

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**COUNTY OF CONCHO,  
TEXAS**

*Paint Rock, Texas*

**For the Year Ended  
September 30, 2017**

**FILED**  
The 27 Day of March,  
2018 at 11:33 O'clock AM  
County Clerk, Concho Co. TX  
By \_\_\_\_\_

CONCHO COUNTY, TEXAS

BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2017

CONCHO COUNTY, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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## **INDEPENDENT AUDITOR'S REPORT**

Honorable Judge and County Commissioners  
Concho County, Texas  
P.O. Box 158  
Paint Rock, TX 76866-0158

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

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Section I., Note C.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Opinions

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

## Basis of Accounting

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

## Other Matters

### *Other Information*

The management's discussion and analysis, budgetary comparison information, and net pension liability and contributions information for the Texas County & District Retirement System on pages 3 through 7, 32 through 33, and 34 through 36, respectively, are presented to supplement the basic financial statements. We have applied certain limited procedures to this information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

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

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

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2018, on our consideration of Concho County's 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 Concho County's internal control over financial reporting and compliance.

*Neffendorf & Knopp, P.C.*

NEFFENDORF & KNOPP, P.C.  
Fredericksburg, Texas

March 8, 2018

CONCHO COUNTY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

---

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

#### FINANCIAL HIGHLIGHTS - MODIFIED CASH BASIS OF ACCOUNTING

- The County's assets exceeded its liabilities at the end of the current year by \$2,924,626 (net position). Of this amount, \$740,012 (unrestricted) may be used to meet the County's ongoing obligations.
- The County's total net position increased by \$188,727 or 10% as a result of current year operations. The County's statement of activities shows total revenues of \$3,410,991 and total expenses of \$3,222,264.
- The total fund balance of the General Fund is \$522,875 which is an increase of \$95,998 or 22% compared to the prior year.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

##### *Government-Wide Financial Statements*

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

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

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

The governmental activities of the County include public transportation through roads and bridges, justice system, public safety, and public health and welfare, as well as general administrative and support services.

The County has no component units.

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

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

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

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

**Table I**  
**Concho County, Texas**

**NET POSITION - MODIFIED CASH BASIS**  
in thousands

	Governmental Activities	
	September 30,	
	2017	2016
Current and Other Assets	\$ 2,158,060	\$ 1,855,742
Capital Assets	1,740,242	548,108
Total Assets	<u>\$ 3,898,302</u>	<u>\$ 2,403,850</u>
Deferred Outflow Related to Pension Plan	<u>\$ 386,473</u>	<u>\$ -</u>
Long-Term Liabilities Outstanding	\$ 1,206,909	\$ 520,000
Other Liabilities	51,858	28,333
Total Liabilities	<u>\$ 1,258,767</u>	<u>\$ 548,333</u>
Deferred Inflow Related to Pension Plan	<u>\$ 101,382</u>	<u>\$ -</u>
Net Position:		
Net Investment in Capital Assets	\$ 599,428	\$ 548,108
Restricted	1,585,186	235,522
Unrestricted	740,012	1,071,887
Total Net Position	<u>\$ 2,924,626</u>	<u>\$ 1,855,517</u>

A portion of the County's net position resulting from modified cash basis transactions (\$599,428) reflects the County's investment in capital assets. These assets are not available for future spending. An additional portion of the County's net position (\$1,585,186) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$740,012) may be used to meet the County's ongoing obligations.

**Governmental Activities** - Governmental activities increased the County's net position resulting from modified cash basis transactions by \$188,727 and \$154,084 for the fiscal years ended September 30, 2017 and 2016 respectively. Key elements of these increases are as follows:

**Table II**  
**Concho County, Texas**

**CHANGES IN NET POSITION - MODIFIED CASH BASIS**  
in thousands

	Governmental Activities	
	Year Ended September 30,	
	<u>2017</u>	<u>2016</u>
Revenues:		
Program Revenues		
Charges for Services	\$ 714,224	\$ 788,093
Operating Grants and Contributions	161,367	108,101
General Revenues		
Maintenance and Operations Taxes	2,294,400	2,180,846
Debt Service Taxes	128,257	120,331
Sales Tax	82,981	79,046
Investment Earnings	4,354	4,100
Other Revenues	<u>25,408</u>	<u>58,471</u>
Total Revenue	<u>\$ 3,410,991</u>	<u>\$ 3,338,988</u>
Expenses:		
General Government	\$ 1,314,786	\$ 1,239,729
Roads and Bridges	571,324	612,422
Justice System	353,296	419,143
Public Safety	812,540	843,270
Public Health and Welfare	133,367	48,369
Debt Service	<u>36,951</u>	<u>21,971</u>
Total Expenses	<u>\$ 3,222,264</u>	<u>\$ 3,184,904</u>
Increase in Net Position	\$ 188,727	\$ 154,084
Net Position - Beginning	1,855,517	1,701,433
Prior Period Adjustment	880,382	-
Net Position - Ending	<u>\$ 2,924,626</u>	<u>\$ 1,855,517</u>

## FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

**Governmental Funds** - The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. The unassigned fund balance may serve as a useful measure of the County's net resources available for spending at the end of the current year within the limitations of the County's modified cash basis of accounting.

The County's governmental funds reported combined ending fund balances on the modified cash basis of accounting of \$2,108,061, an increase of \$280,652 or 18% in comparison with the prior year. These fund balances are reported in various governmental funds as follows:

- General Fund \$522,875. All of this balance is unassigned.
- Special Revenue Funds \$1,358,697. The entire balance is committed for use in each of the Special Revenue Funds.
- Road Bond Fund \$221,203. This balance is restricted for road improvements.

## GENERAL FUND BUDGET

The original budget and the final amended budget for the General Fund was \$2,663,519. Variances between the budget and actual results are shown on pages 32 through 33 in the other information section of the audit report.

The County has adopted a budget for the General Fund in the amount of \$2,677,428 for the fiscal year 2018, which is an increase of \$13,989 from the fiscal year 2017.

## CAPITAL ASSETS AND DEBT - MODIFIED CASH BASIS

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

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

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: David Dillard, County Judge, Concho County, Texas, P.O. Box 158, Paint Rock, TX 76866-0158.

## BASIC FINANCIAL STATEMENTS

CONCHO COUNTY, TEXAS  
STATEMENT OF NET POSITION-MODIFIED CASH BASIS  
SEPTEMBER 30, 2017

EXHIBIT A-1

	Primary Government
	Governmental Activities
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 1,706,996
Investments - Current	410,002
Due from Fiduciary Funds	41,062
Capital Assets:	
Land Purchase and Improvements	8,508
Buildings, Net	224,560
Improvements other than Buildings, Net	580,157
Furniture and Equipment, Net	927,017
Total Assets	3,898,302
<b>DEFERRED OUTFLOW OF RESOURCES</b>	
Deferred Outflow Related to Pension Plan	386,473
Total Deferred Outflows of Resources	386,473
<b>LIABILITIES</b>	
Accrued Interest Payable	1,858
Unearned Revenues	50,000
Noncurrent Liabilities:	
Debt Due Within One Year	175,085
Due in More Than One Year	866,320
Net Pension Liability	165,504
Total Liabilities	1,258,767
<b>DEFERRED INFLOW OF RESOURCES</b>	
Deferred Inflow Related to Pension Plan	101,382
Total Deferred Inflows of Resources	101,382
<b>NET POSITION</b>	
Net Investment in Capital Assets	599,428
Restricted for:	
Restricted for Debt Service	5,286
Restricted for Special Revenue	1,579,900
Unrestricted Net Position	740,012
Total Net Position	\$ 2,924,626

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

CONCHO COUNTY, TEXAS  
STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT B-1

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 1,314,785	\$ 162,774	\$ 48,587	\$ (1,103,424)
Judicial	353,296	127,800	7,527	(217,969)
Public Safety	812,540	177,475	13,780	(621,285)
Roads and Bridges	571,325	212,175	45,360	(313,790)
Health and Welfare	133,367	34,000	46,113	(53,254)
Debt Service	36,951	-	-	(36,951)
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 3,222,264</b>	<b>\$ 714,224</b>	<b>\$ 161,367</b>	<b>(2,346,673)</b>

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes	2,294,400
Property Taxes, Levied for Debt Service	128,257
General Sales and Use Taxes	82,981
Investment Earnings	4,354
Miscellaneous Revenue	25,399
<b>Total General Revenues</b>	<b>2,535,391</b>

Change in Net Position

Change in Net Position	188,718
Net Position-- Beginning	1,855,517
Prior Period Adjustment	880,382
Net Position--Ending	<b>\$ 2,924,617</b>

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

Road Bond Fund	Special Funds	Other Funds	Total Governmental Funds
\$ 221,203	\$ 144,663	\$ 7,504	\$ 1,706,996
-	35,002	-	410,002
-	1,736	-	48,013
<u>\$ 221,203</u>	<u>\$ 181,401</u>	<u>\$ 7,504</u>	<u>\$ 2,165,011</u>
\$ -	\$ -	\$ -	\$ 6,951
-	-	-	50,000
-	-	-	56,951
221,203	181,401	7,504	1,579,900
-	-	-	5,286
-	-	-	522,875
<u>221,203</u>	<u>181,401</u>	<u>7,504</u>	<u>2,108,061</u>
<u>\$ 221,203</u>	<u>\$ 181,401</u>	<u>\$ 7,504</u>	<u>\$ 2,165,012</u>

CONCHO COUNTY, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET POSITION-MODIFIED CASH BASIS  
 SEPTEMBER 30, 2017

<b>Total Fund Balances - Governmental Funds</b>	\$	2,108,061
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The County also recorded a prior period adjustment of \$1,319,607 to record the net book value of capital assets. The net effect of including the beginning balances for capital assets (net of depreciation) is to increase net position.		1,867,715
Long-term liabilities including bonds payable, are not due and payable in the current period, and, therefore, are not reported as liabilities in the funds. The County also recorded a prior period adjustment to record the balances of capital leases (\$686,827) and accrued interest payable (\$2,471). The net effect of including the beginning balances for long-term debt in the governmental activities is to decrease net position.		(1,209,298)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2017 capital outlays and debt principal payments is to increase net position.		265,646
This fiscal year the County reported their net pension liability in the Government Wide Statement of Net Position in accordance with GASB#68. The items reported as a result of this implementation included a net pension liability of \$165,504, a Deferred Resource Inflow of \$101,382, and a Deferred Resource Outflow of \$386,473. The net effect of these was to increase the ending net position by \$119,587.		119,587
The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(214,940)
The net book value of the sheriff vehicles traded in requires an adjustment to capital assets in the government-wide financial statements. The net effect of this adjustment is to decrease net position.		(12,145)
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>2,924,626</b>

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

Road Bond Fund	Special Funds	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 2,422,657
-	-	-	82,981
-	-	-	197,900
-	-	29,860	161,367
-	44,308	9,700	298,875
-	-	-	217,451
231	122	-	4,354
-	-	-	2,000
-	-	-	1,155
<u>231</u>	<u>44,430</u>	<u>39,560</u>	<u>3,388,740</u>
-	50,640	-	1,258,844
-	-	-	334,246
-	-	23,903	799,406
14,550	-	15,656	421,447
-	-	-	126,160
-	-	-	202,985
<u>14,550</u>	<u>50,640</u>	<u>39,559</u>	<u>3,143,088</u>
<u>(14,319)</u>	<u>(6,210)</u>	<u>1</u>	<u>245,652</u>
-	-	-	35,000
-	-	-	35,000
(14,319)	(6,210)	1	280,652
<u>235,522</u>	<u>187,611</u>	<u>7,503</u>	<u>1,827,409</u>
<u>\$ 221,203</u>	<u>\$ 181,401</u>	<u>\$ 7,504</u>	<u>\$ 2,108,061</u>

CONCHO COUNTY, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	280,652
Current year capital outlays are expenditures in the fund financial statements but are shown as increases in capital assets in the government-wide financial statements. The net effect of removing capital assets is to increase net position.		100,225
Current year long-term debt principal payments are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements. The net effect of removing the debt principal payments is to increase the change in net position.		165,421
The implementation of the requirements of GASB 68 for this fiscal year resulted in a prior period adjustment to record the retroactive impact. This is NOT included in the explanation as to why the CHANGE in net position is different on Exhibit B-1 than the change in fund balance on Exhibit C-3. The entries required by GASB 68 did require that some expenses on B-1 be adjusted. Total credits to expenses were \$152,847 and total debits to expenses were \$283,333. The net effect on the change in net position on Exhibit B-1 is a decrease of \$130,486.		(130,486)
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 the change in net position.		(214,940)
The net book value of the sheriff vehicles traded in requires an adjustment to capital assets in the government-wide financial statements. The net effect of this adjustment is to decrease the change in net position.		(12,145)
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>188,727</b>

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

CONCHO COUNTY, TEXAS  
STATEMENT OF NET POSITION-MODIFIED CASH BASIS  
FIDUCIARY FUNDS  
SEPTEMBER 30, 2017

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	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 316,515
Total Assets	<u>\$ 316,515</u>
LIABILITIES	
Intergovernmental Payable	\$ 61,167
Due to Other Funds	41,062
Due to Others	214,286
Total Liabilities	<u>\$ 316,515</u>

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

CONCHO COUNTY, TEXAS  
NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS  
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.A. REPORTING ENTITY

The County of Concho, Texas, was organized by an Act of the Texas Legislature in 1879. The County is governed by the Commissioners' Court, a five-member group consisting of an elected County Judge and four County Commissioners elected from individual precincts. Services provided by the County include public transportation through roads and bridges, justice system, public safety, and public health and welfare, as well as general administrative and support services. There are no component units included within the reporting entity.

1.B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

## **Measurement Focus**

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

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

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

## **Basis of Accounting**

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

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

The government reports the following major governmental funds:

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

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

Debt Service Fund - This Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Road Bond Fund - This Fund accounts for use of bond proceeds to be used for road and bridge projects.

Special Fund - This Fund accounts fees collected for specific purposes.

Additionally, the government reports the following fund type:

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

1.D. INTERFUND RECEIVABLES AND PAYABLES

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

1.E. CAPITAL ASSETS

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	15 - 30
Machinery and Equipment	5 - 10

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

1.F. LONG-TERM DEBT

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

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

1.G. COMPENSATED ABSENCES

County employees are entitled to vacation and sick leave based on their length of employment. Vacation does not accumulate or vest. Employees may accumulate up to 480 hours of sick leave. Employees are not paid for unused sick leave upon separation from service and are paid only for the current year's unused vacation.

1.H. NET POSITION ON THE STATEMENT OF NET POSITION

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

Net Investment in Capital Assets - This component of net position represents capital assets net of accumulated depreciation.

Restricted for Road Improvements - This component of net position represents the difference between assets and liabilities of the Road Bond Fund. This consists of this Fund's net position with constraints placed on their use by bond covenants.

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

#### 1.I. FUND BALANCE

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

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

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

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

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

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

#### 1.J. PROPERTY TAX REVENUES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all property located in the County in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

Property taxes are recognized as revenues when they are collected.

#### 1.K. INTERFUND TRANSFERS

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

## NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### 2.A. BUDGET

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

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

## NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

### 3.A. DEPOSITS AND INVESTMENTS

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

In compliance with the **Public Funds Investment Act**, the County has adopted a deposit and investment policy. That policy does address the following risks:

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

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

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

Interest Rate Risk: Not applicable

Foreign Currency Risk: Not applicable

3.B. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

	<u>Due From</u>	<u>Due To</u>	<u>Purpose</u>
General Fund			
Debt Service Fund	\$ 4,343	\$ -	Operating Advance
Fiduciary Funds	35,930	-	Unremitted Fees
Road & Bridge Fund	2,608	-	Operating Advance
	<u>\$ 42,881</u>	<u>\$ -</u>	
Road and Bridge Fund			
General Fund	\$ -	\$ 2,608	Operating Advance
Fiduciary Funds	3,396	-	Unremitted Fees
	<u>\$ 3,396</u>	<u>\$ 2,608</u>	
Debt Service Fund			
General Fund	\$ -	\$ 4,343	Operating Advance
Special Fund			
Fiduciary Funds	\$ 1,736	\$ -	Unremitted Fees
Fiduciary Funds			
General Fund	\$ -	\$ 35,930	Unremitted Fees
Road and Bridge Fund	-	3,396	Unremitted Fees
Special Fund	-	1,736	Unremitted Fees
	<u>\$ -</u>	<u>\$ 41,062</u>	
 TOTALS	 <u>\$ 48,013</u>	 <u>\$ 48,013</u>	

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

### 3.C. CAPITAL ASSETS

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

#### Primary Government

	Balance 10/1/16	Additions	Deletions	Balance 9/30/17
<i>Governmental Activities:</i>				
Capital Assets, Not Being Depreciated:				
Land	\$ 8,508	\$ -	\$ -	\$ 8,508
Total Capital Assets, Not Being Depreciated	<u>\$ 8,508</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,508</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	\$ 503,876	\$ -	\$ -	\$ 503,876
Machinery and Equipment	1,349,467	951,716	69,729	2,231,454
Improvements Other Than Buildings	-	693,281	-	693,281
Total Capital Assets Being Depreciated	<u>\$ 1,853,343</u>	<u>\$ 1,644,997</u>	<u>\$ 69,729</u>	<u>\$ 3,428,611</u>
Total Capital Assets	<u>\$ 1,861,851</u>	<u>\$ 1,644,997</u>	<u>\$ 69,729</u>	<u>\$ 3,437,119</u>
Less Accumulated Depreciation:				
Buildings and Improvements	\$ (265,551)	\$ (13,765)	\$ -	\$ (279,316)
Machinery and Equipment	(1,048,192)	(313,216)	56,971	(1,304,437)
Improvements Other Than Buildings	-	(113,124)	-	(113,124)
Total Accumulated Depreciation	<u>\$ (1,313,743)</u>	<u>\$ (440,105)</u>	<u>\$ 56,971</u>	<u>\$ (1,696,877)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 539,600</u>	<u>\$ 1,204,892</u>	<u>\$ (12,758)</u>	<u>\$ 1,731,734</u>
Governmental Activities Capital Assets, Net	<u>\$ 548,108</u>	<u>\$ 1,204,892</u>	<u>\$ (12,758)</u>	<u>\$ 1,740,242</u>

Depreciation expense was charged to governmental activities functions as follows:

Governmental Activities:	
General Government	\$ 16,213
Judicial	4,213
Roads and Bridges	131,178
Public Safety	61,727
Health & Welfare	1,609
Total Depreciation Expense - Governmental Activities	<u>\$ 214,940</u>

3.D. COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreement for equipment provide for minimum future rental payments as of September 30, 2017 as follows:

Year Ending September 30,		
2018	\$	11,989
2019		<u>11,989</u>
Total Minimum Rentals	\$	<u><u>23,978</u></u>

Rental expenditures during the year ended September 30, 2017 were \$11,989.

3.E. CAPITAL LEASES

The County entered into lease agreements to finance the acquisition of equipment for the Road and Bridge Department. These lease agreements qualify as capital leases for accounting purposes and are payable from the Road and Bridge Fund. The effective interest rates are 2.5% and 2.4%.

Future minimum lease payments are as follows:

Year Ending September 30,	Capital Leases					TOTAL
	Road and Bridge		Road and Bridge			
	Principal	Interest	Principal	Interest		
2018	\$ 57,414	\$ 12,307	\$ 7,671	\$ 2,606	\$ 79,998	
2019	58,259	11,462	7,856	2,421	79,998	
2020	<u>407,612</u>	<u>10,015</u>	<u>92,594</u>	<u>2,234</u>	<u>512,455</u>	
TOTAL	<u>\$ 523,285</u>	<u>\$ 33,784</u>	<u>\$ 108,121</u>	<u>\$ 7,261</u>	<u>\$ 672,451</u>	

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

	Balance 10/1/16	Additions	Deletions	Balance 9/30/17	Due Within One Year
Capital Leases	<u>\$ 686,827</u>	<u>\$ -</u>	<u>\$ 55,421</u>	<u>\$ 631,406</u>	<u>\$ 65,085</u>

3.F. LONG-TERM DEBT

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

	Balance 10/1/16	Additions	Deletions	Balance 9/30/17	Due Within One Year
Unlimited Tax Road Bonds	\$ 520,000	\$ -	\$ 100,000	\$ 420,000	\$ 110,000

The County's outstanding bond issues are as follows:

Concho County, Texas, Unlimited Tax Road Bond, Series 2011. Issued for road improvements in the original amount of \$675,000. Due in variable installments through February 1, 2018, with interest rates of 2.25% to 3.75%.	\$ 100,000
Concho County, Texas, Unlimited Tax Road Bond, Series 2014. Issued for road maintenance and improvements in the original amount of \$325,000. Due in variable installments through February 1, 2021, with interest rates of 1.5% to 2.6%.	320,000
<b>TOTAL</b>	<b>\$ 420,000</b>

The combined annual debt service requirements are as follows:

Year Ending September 30,	Unlimited Tax Road Bonds		TOTAL
	Principal	Interest	
2018	\$ 110,000	\$ 9,175	\$ 119,175
2019	110,000	6,100	106,100
2020	100,000	3,800	103,800
2021	100,000	1,300	101,300
<b>TOTAL</b>	<b>\$ 420,000</b>	<b>\$ 20,375</b>	<b>\$ 430,375</b>

NOTE 4 - OTHER INFORMATION

4.A. DEFINED BENEFIT PENSION PLAN

**Plan Description**

A description of the pension plan pursuant to Paragraph 40 of GASB Statement No. 68 is as follows:

- a. Concho County participates in the Texas County & District Retirement System (TCDRS), which is a statewide, agent multiple-employer, public employee retirement system.
- b. A brief description of benefit terms:
  - 1) All full-and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.
  - 2) The plan provides retirement, disability and survivor benefits.
  - 3) TCDRS is a savings-based plan. For the county's plan, 7% of each employee's pay is deposited into his or her TCDRS account. By law, employee accounts earn 7% interest on beginning of year balances annually. At retirement, the account is matched at an employer set percentage (current match is 200%) and is then converted to an annuity.

- 4) There are no automatic COLAs. Each year, the county may elect an ad hoc COLA for its retirees (if any). There are two COLA types, each limited by actual inflation.
  - 5) Benefit terms are established under the TCDRS Act. They may be amended as of January 1 each year but must remain in conformity with the Act.
- c. Membership information is shown in the chart below.
  - d. The county's contribution rate is calculated annually on an actuarial basis, although the employer may elect to contribute at a higher rate. The Concho County contribution rate is based on the TCDRS funding policy adopted by the TCDRS Board of Trustees and must conform with the TCDRS Act. The employee contribution rates are set by the county and are currently 7%. Contributions to the pension plan from the county for 2016 are shown in the Schedule of Employer Contributions.
  - e. The most recent comprehensive annual financial report for TCDRS can be found at the following link, [www.tcdrs.org](http://www.tcdrs.org).

*Members covered by benefit terms.*

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	28
Inactive employees entitled to but not yet receiving benefits	66
Active employees	43
	137

**Contributions**

TCDRS is a model for responsible, disciplined funding. TCDRS does not receive any state funding. As an agent, multiple-employer plan, each participating employee in the system fund its plan independently. A combination of three elements fund each employer's plan: employee deposits, employer contributions and investment income.

- The deposit rate for employees is 4%, 5%, 6% or 7% of compensation, as adopted by the employer's governing body.
- Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer's plan. Employer contribution rates are determined annually and approved by the TCDRS Board of Trustees.
- Investment income funds a large part of the benefits employees earn.

Pursuant to state law, employers participating in the system must pay 100% of their actuarially determined required contributions on an annual basis.

Each employer has the opportunity to make additional contributions in excess of its annual required contribution rate either by adopting an elected rate that is higher than the required rate or by making additional contributions on an ad hoc basis. Employers may make additional contributions to pay down their liabilities faster, pre-fund benefit enhancements and/or buffer against future adverse experience.

The contribution rate payable by the employee members for calendar year 2016 is the rate of 7% as adopted by the governing body of the employer. 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. The County's contributions to TCDRS for the year ended September 30, 2017 were \$98,498, and were equal to the required contributions.

**Net Pension Liability**

The County's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

***Actuarial assumptions:***

The Total Pension Liability in December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age Normal <sup>(1)</sup>
Amortization Method	
Recognition of Economic/Demographic Gains or Losses	Straight-Line amortization over Expected Working Life
Recognition of Assumptions, Changes or Inputs	Straight-Line amortization over Expected Working Life
Asset Valuation Method	
Smooth Period	5 years
Recognition Method	Non-asymptotic
Corridor	None
Inflation	3.0%
Salary Increases	The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and .5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee.
Investment Rate of Return	8.10%
Cost of Living Adjustments	Cost-of-Living Adjustments for Concho County are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Deferred members are assumed to retire (100% probability) at the later of: a) age 60; b) earliest retirement eligibility.
Turnover	New employees are assumed to replace any terminated members and have similar entry ages.
Mortality	RP-2000 Mortality Tables

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

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2017 information for a 7-10 year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. See Milliman's TCDRS Investigation of Experience report for the period January 1, 2009 – December 31, 2012 for more details.

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

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

<sup>(2)</sup> Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.0%, per Cliffwater's 2017 capital market assumptions.

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

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

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

### Discount Rate

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 statute. Based on that assumption, the pensions 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.

Changes in Net Pension Liability / (Asset)

Changes in Net Pension Liability / (Asset)	Increase/(Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a)-(b)
Balances as of December 31, 2015	\$ 4,532,719	\$ 4,335,813	\$ 196,905
Changes for the Year:			
Service Cost	190,487		190,487
Interest on Total Pension Liability <sup>(1)</sup>	366,263		366,263
Effect of Plan Changes <sup>(2)</sup>			
Effects of Economic/Demographic Gains or Losses	(125,284)		(125,284)
Effect of Assumptions Changes or Inputs			
Refund of Contributions	(46,259)	(46,259)	
Benefit Payments	(166,569)	(166,569)	
Administrative Expenses	-	(3,495)	3,495
Member Contributions	-	93,053	(93,053)
Net Investment Income	-	321,988	(321,988)
Employer Contributions	-	100,247	(100,247)
Other <sup>(3)</sup>	-	(48,926)	48,926
Balances as of December 31, 2016	\$ <u>4,751,357</u>	\$ <u>4,585,854</u>	\$ <u>165,503</u>

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

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

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

Sensitivity Analysis

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

	1% Decrease <u>7.10%</u>	Current Discount Rate <u>8.10%</u>	1% Increase <u>9.10%</u>
Total Pension Liability	\$ 5,338,601	\$ 4,751,357	\$ 4,262,625
Fiduciary Net Position	<u>4,585,854</u>	<u>4,585,854</u>	<u>4,585,854</u>
Net Pension Liability/(Asset)	\$ <u>752,747</u>	\$ <u>165,503</u>	\$ <u>(323,228)</u>

**Pension Expense / (Income)**

<u>Prepaid Expense/(Income)</u>	<u>January 1, 2016 to December 31, 2016</u>
Service Cost	\$ 190,487
Interest on Total Pension Liability <sup>(1)</sup>	366,263
Effect of Plan Changes	
Administrative Expenses	3,495
Member Contributions	(93,053)
Expected Investment Return Net of Investment Expenses	(348,344)
Recognition of Deferred Inflows/Outflows of Resources	
Recognition of Economic/Demographic Gains or Losses	(56,664)
Recognition of Assumption Changes or Inputs	16,088
Recognition of Investment Gains or Losses	101,795
Other <sup>(2)</sup>	<u>48,926</u>
 Pension Expense/(Income)	 \$ <u><u>228,992</u></u>

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

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

As of December 31, 2016, the deferred inflows and outflows of resources are as follows:

Deferred Inflows / Outflows of Resources	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 101,382	\$ -
Changes of assumptions	-	16,088
Net difference between projected and actual earnings	-	298,382
Contributions made subsequent to measurement date <sup>(3)</sup>		72,003

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

Year Ended December 31

2017	\$ 58,263
2018	60,033
2019	89,522
2020	5,271
2021	-
Thereafter <sup>(4)</sup>	-

<sup>(3)</sup> Any eligible employer contributions made subsequent to the measurement date through the employer's fiscal year end should be reflected as outlined in Appendix D of this report.

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

#### 4.B. PRIOR PERIOD ADJUSTMENTS

For the fiscal year ending September 30, 2017, the County adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. Adoption of GASB Statement No. 68 required a prior period adjustment to report the net effect of GASB Statement No. 68 retroactively. The amount of the prior period adjustment in the governmental activities is an increase to net position in the Government-Wide Statement of Activities in the amount of \$250,073.

The County also recorded a prior period adjustment for the cost of capital assets acquired with capital leases (\$851,491), the cost of road improvements (\$693,281), the related accumulated depreciation amounts (\$225,165) and the associated capital lease obligations liability (\$686,827). The amount of the prior period adjustment in the governmental activities is an increase to net position in the Government-Wide Statement of Activities in the amount of \$630,309.

The total prior period adjustments of \$880,382 restated the beginning net position from \$1,855,517 to \$2,735,899.

#### 4.C. SUBSEQUENT EVENTS

The County's management has evaluated subsequent events through March 8, 2018, the date which the financial statements were available for issue.

REQUIRED SUPPLEMENTARY INFORMATION

CONCHO COUNTY, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
 MODIFIED CASH BASIS-BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 1,780,389	\$ 1,780,389	\$ 1,859,412	\$ 79,023
General Sales and Use Taxes	80,000	80,000	82,981	2,981
Licenses and Permits	7,500	7,500	7,000	(500)
Intergovernmental Revenue and Grants	93,953	93,953	102,227	8,274
Charges for Services	241,350	241,350	233,292	(8,058)
Fines	353,000	353,000	217,451	(135,549)
Investment Earnings	2,100	2,100	2,180	80
Other Revenue	2,370	2,370	568	(1,802)
<b>Total Revenues</b>	<b>2,560,662</b>	<b>2,560,662</b>	<b>2,505,111</b>	<b>(55,551)</b>
<b>EXPENDITURES:</b>				
Current:				
General Government	1,329,933	1,329,933	1,208,204	121,729
Judicial	382,886	382,886	334,246	48,640
Public Safety	824,540	824,540	775,503	49,037
Health and Welfare	126,160	126,160	126,160	-
<b>Total Expenditures</b>	<b>2,663,519</b>	<b>2,663,519</b>	<b>2,444,113</b>	<b>219,406</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(102,857)</b>	<b>(102,857)</b>	<b>60,998</b>	<b>163,855</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of Real and Personal Property	35,000	35,000	35,000	-
<b>Total Other Financing Sources (Uses)</b>	<b>35,000</b>	<b>35,000</b>	<b>35,000</b>	<b>-</b>
<b>Net Change</b>	<b>(67,857)</b>	<b>(67,857)</b>	<b>95,998</b>	<b>163,855</b>
Fund Balance - October 1 (Beginning)	426,877	426,877	426,877	-
<b>Fund Balance - September 30 (Ending)</b>	<b>\$ 359,020</b>	<b>\$ 359,020</b>	<b>\$ 522,875</b>	<b>\$ 163,855</b>

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

CONCHO COUNTY, TEXAS  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 MODIFIED CASH BASIS-BUDGET AND ACTUAL - ROAD AND BRIDGE FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final	GAAP BASIS (See Note)	
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 420,900	\$ 420,900	\$ 434,988	\$ 14,088
General Sales and Use Taxes	11,000	11,000	-	(11,000)
Licenses and Permits	208,000	208,000	190,900	(17,100)
Intergovernmental Revenue and Grants	32,000	32,000	29,280	(2,720)
Charges for Services	16,000	16,000	11,575	(4,425)
Investment Earnings	800	800	1,804	1,004
Rents and Royalties	3,600	3,600	2,000	(1,600)
Other Revenue	-	-	587	587
<b>Total Revenues</b>	<b>692,300</b>	<b>692,300</b>	<b>671,134</b>	<b>(21,166)</b>
<b>EXPENDITURES:</b>				
Public Works	627,645	627,645	391,241	236,404
Debt Service:				
Debt Service	80,207	80,207	79,997	210
Capital Outlay:				
Capital Outlay	41,072	41,072	-	41,072
<b>Total Expenditures</b>	<b>748,924</b>	<b>748,924</b>	<b>471,238</b>	<b>277,686</b>
Change in Fund Balance	(56,624)	(56,624)	199,896	256,520
Fund Balance - October 1 (Beginning)	969,896	969,896	969,896	-
Fund Balance - September 30 (Ending)	<b>\$ 913,272</b>	<b>\$ 913,272</b>	<b>\$ 1,169,792</b>	<b>\$ 256,520</b>

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

CONCHO COUNTY, TEXAS  
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
 TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM  
 SEPTEMBER 30, 2017

	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
<b>A. Total Pension Liability</b>			
Service Cost	\$ 190,487	\$ 169,832	\$ 160,491
Interest (on the Total Pension Liability)	366,263	341,747	312,465
Changes of Benefit Terms	-0-	(23,767)	-0-
Difference between Expected and Actual Experience	(125,284)	(53,577)	8,867
Changes of Assumptions	-0-	48,265	-0-
Benefit Payments, including refunds of employee contributions	(212,828)	(144,401)	(129,696)
Net change in Total Pension Liability	\$ 218,638	\$ 338,099	\$ 352,127
Total Pension Liability - Beginning	4,532,719	4,194,620	3,842,493
Total Pension Liability - Ending	\$ 4,751,357	\$ 4,532,719	\$ 4,194,620
<b>B. Total Fiduciary Net Position</b>			
Contributions - Employer	\$ 100,247	\$ 94,587	\$ 92,006
Contributions - Employee	93,053	88,283	85,888
Net Investment Income	321,988	(63,878)	270,078
Benefit Payments, including refunds of employee contributions	(212,828)	(144,401)	(129,696)
Administrative Expense	(3,495)	(3,129)	(3,230)
Other	(48,926)	16,236	6,104
Net Change in Plan Fiduciary Net Position	\$ 250,039	\$ (12,302)	\$ 321,150
Plan Fiduciary Net Position - Beginning	4,335,813	4,348,116	4,026,966
Plan Fiduciary Net Position - Ending	\$ 4,585,852	\$ 4,335,814	\$ 4,348,116
<b>C. Net Pension Liability</b>	\$ 165,503	\$ 196,905	\$ (153,496)
<b>D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	96.52%	95.66%	103.66%
<b>E. Covered Employee Payroll</b>	\$ 1,329,335	\$ 1,261,181	\$ 1,218,399
<b>F. Net Pension Liability as a Percentage of Covered Employee Payroll</b>	12.45%	15.61%	(12.60%)

Note: GASB 68, Paragraph 46, a and b requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

Note: Only three years of data are presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CONCHO COUNTY, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

Year Ending December 31	Actuarially Determined Contribution <sup>(1)</sup>	Actual Employer Contribution <sup>(1)</sup>	Contribution Deficiency (Excess)	Pensionable Covered Payroll <sup>(2)</sup>	Actual Contribution as a % of Covered Payroll
2007	55,425	59,323	(3,898)	847,472	7.0%
2008	49,427	60,593	(11,166)	865,620	7.0%
2009	53,894	67,730	(13,836)	967,575	7.0%
2010	72,519	73,040	(522)	1,043,435	7.0%
2011	75,938	77,399	(1,461)	1,080,193	7.2%
2012	83,967	83,967	-	1,144,000	7.3%
2013	83,619	85,009	(1,390)	1,158,160	7.3%
2014	90,283	92,006	(1,722)	1,218,399	7.6%
2015	92,318	94,587	(2,269)	1,261,181	7.5%
2016	95,047	100,247	(5,200)	1,329,335	7.5%

<sup>(1)</sup> TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis.

<sup>(2)</sup> Payroll is calculated based on contributions as reported to TCDRS.

CONCHO COUNTY, TEXAS  
 NOTES TO THE SCHEDULE OF CONTRIBUTIONS  
 SEPTEMBER 30, 2017

**Valuation Date:** Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.

**Methods and assumptions used to determine contribution rates:**

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	18.3 years (based on contribution rate calculated in 12/31/2016 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.00%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*	2015: No changes in plan provisions. 2016: No changes in plan provisions.

\* Only changes effective 2015 and later are shown in the Notes to Schedule.

## COMBINING STATEMENTS

Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
\$ 7,504	\$ 7,504
<u>\$ 7,504</u>	<u>\$ 7,504</u>
7,504	7,504
<u>7,504</u>	<u>7,504</u>
<u>\$ 7,504</u>	<u>\$ 7,504</u>

Total Nonmajor Special Revenue Funds		Total Nonmajor Governmental Funds	
\$	29,860	\$	29,860
	<u>9,700</u>		<u>9,700</u>
	<u>39,560</u>		<u>39,560</u>
	23,903		23,903
	<u>15,656</u>		<u>15,656</u>
	<u>39,559</u>		<u>39,559</u>
	1		1
	<u>7,503</u>		<u>7,503</u>
\$	<u><u>7,504</u></u>	\$	<u><u>7,504</u></u>

# NEFFENDORF & KNOPP, P.C.

## Certified Public Accountants

P.O. BOX 874 · 736 S. WASHINGTON ST.

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MEMBER  
TEXAS SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Judge and Members  
of the Commissioners' Court  
Concho County, Texas  
Paint Rock, TX 76866-0158

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 Concho County, Texas (the "County"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 8, 2018.

#### Internal Control Over Financial Reporting

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

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

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

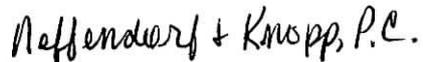
Compliance and Other Matters

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

Purpose of this Report

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

Sincerely,



NEFFENDORF & KNOPP, P.C.  
Fredericksburg, Texas

March 8, 2018

# NEFFENDORF & KNOPP, P.C.

## Certified Public Accountants

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MEMBER  
TEXAS SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

March 8, 2018

Honorable Judge and Commissioners  
County of Concho, Texas  
Paint Rock, TX 78624

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Concho County, Texas for the year ended September 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Concho County, Texas are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2017. We noted no transactions entered into by Concho County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant accounting estimates.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 8, 2018.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to the Management Discussion and Analysis; Budgetary Comparison Schedule - General Fund; Budgetary Comparison Schedule - Road and Bridge Fund; and the Schedule of Funding Progress for the Retirement Plan, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Combining Balance Sheet - Nonmajor Governmental Funds and Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### Restrictions on Use

This information is intended solely for the use of the Commissioner's Court and management of the County of Concho and is not intended to be, and should not be, used by anyone other than these specified parties.

### *Other Comments and Recommendations*

#### Grant Revenues

The County received a grant from the Spirit of Eden for in-car digital cameras for the sheriff vehicles. The grant revenues were recorded against the expenditures accounts. We recommend that the grant revenues be recorded separately as revenues.

#### Capitalization Policy

The County does not have a formal capitalization policy for recording fixed assets for depreciation purposes. WE recommend that the County adopt a formal capitalization policy.

We appreciate the cooperation of the County Auditor's office and the various officials and employees of the County.

Sincerely,

*Neffendorf & Knopp, P.C.*

NEFFENDORF & KNOPP, P.C.  
Fredericksburg, Texas

March 8, 2018