX ABATEMENTS

Eastland County negotiates property tax abatement agreements with local businesses on an individual basis. All agreements are negotiated under state law (Chapter 312 of the Texas Tax Code, "Property Redevelopment and Tax Abatement Act"), which allows the County to abate property taxes to any business located inside or outside Eastland County to promote the development/redevelopment of certain contiguous geographic areas within its jurisdiction. Eastland County may grant abatements of up to 100 percent of annual property tax values.

As of September 30, 2019, Eastland County did not have any tax abatement agreements.

NOTE 15: DEFICIT FUND EQUITY

The grants fund ended with a deficit balance of (\$20,186) as of September 30, 2019. Transfers from the general fund are available to eliminate the fund deficit balance.

NOTE 16: SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area of the County. While it is unknown how long these conditions will last and what the complete financial effect will be to the County, to date, the County could experience a decline in property tax revenues and or collections.

May 14, 2020

**The Honorable County Judge and Commissioners
Comprising the Commissioners' Court of
Eastland County, Texas**

**Independent Auditors' 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**

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 Eastland County, Texas as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise Eastland County, Texas' basic financial statements, and have issued our report thereon dated May 14, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Eastland County, Texas' 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 Eastland County, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the Eastland County, Texas' 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eastland County, Texas' 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 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.

Condley and Company, L.L.P.

Certified Public Accountants

May 14, 2020

**The Honorable County Judge and Commissioners
Comprising the Commissioners' Court of
Eastland County, Texas**

**Independent Auditors' Report on Compliance for each Major Federal Program and on
Internal Control Over Compliance Required by the Uniform Guidance**

Report on Compliance for each Major Federal Program

We have audited Eastland County, Texas' (the "County") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019. The County's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards, and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.

Report on Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Condley and Company, L.L.P.

Certified Public Accountants

EASTLAND COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2019

A. Summary of Auditors' Results

1. Financial Statements

Type of auditor's report issued? Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes No

B. Financial Statement Findings

None

C. Federal Award Findings and Questioned Costs

None

EASTLAND COUNTY, TEXAS

SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended September 30, 2019

None noted.

EASTLAND COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2019

Federal/State Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through to Subrecipient	Expenditures
<u>EXPENDITURES OF FEDERAL AWARDS</u>				
<u>DEPARTMENT OF HOMELAND SECURITY</u>				
Texas Department of Public Safety Division of Emergency Management	97.036		\$	\$ 1,100,425
Texas Department of Public Safety Division of Emergency Management	97.039			<u>66,239</u>
TOTAL DEPARTMENT OF HOMELAND SECURITY			<u>-</u>	<u>1,166,664</u>
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Texas Department of Agriculture (#7216187)	14.228			287,144
Texas Department of Agriculture (#7217110)	14.228			257,740
Texas Department of Agriculture (#7218007)	14.228			<u>260,848</u>
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>-</u>	<u>805,732</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ -</u>	<u>\$ 1,972,396</u>

EASTLAND COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2019

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Eastland County under programs of the federal government for the year ended September 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of Eastland County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Eastland County.

1. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

2. Indirect Cost Rate

The 10% de minimis cost rate as permitted in the UG, Section 200.414 is used.