

COUNTY OF REAGAN  
Annual Financial Report  
Year Ended September 30, 2019

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FINANCIAL SECTION



A Limited Liability Partnership

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## INDEPENDENT AUDITOR'S REPORT

The Honorable County Judge  
and Commissioners' Court  
County of Reagan  
P.O. Box 100  
Big Lake, TX 76932-0100

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

We have audited the accompanying modified cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Reagan, 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 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 for the primary government of the County of Reagan, Texas, as of September 30, 2019, 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, 30 through 31, and 32 through 35, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2020, on our consideration of the County of Reagan'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 the effectiveness of the County of Reagan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County of Reagan's internal control over financial reporting and compliance.

***Eckert & Company, LLP***

February 14, 2020

## REAGAN COUNTY COMMISSIONERS' COURT

*Mike Vargas*  
Precinct # 1

*Tommy Holt*  
Precinct # 3

**Reagan County Courthouse**  
**PO Box 100**  
**Big Lake, Texas 76932**

*Tim Sellman*  
Precinct # 2

*Jim O'Bryan*  
County Judge

*Mary Loftin*  
Precinct # 4

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the County of Reagan's financial performance provides an overview of the County's financial activities for the year ended September 30, 2019, 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 \$46,480,225 (net position). Of this amount, \$24,917,805 (unrestricted) may be used to meet the County's ongoing obligations.

The County's total net position increased by \$6,597,219 or 17%. This amount consists of a \$6,718,941 increase attributable to current year operations and a decrease of \$121,722 due to prior period adjustments described in Note IV., E. to the financial statements. The County's statement of activities shows total revenues of \$18,060,782 and total expenses of \$11,341,841.

The total fund balance of the General Fund is \$22,112,795 which is an increase of \$5,129,510 or 30% 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

### Overview of the Financial Statements - Continued

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

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

The financial statements include only the primary government of the County of Reagan, Texas. The financial statements do not include the Reagan County Health Facilities Development Corporation which is a component unit of the County of Reagan, Texas.

**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 and the Road and Bridge Fund, both 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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

**Government-Wide Financial Analysis**

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

NET POSITION - MODIFIED CASH BASIS

	Governmental Activities	
	September 30,	
	2019	2018
Current and Other Assets	\$ 25,375,603	\$ 20,069,051
Capital Assets	21,104,622	19,813,955
Total Assets	\$ 46,480,225	\$ 39,883,006
Liabilities	\$ 0	\$ 0
Net Position		
Net Investment in Capital Assets	\$ 21,104,622	\$ 19,813,955
Restricted	457,798	445,511
Unrestricted	24,917,805	19,623,540
Total Net Position	\$ 46,480,225	\$ 39,883,006

A large portion of the County's net position resulting from modified cash basis transactions (\$21,104,622) 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 (\$457,798) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$24,917,805) may be used to meet the County's ongoing obligations.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

**Government-Wide Financial Analysis - Continued**

**Governmental Activities** - Governmental activities increased the County's net position resulting from modified cash basis transactions by \$6,718,941 and \$3,500,877 for the fiscal years ended September 30, 2018 and 2017, respectively. Key elements of these increases are as follows:

CHANGES IN NET POSITION - MODIFIED CASH BASIS

	<u>Governmental Activities</u>	
	<u>Year Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Revenues		
Program Revenues		
Charges for Services	\$ 2,183,956	\$ 2,005,686
Operating Grants and Contributions	261,574	342,596
General Revenues		
Maintenance and Operations Taxes	9,292,264	8,021,575
Sales Taxes	5,279,611	3,684,431
Investment Earnings	542,197	270,832
Other Revenues	501,180	183,564
	<u>\$ 18,060,782</u>	<u>\$ 14,508,684</u>
Expenses		
General Government	\$ 2,686,915	\$ 2,744,246
Roads and Bridges	2,276,078	2,082,393
Justice System	1,110,346	993,820
Public Safety	3,820,582	3,687,651
Corrections and Rehabilitation	840,225	914,236
Public Health and Welfare	96,678	108,653
Culture and Recreation	511,017	476,808
	<u>\$ 11,341,841</u>	<u>\$ 11,007,807</u>
Change in Net Position	\$ 6,718,941	\$ 3,500,877
Net Position - Beginning	39,883,006	36,382,129
Prior Period Adjustments	<u>(121,722)</u>	<u>0</u>
Net Position - Ending	<u>\$ 46,480,225</u>	<u>\$ 39,883,006</u>



## MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

### Financial Analysis of the County's Funds

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

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

The County's governmental funds reported combined ending fund balances on the modified cash basis of accounting of \$25,375,603, an increase of \$5,306,552 or 26% in comparison with the prior year. These fund balances are reported in various governmental funds as follows:

General Fund \$22,112,795. All of this balance is unassigned.

Road and Bridge Fund 2,563,861. This balance is committed to special programs.

Special Revenue Funds \$698,947. Of this balance \$241,149 is committed to special programs and \$457,798 is restricted by legislation.

### General Fund Budget

The original budget for the General Fund was \$13,014,225, and the final amended budget was \$13,027,812 which represents a \$13,587 increase in appropriations. Variances between the original budget and the final amended budget are shown on page 30 in the other information section of the audit report.

The County has adopted a budget for the General Fund in the amount of \$17,402,205 for the fiscal year 2020, which is an increase of \$4,374,393 from the fiscal year 2019.

### Capital Assets and Debt - Modified Cash Basis

**Capital Assets** - Financial statement footnote III., D. discloses the County's capital asset activity for the year ended September 30, 2019.

**Long-Term Debt** - The County had no long-term debt outstanding.

### Requests for Information

The financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Jim O'Bryan, County Judge, County of Reagan, P.O. Box 100, Big Lake, TX 76932-0100.

Basic Financial Statements

COUNTY OF REAGAN  
STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
SEPTEMBER 30, 2019

	Primary Government
	Governmental Activities
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 25,075,555
Due from State	146,393
Due from Other Funds	153,655
Capital Assets:	
Land	160,667
Infrastructure, Net	13,214,284
Buildings and Improvements, Net	4,434,295
Machinery and Equipment, Net	3,295,376
Total Assets	46,480,225
<b>LIABILITIES</b>	
None	-
Total Liabilities	-
<b>NET POSITION</b>	
Net Investment in Capital Assets	21,104,622
Restricted by Legislation	457,798
Unrestricted	24,917,805
Total Net Position	\$ 46,480,225

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

COUNTY OF REAGAN  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	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	\$ 2,686,915	\$ 715,014	\$ 176,094	\$ (1,795,807)
Roads and Bridges	2,276,078	345,597	10,801	(1,919,680)
Justice System	1,110,346	641,824	43,936	(424,586)
Public Safety	3,820,582	448,916	-	(3,371,666)
Corrections and Rehabilitation	840,225	16,148	2,769	(821,308)
Public Health and Welfare	96,678	-	27,974	(68,704)
Culture and Recreation	511,017	16,457	-	(494,560)
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 11,341,841</b>	<b>\$ 2,183,956</b>	<b>\$ 261,574</b>	<b>(8,896,311)</b>
General Revenues:				
Taxes:				
Property Taxes				9,292,264
Sales Taxes				5,279,611
Miscellaneous Revenue				501,180
Investment Earnings				542,197
Total General Revenues				15,615,252
Change in Net Position				6,718,941
Net Position - Beginning				39,883,006
Prior Period Adjustments				(121,722)
Net Position - Ending				\$ 46,480,225

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

COUNTY OF REAGAN  
BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2019

	General Fund	Road and Bridge Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 21,976,256	\$ 2,556,295	\$ 543,004	\$ 25,075,555
Due from State	-	-	146,393	146,393
Due from Other Funds	136,539	7,566	9,550	153,655
Total Assets	<u>\$ 22,112,795</u>	<u>\$ 2,563,861</u>	<u>\$ 698,947</u>	<u>\$ 25,375,603</u>
<b>LIABILITIES</b>				
None	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>				
Restricted Fund Balance:				
Restricted by Legislation	-	-	457,798	457,798
Committed Fund Balance:				
Committed for Road and Bridge	-	2,563,861	10,801	2,574,662
Committed for Airport	-	-	214,279	214,279
Committed for Special Programs	-	-	16,069	16,069
Unassigned Fund Balance	22,112,795	-	-	22,112,795
Total Fund Balances	<u>22,112,795</u>	<u>2,563,861</u>	<u>698,947</u>	<u>25,375,603</u>
Total Liabilities and Fund Balances	<u>\$ 22,112,795</u>	<u>\$ 2,563,861</u>	<u>\$ 698,947</u>	<u>\$ 25,375,603</u>

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

COUNTY OF REAGAN  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
SEPTEMBER 30, 2019

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<b>Total Fund Balances - Governmental Funds</b>	\$ 25,375,603
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The net effect of this adjustment is to increase (decrease) net position.	19,813,955
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of this adjustment is to increase (decrease) net position.	2,798,844
Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(1,508,177)
<b>Net Position of Governmental Activities</b>	<u>\$ 46,480,225</u>

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

COUNTY OF REAGAN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	General Fund	Road and Bridge Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
Taxes	\$ 13,657,137	\$ 914,738	\$ -	\$ 14,571,875
Fees and Fines	1,085,417	306,355	218,146	1,609,918
Intergovernmental	640,236	35,785	159,592	835,613
Interest	479,103	63,094	-	542,197
Miscellaneous	486,219	11,730	3,230	501,179
Total Revenues	<u>16,348,112</u>	<u>1,331,702</u>	<u>380,968</u>	<u>18,060,782</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	2,323,788	281,049	311,076	2,915,913
Roads and Bridges	-	3,434,119	-	3,434,119
Justice System	991,736	-	118,610	1,110,346
Public Safety	3,956,486	-	3,711	3,960,197
Corrections and Rehabilitation	694,239	-	-	694,239
Public Health and Welfare	95,111	-	1,567	96,678
Culture and Recreation	419,298	-	1,718	421,016
Total Expenditures	<u>8,480,658</u>	<u>3,715,168</u>	<u>436,682</u>	<u>12,632,508</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>7,867,454</u>	<u>(2,383,466)</u>	<u>(55,714)</u>	<u>5,428,274</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	-	2,400,000	230,000	2,630,000
Transfers Out	(2,630,000)	-	-	(2,630,000)
Total Other Financing Sources (Uses)	<u>(2,630,000)</u>	<u>2,400,000</u>	<u>230,000</u>	<u>-</u>
Net Change in Fund Balances	5,237,454	16,534	174,286	5,428,274
Fund Balance - October 1 (Beginning)	16,983,285	2,561,105	524,661	20,069,051
Prior Period Adjustments	(107,944)	(13,778)	-	(121,722)
Fund Balance - September 30 (Ending)	<u>\$ 22,112,795</u>	<u>\$ 2,563,861</u>	<u>\$ 698,947</u>	<u>\$ 25,375,603</u>

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

COUNTY OF REAGAN  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
& CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

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<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$ 5,428,274
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of this adjustment is to increase (decrease) net position.	2,798,844
Depreciation is not recognized as an expense in governmental funds. The net effect of this adjustment is to decrease net position.	(1,508,177)
<b>Change in Net Position of Governmental Activities</b>	<u>\$ 6,718,941</u>

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



COUNTY OF REAGAN  
STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS  
FIDUCIARY FUNDS  
SEPTEMBER 30, 2019

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	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 749,590
Total Assets	<u>\$ 749,590</u>
LIABILITIES	
Due to Other Funds	\$ 153,655
Due to Other Governments	261,369
Due to Others	334,566
Total Liabilities	<u>\$ 749,590</u>

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

COUNTY OF REAGAN  
Notes to the Financial Statements  
September 30, 2019

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The County of Reagan, Texas, was organized by an Act of the Texas Legislature in 1903. The County is governed by the Commissioners' Court, a five-member group consisting of an elected County Judge and four County Commissioners elected from individual precincts. Services provided by the County include public transportation through roads and bridges, judicial, public safety, corrections and rehabilitation, public health and welfare, and culture and recreation, as well as general administrative and support services.

The financial statements include only the primary government of the County of Reagan, Texas, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the County's legal entity. The financial statements do not include financial data for the Reagan County Health Facilities Development Corporation or the Reagan County Cultural Education Facilities Finance Corporation which are component units of the County of Reagan, Texas. Accounting principles generally accepted in the United States of America, as applied to the County's modified cash basis of accounting, require component units to be reported with the financial data of the County's primary government.

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

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

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

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

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

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

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

**Measurement Focus**

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

COUNTY OF REAGAN  
Notes to the Financial Statements - Continued  
September 30, 2019

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

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

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

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

**Basis of Accounting**

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

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

The government reports the following major governmental funds:

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

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

Additionally, the government reports the following fund type:

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

**D. Interfund Receivables and Payables**

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

**E. Capital Assets**

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

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.

COUNTY OF REAGAN  
Notes to the Financial Statements - Continued  
September 30, 2019

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

**E. Capital Assets - Continued**

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

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

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

**F. Compensated Absences**

County employees are entitled to vacation and sick leave based on their length of employment. Vacation leave can be accumulated for a maximum of two years. Employees are paid for any unused vacation leave up to a maximum of two years upon separation from service. Sick leave can be accumulated and carried forward indefinitely. Employees are not paid for unused sick leave upon separation from service.

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

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

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

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

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

**H. Fund Balances**

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

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

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

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

COUNTY OF REAGAN  
Notes to the Financial Statements - Continued  
September 30, 2019

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

**H. Fund Balances - Continued**

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.

**I. 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.

**J. Interfund Transfers**

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

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

**A. Budget**

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

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.

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

**A. Deposits and Investments**

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the County to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the County to invest in (1) obligations of the U.S. Treasury, certain

COUNTY OF REAGAN  
Notes to the Financial Statements - Continued  
September 30, 2019

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

**A. Deposits and Investments - Continued**

U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers' acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

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

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

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

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At September 30, 2019, the County was not significantly exposed to credit risk.

**Interest Rate Risk:** Not applicable

**Foreign Currency Risk:** Not applicable

At September 30, 2019, the County's investments with respective maturities and credit ratings consisted of the following:

	<u>Fair Value</u>	<u>Percent</u>	<u>Weighted Average Maturity</u>	<u>Credit Rating</u>
<u>Public Funds Investment Pools</u>				
TexPool	<u>\$ 20,597,899</u>	<u>100%</u>	34 Days	AAAm

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment 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 AAAM 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 shares.

COUNTY OF REAGAN  
Notes to the Financial Statements - Continued  
September 30, 2019

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

**A. Deposits and Investments - Continued**

The District's investment in Pools is 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 as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940.

**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			
Fiduciary Funds	<u>\$ 136,539</u>	<u>\$ 0</u>	Unremitted Fees
Major Special Revenue Funds			
Fiduciary Funds	<u>\$ 7,566</u>	<u>\$ 0</u>	Unremitted Fees
Nonmajor Governmental Funds			
Fiduciary Funds	<u>\$ 9,550</u>	<u>\$ 0</u>	Unremitted Fees
Fiduciary Funds			
General Fund	\$ 0	\$ 136,539	Unremitted Fees
Major Special Revenue Funds	0	7,566	Unremitted Fees
Nonmajor Governmental Funds	0	9,550	Unremitted Fees
	<u>\$ 0</u>	<u>\$ 153,655</u>	
Totals	<u>\$ 153,655</u>	<u>\$ 153,655</u>	

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

2. Interfund transfers consist of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Major Governmental Funds	\$ 2,400,000	Current Operations
General Fund	Nonmajor Governmental Funds	<u>230,000</u>	Current Operations
Total		<u>\$ 2,630,000</u>	

COUNTY OF REAGAN  
Notes to the Financial Statements - Continued  
September 30, 2019

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

**C. Due from Other Governments**

The County participates in a state program from which it receives grant funds for infrastructure and equipment. Amounts due from the State for this program are summarized as follows:

Nonmajor Airport Fund      \$ 146,393

**D. Capital Assets**

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

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets				
Land	\$ 160,667	0	\$ 0	\$ 160,667
Buildings and Improvements	9,198,561	71,832	0	9,270,393
Machinery and Equipment	7,954,383	768,128	0	8,722,511
Infrastructure	<u>14,827,163</u>	<u>1,958,884</u>	<u>0</u>	<u>16,786,047</u>
Total Capital Assets Being Depreciated	<u>\$ 32,140,774</u>	<u>2,798,844</u>	<u>\$ 0</u>	<u>\$ 34,939,618</u>
Less Accumulated Depreciation				
Buildings and Improvements	\$ (4,525,200)	(310,898)	\$ 0	\$ (4,836,098)
Machinery and Equipment	(4,826,767)	(600,368)	0	(5,427,135)
Infrastructure	<u>(2,974,852)</u>	<u>(596,911)</u>	<u>0</u>	<u>(3,571,763)</u>
Total Accumulated Depreciation	<u>\$ (12,326,819)</u>	<u>(1,508,177)</u>	<u>\$ 0</u>	<u>\$ (13,834,996)</u>
Governmental Activities Capital Assets, Net	<u>\$ 19,813,955</u>	<u>1,290,667</u>	<u>\$ 0</u>	<u>\$ 21,104,622</u>

Depreciation expense was charged to governmental activities programs as follows:

General Government	\$ 148,149
Roads and Bridges	838,776
Public Safety	277,902
Corrections and Rehabilitation	145,986
Culture and Recreation	<u>97,364</u>
Total	<u>\$ 1,508,177</u>



COUNTY OF REAGAN  
Notes to the Financial Statements - Continued  
September 30, 2019

**IV. OTHER INFORMATION**

**A. Defined Benefit Pension Plan**

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

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

Benefit amounts are determined by the sum of the employee's deposits to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

**Funding Policy** - The employer has elected the annually determined contribution rate (Variable-Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed the actuarially determined rate of 13.06% for the months of the accounting year in 2018 and 12.76% for the months of the accounting year in 2019.

The deposit rate payable by the employee members for calendar year 2019 is 7% as adopted by the governing body of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

COUNTY OF REAGAN  
Notes to the Financial Statements - Continued  
September 30, 2019

**IV. OTHER INFORMATION - Continued**

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

**Actuarial Assumptions** - All actuarial methods and assumptions used for this GASB analysis were the same as those used in the December 31, 2018 funding valuation, except as noted below and throughout this report. Please see the County's December 31, 2018 Summary Valuation Report for further details.

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

Valuation Timing	Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age Normal
Amortization Method	
Recognition of Economic/Demographic Gains or Losses	Straight-Line Amortization Over Expected Working Life
Recognition of Assumptions Changes or Inputs	Straight-Line Amortization Over Expected Working Life
Asset Valuation Method	
Smoothing Period	5 Years
Recognition Method	Non-Asymptotic
Corridor	None
Inflation	2.75%
Salary Increases	4.85%
Investment Rate of Return	8.10%
Cost-of-Living Adjustments	Cost-of-Living Adjustments for the County are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Members eligible for service retirement are assumed to retire at various rates based upon age and gender. Deferred members are assumed to retire (100% probability) at the later of age 60 or earliest retirement eligibility. For all eligible members ages 75 and later, retirement is assumed to occur immediately.
Turnover	New employees are assumed to replace any terminated members and have similar entry ages.
Mortality	Mortality rates for depositing members are based on 90% of the gender-distinct RP-2014 Active Employee Mortality Table. Service retirees, beneficiaries, and non-depositing members are based on 130% for males and 110% for females of the RP-2014 Healthy Annuitant Mortality Table. Disabled retirees are based on 130% for males and 115% for females of the RP-2014 Disabled Annuitant Mortality Table. All of the rates are projected with 110% of the MP-2014 Ultimate scale after 2014.

**Long-Term Expected Rate of Return** - The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2019 information for a 10-year time horizon.

COUNTY OF REAGAN  
Notes to the Financial Statements - Continued  
September 30, 2019

**IV. OTHER INFORMATION - Continued**

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

Note the valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is set based on a 30-year time horizon; the most recent analysis was performed in 2017.

Asset Class	Benchmark	Target Allocation	Geometric Real Rate of Return (Expected Minus Inflation)
U.S. Equities	Dow Jones U.S. Total Stock Market Index	10.50%	5.40%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index	18.00%	8.40%
Global Equities	MSCI World (Net) Index	2.50%	5.70%
International Equities - Developed Markets	MSCI World Ex USA (Net) Index	10.00%	5.40%
International Equities - Emerging Markets	MSCI Emerging Markets (Net) Index	7.00%	5.90%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	1.60%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	4.39%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.95%
Distressed Debt	Cambridge Associates Distressed Securities Index	2.00%	7.20%
REIT Equities	67% FTSE NAREIT All Equity REITs Index + 33% S&P Global REIT (Net) Index	2.00%	4.15%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.35%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index	6.00%	6.30%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	13.00%	3.90%

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

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

COUNTY OF REAGAN  
Notes to the Financial Statements - Continued  
September 30, 2019

**IV. OTHER INFORMATION - Continued**

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

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

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

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

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

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

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

COUNTY OF REAGAN  
Notes to the Financial Statements - Continued  
September 30, 2019

**IV. OTHER INFORMATION - Continued**

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

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

<u>Changes in Net Pension Liability (Asset)</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u> <u>(a)</u>	<u>Fiduciary Net Position</u> <u>(b)</u>	<u>Net Pension Liability (Asset)</u> <u>(a) - (b)</u>
Balance as of December 31, 2017	\$ 17,488,723	\$ 16,390,534	\$ 1,098,190
Changes for the Year:			
Service Cost	\$ 679,337	\$ 0	\$ 679,337
Interest on Total Pension Liability	1,444,851	0	1,444,851
Effect of Plan Changes	0	0	0
Effect of Economic/Demographic Gains or Losses	(32,614)	0	(32,614)
Effect of Assumptions Changes or Inputs	0	0	0
Refund of Contributions	(56,828)	(56,828)	0
Benefit Payments	(617,077)	(617,077)	0
Administrative Expenses	0	(13,116)	13,116
Member Contributions	0	320,293	(320,293)
Net Investment Income	0	(302,628)	302,628
Employer Contributions	0	597,574	(597,574)
Other	0	8,915	(8,915)
Net Changes	<u>\$ 1,417,669</u>	<u>\$ (62,867)</u>	<u>\$ 1,480,536</u>
Balance as of December 31, 2018	<u>\$ 18,906,392</u>	<u>\$ 16,327,667</u>	<u>\$ 2,578,725</u>

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

	<u>1% Decrease in Discount Rate (7.1%)</u>	<u>Current Discount Rate (8.1%)</u>	<u>1% Increase in Discount Rate (9.1%)</u>
Total Pension Liability	\$ 21,478,398	\$ 18,906,392	\$ 16,752,347
Fiduciary Net Position	<u>16,327,667</u>	<u>16,327,667</u>	<u>16,327,667</u>
Net Pension Liability (Asset)	<u>\$ 5,150,731</u>	<u>\$ 2,578,725</u>	<u>\$ 424,680</u>

COUNTY OF REAGAN  
Notes to the Financial Statements - Continued  
September 30, 2019

**IV. OTHER INFORMATION - Continued**

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

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

<u>Pension Expense (Income)</u>	<u>January 1, 2018 to December 31, 2018</u>
Service Cost	\$ 679,337
Interest on Total Pension Liability	1,444,851
Effect of Plan Changes	0
Administrative Expenses	13,116
Member Contributions	(320,293)
Expected Investment Return Net of Investment Expenses	(1,337,157)
Recognition of Deferred Inflows/Outflows of Resources:	
Recognition of Economic/Demographic Gains or Losses	(42,025)
Recognition of Assumption Changes or Inputs	34,258
Recognition of Investment Gains or Losses	419,692
Other	<u>(8,915)</u>
Total Pension Expense (Income)	<u>\$ 882,866</u>

**Deferred Outflows/Deferred Inflows of Resources** - As of September 30, 2019, the deferred outflows and inflows of resources are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 17,683	\$ 139,050
Changes in Assumptions	48,790	-
Net Differences Between Projected and Actual Earnings	1,025,375	-
Contributions Made Subsequent to Measurement Date	<u>456,609</u>	<u>-</u>
Totals	<u>\$ 1,548,457</u>	<u>\$ 139,050</u>

COUNTY OF REAGAN  
Notes to the Financial Statements - Continued  
September 30, 2019

**IV. OTHER INFORMATION - Continued**

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

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

<u>Year Ending September 30,</u>	<u>Pension Expense Amount</u>
2019	\$ 378,770
2020	127,766
2021	134,469
2022	317,227
2023	(5,434)
Thereafter	0

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

**B. Self-Insurance**

The County has entered into an interlocal participation agreement with the West Texas Rural Counties Association Insurance Pool (the Pool). The Pool is an unincorporated association of counties and other political subdivisions of the State of Texas that was created to provide assistance in financing each member's risk of loss pursuant to the provisions of Article 715c, Texas Revised Civil Statutes Annotated, and Chapter 172 of the Local Government Code. The Pool provides for the self-insurance of certain defined risks jointly among the Pool members. The County's participation in the Pool is on a nonassessable basis. The County has no joint and several liability other than the maximum annual contribution required to be paid to the Pool. The Pool is required to provide stop-loss coverage and/or maintain reserves to ensure that the participation of the County is maintained on a nonassessable basis at all times. The County made contributions to the Pool for the coverage selected based upon rates established by the Pool's Board of Trustees. Contributions are adjusted annually based upon the County's loss experience. The Pool may impose a surcharge on the County as a condition of continued participation in the Pool when the County has a higher loss experience than identified in the underwriting standards. The County's participation in the Pool consists of the Risk Management Pool which provides coverage for property damage, general liability, law enforcement liability, automobile liability and physical damage, public officials' liability, mobile equipment coverage, workers' compensation, blanket surety bond coverage, and airport coverage.

**C. Tax Abatements**

The County has entered into a contractual agreement with a property owner in which the County has agreed to reduce the amount of ad valorem taxes payable on certain improvements constructed after the date the agreement was reached in accordance with Chapter 312 of the State of Texas Tax Code. The terms of the agreement are limited by the guidelines and criteria established by the County Commissioners. As required by section 312.205 of the Texas Tax Code, if the Owner default remains after all applicable notice and cure periods outlined in the Agreement, the County shall be entitled to cancel

COUNTY OF REAGAN  
Notes to the Financial Statements - Continued  
September 30, 2019

**IV. OTHER INFORMATION - Continued**

**C. Tax Abatements - Continued**

the Agreement and recover the property tax revenue abated under the Agreement through the cancellation date, less all payments made by the Owner to the County under the Agreement. At September 30, 2019, the County had established an abatement agreement with the following property owner:

Property Owner	Date of Abatement Agreement	First Year of Abatement	Final Year of Abatement	2018 Appraised Values	2018 Taxable Values	2018 Abated Values	2018 Taxes Levied	2018 Taxes Abated
Santa Rita Wind Energy, LLC	2/22/2016	2018	2027	\$ 263,197,000	\$ 0	\$ 263,197,000	\$ 0	\$ 752,164

During fiscal year 2019, Santa Rita Wind Energy, LLC, paid the County a supplemental payment of \$420,000.

**D. Litigation**

The County is one of several defendants in a lawsuit involving the closing of an old county road which is no longer maintained by the County. This lawsuit is still pending, and the results cannot reasonably be determined at this time.

**E. Adjustments to Net Position/Fund Balances**

The financial statements reflect the following prior period adjustments:

	Net Position <u>Exhibit B-1</u>	Fund Balances <u>Exhibit C-3</u>
<b>General Fund</b>		
Court Ordered Tax Refunds of Prior Years' Taxes	\$ (108,264)	\$ (108,264)
Miscellaneous Adjustments	<u>320</u>	<u>320</u>
Total General Fund	<u>\$ (107,944)</u>	<u>\$ (107,944)</u>
<b>Road and Bridge Fund</b>		
Court Ordered Tax Refunds of Prior Years' Taxes	\$ (13,458)	\$ (13,458)
Miscellaneous Adjustments	<u>(320)</u>	<u>(320)</u>
Total Road and Bridge Fund	<u>\$ (13,778)</u>	<u>\$ (13,778)</u>
Totals	<u>\$ (121,722)</u>	<u>\$ (121,722)</u>

**E. Subsequent Events**

The County's management has evaluated subsequent events through February 14, 2020, the date which the financial statements were available for issue.



Other Information

COUNTY OF REAGAN  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
MODIFIED CASH BASIS - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 10,783,778	\$ 10,783,778	\$ 13,657,137	\$ 2,873,359
Fees and Fines	837,810	837,800	1,085,417	247,617
Intergovernmental	621,452	628,039	640,236	12,197
Interest	90,000	90,000	479,103	389,103
Miscellaneous	461,210	468,220	486,219	17,999
Total Revenues	12,794,250	12,807,837	16,348,112	3,540,275
<b>EXPENDITURES:</b>				
Current:				
General Government	2,945,096	2,895,201	2,323,788	571,413
Justice System	1,121,876	1,121,876	991,736	130,140
Public Safety	4,303,115	4,360,010	3,956,486	403,524
Corrections and Rehabilitation	918,784	921,524	694,239	227,285
Public Health and Welfare	97,000	97,000	95,111	1,889
Culture and Recreation	487,317	491,164	419,298	71,866
Total Expenditures	9,873,188	9,886,775	8,480,658	1,406,117
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,921,062	2,921,062	7,867,454	4,946,392
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers Out	(3,141,037)	(3,141,037)	(2,630,000)	511,037
Total Other Financing Sources (Uses)	(3,141,037)	(3,141,037)	(2,630,000)	511,037
Net Change in Fund Balances	(219,975)	(219,975)	5,237,454	5,457,429
Fund Balance - October 1 (Beginning)	16,983,285	16,983,285	16,983,285	-
Prior Period Adjustments	-	-	(107,944)	(107,944)
Fund Balance - September 30 (Ending)	\$ 16,763,310	\$ 16,763,310	\$ 22,112,795	\$ 5,349,485

COUNTY OF REAGAN  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
MODIFIED CASH BASIS - BUDGET AND ACTUAL - ROAD AND BRIDGE FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 965,834	\$ 965,834	\$ 914,738	\$ (51,096)
Fees and Fines	300,000	300,000	306,355	6,355
Intergovernmental	-	-	35,785	35,785
Interest	20,000	20,000	63,094	43,094
Miscellaneous	40,000	41,100	11,730	(29,370)
Total Revenues	<u>1,325,834</u>	<u>1,326,934</u>	<u>1,331,702</u>	<u>4,768</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	282,303	336,595	281,049	55,546
Roads and Bridges	3,884,568	3,831,376	3,434,119	397,257
Total Expenditures	<u>4,166,871</u>	<u>4,167,971</u>	<u>3,715,168</u>	<u>452,803</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,841,037)</u>	<u>(2,841,037)</u>	<u>(2,383,466)</u>	<u>457,571</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	2,841,037	2,841,037	2,400,000	(441,037)
Total Other Financing Sources (Uses)	<u>2,841,037</u>	<u>2,841,037</u>	<u>2,400,000</u>	<u>(441,037)</u>
Change in Fund Balance	-	-	16,534	16,534
Fund Balance - October 1 (Beginning)	2,561,105	2,561,105	2,561,105	-
Prior Period Adjustments	-	-	(13,778)	(13,778)
Fund Balance - September 30 (Ending)	<u>\$ 2,561,105</u>	<u>\$ 2,561,105</u>	<u>\$ 2,563,861</u>	<u>\$ 2,756</u>

COUNTY OF REAGAN  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
<b>A. Total Pension Liability</b>		
Service Cost	\$ 679,337	\$ 661,620
Interest (on the Total Pension Liability)	1,444,851	1,338,363
Changes of Benefit Terms	-	-
Difference Between Expected and Actual Experience	(32,614)	(60,818)
Changes of Assumptions	-	29,063
Benefit Payments, Including Refunds of Employee Contributions	(673,905)	(668,742)
Net Change in Total Pension Liability	\$ 1,417,669	\$ 1,299,486
Total Pension Liability - Beginning	17,488,723	16,189,237
Total Pension Liability - Ending	\$ 18,906,392	\$ 17,488,723
<b>B. Total Fiduciary Net Position</b>		
Contributions - Employer	\$ 597,574	\$ 560,872
Contributions - Employee	320,293	307,207
Net Investment Income	(302,628)	2,066,181
Benefit Payments, Including Refunds of Employee Contributions	(673,905)	(668,742)
Administrative Expense	(13,116)	(10,900)
Other	8,915	2,569
Net Change in Plan Fiduciary Net Position	\$ (62,867)	\$ 2,257,187
Plan Fiduciary Net Position - Beginning	16,390,534	14,133,346
Plan Fiduciary Net Position - Ending	\$ 16,327,667	\$ 16,390,533
<b>C. Net Pension Liability</b>	\$ 2,578,725	\$ 1,098,190
<b>D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	86.36%	93.72%
<b>E. Covered Payroll</b>	\$ 4,575,607	\$ 4,388,674
<b>F. Net Pension Liability as a Percentage of Covered Payroll</b>	56.36%	25.02%

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 five 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."

	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
\$	677,217	\$ 576,164	\$ 492,457
	1,217,401	1,124,834	1,030,281
	-	(113,165)	-
	(135,954)	(84,725)	106,097
	-	147,072	-
	(523,895)	(556,085)	(483,687)
\$	1,234,769	\$ 1,094,095	\$ 1,145,148
	14,954,468	13,860,373	12,715,225
\$	16,189,237	\$ 14,954,468	\$ 13,860,373
\$	581,591	\$ 562,674	\$ 510,038
	307,255	283,565	241,888
	950,364	(64,233)	786,890
	(523,895)	(556,085)	(483,687)
	(10,328)	(9,151)	(9,286)
	9,247	25,975	21,152
\$	1,314,234	\$ 242,745	\$ 1,066,995
	12,819,112	12,576,367	11,509,372
\$	14,133,346	\$ 12,819,112	\$ 12,576,367
\$	2,055,891	\$ 2,135,356	\$ 1,284,006
	87.30%	85.72%	90.74%
\$	4,389,359	\$ 4,050,923	\$ 3,455,542
	46.84%	52.71%	37.16%

COUNTY OF REAGAN  
SCHEDULE OF CONTRIBUTIONS  
TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM  
FOR THE FISCAL YEAR 2019

	2019	2018	2017
Actuarially Determined Contribution	\$ 609,513	\$ 585,600	\$ 565,113
Contributions in Relation to the Actuarially Determined Contributions	(609,513)	(585,600)	(565,113)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered Payroll	\$ 4,749,246	\$ 4,507,560	\$ 4,381,561
Contributions as a Percentage of Covered Payroll	12.83%	12.99%	12.90%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the governmental entity's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31 for the respective fiscal years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "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."

	2016	2015	2014
\$	582,518	\$ 561,052	\$ 456,534
	(582,518)	(561,052)	(456,534)
\$	-	\$ -	\$ -
\$	4,345,548	\$ 3,977,936	\$ 3,269,831
	13.40%	14.10%	13.96%

COUNTY OF REAGAN  
Notes to the Other Information  
September 30, 2019

Note A - Net Pension Liability

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

Valuation Timing	Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age Normal <sup>(1)</sup>
Amortization Method	
Recognition of Economic/Demographic Gains or Losses	Straight-Line Amortization Over Expected Working Life
Recognition of Assumptions Changes or Inputs	Straight-Line Amortization Over Expected Working Life
Asset Valuation Method	
Smoothing Period	5 Years
Recognition Method	Non-Asymptotic
Corridor	None
Inflation	2.75%
Salary Increases	4.85%
Investment Rate of Return	8.10%
Cost-of-Living Adjustments	Cost-of-Living Adjustments for the County are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Members eligible for service retirement are assumed to retire at various rates based upon age and gender. Deferred members are assumed to retire (100% probability) at the later of age 60 or earliest retirement eligibility. For all eligible members ages 75 and later, retirement is assumed to occur immediately.
Turnover	New employees are assumed to replace any terminated members and have similar entry ages.
Mortality	Mortality rates for depositing members are based on 90% of the gender-distinct RP-2014 Active Employee Mortality Table. Service retirees, beneficiaries, and non-depositing members are based on 130% for males and 110% for females of the RP-2014 Healthy Annuitant Mortality Table. Disabled retirees are based on 130% for males and 115% for females of the RP-2014 Disabled Annuitant Mortality Table. All of the rates are projected with 110% of the MP-2014 Ultimate scale after 2014.

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



COMPLIANCE AND INTERNAL CONTROLS SECTION



A Limited Liability Partnership

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

The Honorable County Judge  
and Commissioners' Court  
County of Reagan  
P.O. Box 100  
Big Lake, TX 76932-0100

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Reagan, 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, and have issued our report thereon dated February 14, 2020.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County of Reagan'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 of Reagan's internal control. Accordingly, we do not express an opinion on the effectiveness of the County of Reagan'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 the audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

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

**Purpose of This Report**

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

*Eckert & Company, LLP*

February 14, 2020