

MC MULLEN COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2015



Lovvorn & Kieschnick
CERTIFIED PUBLIC ACCOUNTANTS

LOVVORN & KIESCHNICK, LLP

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**MC MULLEN COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2015**

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INTRODUCTORY SECTION

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MC MULLEN COUNTY, TEXAS

DIRECTORY OF OFFICIALS

DECEMBER 31, 2015

COMMISSIONERS COURT

James E. Teal
Hilario "Larry" Garcia
Murray Swaim
Scotty McClaugherty
Max Quintanilla

County Judge
Commissioner, Precinct No. 1
Commissioner, Precinct No. 2
Commissioner, Precinct No. 3
Commissioner, Precinct No. 4

OTHER COUNTY OFFICIALS

Mattie Sadovsky
Bessie Guerrero
Judy Wyatt
Debora Garza
Emmett Shelton
Kimberly Kreider-Dusek
Craig Franklin

District/County Clerk
Tax Assessor/Collector
Treasurer
Justice of the Peace
Sheriff
County Attorney
Constable

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FINANCIAL SECTION

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Lovvorn & Kieschnick, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable County Judge
and County Commissioners
McMullen County, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of McMullen County, Texas as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of McMullen County, Texas as of December 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 15 to the financial statements, in 2015, the County adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and schedule of employer contributions, on pages 4-11 and 46-50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise McMullen County, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of state awards is presented for purposes of additional analysis as

required by the provisions of the State of Texas, *Uniform Grant and Contract Management Standards* (UGCMS), and is also not a required part of the basic financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2016, on our consideration of McMullen County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McMullen County, Texas' internal control over financial reporting and compliance.

Lovvorn & Kieschnick, LLP

Lovvorn & Kieschnick, LLP
September 9, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MC MULLEN COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
(UNAUDITED)

This discussion and analysis of McMullen County, Texas' (County) financial performance provides an overview of the County's financial activities for the fiscal year ended December 31, 2015. The MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

Net Position The assets and deferred outflows of resources of McMullen County, Texas exceeded its liabilities and deferred inflows of resources at December 31, 2015 by \$23,526,332 (presented as "net position"). Of this amount \$16,944,389 was reported as "unrestricted net position." Unrestricted net position represents the amount not restricted by parties outside the County.

Changes in Net Position The County's total net position increased by \$10,906,011 (an 86% increase) in fiscal year 2015. The County only had governmental activities during the 2015 year.

Fund Highlights: Governmental Funds – Fund Balances As of the close of fiscal year 2015, the County's governmental funds reported a combined ending fund balance of \$19,425,744 which was an increase of \$5,757,576 in comparison with the prior year. At the end of the year, unassigned fund balance for the general fund was \$14,741,500 equal to 188% of total general fund expenditures including transfers to other funds.

New Accounting Guidance For the year ended December 31, 2015, the County adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The implementation of these standards resulted in a prior period restatement to increase net position by \$22,200 to recognize the net pension liability and deferred outflows of resources at the beginning of the measurement period ending December 31, 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and

3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

The 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 private sector business. They present the financial picture of the County from an economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the County (including infrastructure), deferred outflows of resources, as well as all liabilities (including long-term debt) and deferred inflows of resources. Additionally, certain eliminations have occurred as prescribed by GASB Statement No. 34 in regards to interfund activity, payables and receivables.

The *statement of net position* presents information on all of the County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. Increases or decreases in net position contrasted with budgetary decisions should 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 net position changed during the most recent fiscal year using full accrual basis of accounting. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

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. Unlike the government-wide financial statements, however, governmental funds 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 fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate the comparison between *governmental funds* and *governmental activities*.

The County maintains six individual governmental funds (excluding fiduciary funds): four special revenue funds, one construction fund, and the General Fund. Information is presented separately in the governmental fund balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, the Road and Bridge Fund, and the Sheriff's Federal Forfeiture Fund, which are classified as major funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget as a management control device during the year for the General Fund, and for the Road and Bridge Fund. The Required Supplementary Information includes a budgetary comparison schedule (original versus final) for the General Fund and the Road and Bridge Fund to demonstrate compliance with budget.

Fiduciary funds. *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. The County's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. These activities are excluded from the County's other financial statements since the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the basic 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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning general fund and major special revenue budgetary schedules and pension plan funding progress.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Of the County's total assets of \$47,407,880 the largest components are: 1) receivables which largely represent the unavailable taxes for FY2015 of \$13,499,690 or 28%, 2) cash and cash equivalents of \$21,862,174 or 46%, and 3) capital assets net of accumulated depreciation of \$8,585,733 or 18%. The receivables are offset by deferred inflows of resources: unearned 2015 tax revenues and advanced tax collections, since the FY2015 tax revenue is not recognized until FY2016 even though the levy takes place in FY2015. Capital assets are non-liquid assets and cannot be utilized to satisfy County obligations. Liabilities consist of current liabilities of \$916,105 and noncurrent liabilities of \$6,090,000.

The County's net position for fiscal years ended December 31, 2015 and 2014 are summarized as follows:

	Governmental Activities		Total Percentage Change 2015-2014
	2015	2014*	
Current and other assets	38,822,147	36,498,286	6%
Capital assets (net of depreciation)	8,585,733	5,379,868	60%
Total assets	<u>47,407,880</u>	<u>41,878,154</u>	13%
Deferred outflows of resources	579,941	-	0%
Current and other liabilities	916,105	713,825	28%
Long-term liabilities	6,090,000	7,555,000	-19%
Total liabilities	<u>7,006,105</u>	<u>8,268,825</u>	-15%
Deferred inflows of resources	17,455,384	21,011,208	-17%
Net position:			
Net investment in capital assets	6,047,457	5,192,780	16%
Restricted	534,486	541,859	-1%
Unrestricted	16,944,389	6,863,482	147%
Total net position	<u><u>23,526,332</u></u>	<u><u>12,598,121</u></u>	87%

Net Position – Net position may serve over time as a useful indicator of a County government's financial position. McMullen County, Texas' combined net position (government activities) totaled \$23,526,332 at the end of fiscal year 2015 compared to \$12,598,121 at the end of the previous year.

Of the County's total net position, (26%) reflects its investment in capital assets such as land, buildings, major improvements, equipment, and infrastructure (road and bridges), less any related debt used to acquire those assets that is still outstanding. McMullen County, Texas uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

*As permitted by GASB Statement No. 68, prior fiscal year was not restated.

Governmental activities increased the County's net position by \$10,906,011. The key components of this change are the following:

McMullen County, Texas' Changes in Net Position

	Governmental Activities		
	2015	2014*	Total Percentage Change 2015-2014
Revenues:			
Net Program revenues:			
Charges for services	928,655	2,061,001	-55%
Operating grants and contributions	3,240,340	1,859,010	74%
Capital grants and contributions	-	-	0%
General revenues:			
Property taxes	21,707,761	15,390,252	41%
Investment earnings	30,110	9,531	216%
Miscellaneous	769,919	399,535	93%
Total revenues	<u>26,676,785</u>	<u>19,719,329</u>	35%
Expenses:			
General Administration	811,123	1,482,665	-45%
Judicial	511,126	495,046	3%
Elections	8,485	19,437	-56%
Financial Administration	846,318	852,840	-1%
Public Facilities	72,240	939,077	-92%
Public Safety	1,321,133	1,582,406	-17%
Environmental Protection	1,016,166	366,319	177%
Public Transportation	10,946,274	8,673,611	26%
Health and Welfare	60,231	65,752	-8%
Culture and Recreation	9,268	2,210	319%
Conservation	66,158	77,926	-15%
Interest and fiscal charges on debt	102,252	126,080	-19%
Total expenses	<u>15,770,774</u>	<u>14,683,369</u>	7%
Change in net position	10,906,011	5,035,960	117%
Net position--beginning	<u>12,620,321</u>	<u>7,562,161</u>	67%
Net position--ending	<u><u>23,526,332</u></u>	<u><u>12,598,121</u></u>	87%

Program revenues and expenses are presented net of interfund eliminations.

*As permitted by GASB Statement No. 68, prior fiscal year was not restated.

Key elements of the analysis of government-wide revenues and expenses reflect the following:

- Program revenues of \$4,168,995 equaled 26% of government expenses of \$15,770,774. As expected, general revenues (\$22,507,790) provided most of the required support and coverage for expenses.
- The largest category of expenses is Public Transportation (\$10,946,274), while this category provided about 12% of total revenues of \$3,191,163.
- The next largest category of expenses is Public Safety (\$1,321,133) with \$241,124 in revenues, or about 1% of total revenues.
- General Administration expenses were \$811,123, with revenues of \$162,642, or about 1% of total revenues.
- Grant revenues and contributions comprised about 12% of revenues.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

As noted earlier, the County uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements. Fund accounting and budget controls have been the framework of the County's strong fiscal management and accountability.

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

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$19,425,744, an increase of \$5,757,576 in comparison with the prior year. Approximately \$14,741,500 or 76% of the fund balance represents *unassigned fund balance*, which is available for spending at the County's discretion.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$14,741,500 while total fund balance reached \$15,038,817. As a measure of the general fund's liquidity, we compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 188% of total fund expenditures and transfers out.

General Fund Budgetary Highlights

For FY2015, actual expenditures were \$7,281,223 compared to the budget amount of \$15,143,673.

For FY2015, actual revenues were \$14,205,538 as compared to the budget amount of \$13,095,168.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2015 the County had \$14,617,005 invested in capital assets, including land, park and recreation facilities, buildings, roads, bridges and equipment. This amount represents a net increase (additions, deductions, and depreciation) of \$3,205,865, or 60% more than last year.

Capital Assets at Year-End

	Governmental Activities		
	2015	2014	Total Percentage Change 2015-2014
Land	1,075,056	734,179	46%
Buildings and Improvements	2,110,295	1,752,482	20%
Equipment and Vehicles	5,451,295	5,191,971	5%
Infrastructure	2,824,795	2,824,795	0%
Construction in Progress	3,155,564	595,668	430%
Subtotal	14,617,005	11,099,095	32%
Accumulated depreciation	(6,031,272)	(5,719,227)	5%
Capital assets, net	8,585,733	5,379,868	60%

Long-term Liabilities

On January 10, 2013, the County issued \$9,000,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2013. The proceeds will be used for various County infrastructure projects, certain County equipment, and purchase of land for a landfill. The debt will be paid by general tax revenues and limited pledged revenue. Principal payments are due annually, beginning February 15, 2013, and a final maturity date of February 15, 2019.

As a result of the County adopting GASB 68 in fiscal year 2015, the County's Texas County and District Retirement System net pension liability (asset) is reflected as a long-term liability of the County at December 31, 2015.

Long-term Liabilities at Year-End

	<u>Governmental Activities</u>		
	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Certificates of Obligation	6,090,000	7,555,000	(1,465,000)
Net Pension Liability (Asset)	(476,788)	135,897	(612,685)
Totals	<u>5,613,212</u>	<u>7,690,897</u>	<u>(2,077,685)</u>

ECONOMIC CONDITION AND OUTLOOK

The County is in good financial condition as of December 31, 2015, and has adequate cash and cash equivalents to finance the 2015 County Budget. The position of the County has continued to be sound over the past year. Some of the factors which enabled the County to maintain this constant level were that all departments and agencies operated within the budget appropriations and Ad Valorem taxes were collected at a high percent.

Looking ahead, McMullen County, Texas will have to endure some years of careful operation and planning. Major improvements need to be made on county roads and public utilities due to the phenomenal increase in oil and gas activity within the county. Future budgets will present a challenge to maintain the County's record of financial stability and growth that has been routine for so long, until the taxes on increased valuations are collected.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the County Treasurer's Office at P.O. Box 37, Tilden, Texas 78072.

BASIC FINANCIAL STATEMENTS

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MC MULLEN COUNTY, TEXAS
STATEMENT OF NET POSITION
DECEMBER 31, 2015

Exhibit 1

ASSETS	
Cash and Cash Equivalents	21,862,174
Receivables	
Taxes Receivable, Net	13,499,690
Grant Receivable	549,914
Due from Others	2,020,834
Fines Receivable, Net	412,747
Net Pension Asset	476,788
Capital Assets	
Land	1,075,056
Buildings and Improvements	2,110,295
Equipment and Vehicles	5,451,295
Infrastructure	2,824,795
Construction In Progress	3,155,564
Less Accumulated Depreciation	(6,031,272)
TOTAL ASSETS	<u>47,407,880</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to Pensions	579,941
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>579,941</u>
LIABILITIES	
Accounts Payable	202,168
Accrued Wages	676,712
Accrued Interest Payable	37,225
Noncurrent Liabilities	
Due Within One Year	1,485,000
Due in More Than One Year	4,605,000
TOTAL LIABILITIES	<u>7,006,105</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Revenues - Property Taxes	13,327,083
Advanced Tax Collections	4,128,301
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>17,455,384</u>
NET POSITION	
Net Investment in Capital Assets	6,047,457
Restricted For:	
Landfill	137,016
Law Enforcement	237,169
Technology	26,754
Records Management	14,850
Abandoned Vehicles	39,809
Old Tax Assessor Funds	78,888
Unrestricted	16,944,389
TOTAL NET POSITION	<u>23,526,332</u>

The accompanying notes are an integral part of this statement.

**MC MULLEN COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
General Administration	811,123	162,642	-	-
Judicial	511,126	31,734	-	-
Elections	8,485	-	-	-
Financial	846,318	541,507	-	-
Public Facilities	72,240	-	-	-
Public Safety	1,321,133	39,343	201,781	-
Environmental Protection	1,016,166	-	-	-
Public Transportation	10,946,274	152,604	3,038,559	-
Health and Welfare	60,231	825	-	-
Culture and Recreation	9,268	-	-	-
Conservation	66,158	-	-	-
Interest and Fiscal Charges on Debt	102,252	-	-	-
Total Governmental Activities	15,770,774	928,655	3,240,340	-

General Revenues
Property Taxes
Investment Earnings
Miscellaneous
Total General Revenues

Change in Net Position
Net Position-Beginning
Net Position-Ending

The accompanying notes are an integral part of this statement.

Exhibit 2

Net (Expense)
Revenue and
Changes in Net Position

Governmental
Activities

(648,481)
(479,392)
(8,485)
(304,811)
(72,240)
(1,080,009)
(1,016,166)
(7,755,111)
(59,406)
(9,268)
(66,158)
(102,252)

(11,601,779)

21,707,761
30,110
769,919

22,507,790

10,906,011
12,620,321

23,526,332

**MC MULLEN COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	<u>GENERAL FUND</u>	<u>ROAD AND BRIDGE FUND</u>
ASSETS		
Cash and Cash Equivalents	14,630,838	6,989,663
Receivables		
Taxes Receivable, Net	6,749,844	6,749,846
Grant Receivable	18,124	531,790
Due From County Officials	1,075,722	945,112
Due From Other Funds	2,000,000	-
TOTAL ASSETS	<u><u>24,474,528</u></u>	<u><u>15,216,411</u></u>
LIABILITIES		
Accounts Payable	160,656	41,510
Accrued Wages	461,060	215,652
Due to Other Funds	-	2,000,000
Total Liabilities	<u>621,716</u>	<u>2,257,162</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenues - Property Taxes	86,303	86,302
Deferred Revenues - Property Taxes	6,663,541	6,663,542
Advanced Tax Collections	2,064,151	2,064,150
Total Deferred Inflows of Resources	<u>8,813,995</u>	<u>8,813,994</u>
FUND BALANCES		
Restricted	297,317	-
Committed	-	4,145,254
Assigned	-	-
Unassigned	14,741,500	-
Total Fund Balances	<u>15,038,817</u>	<u>4,145,254</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u><u>24,474,528</u></u>	<u><u>15,216,410</u></u>

The accompanying notes are an integral part of this statement.

Exhibit 3

SHERIFF'S FEDERAL FORFEITURE FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
212,571	29,102	21,862,174
-	-	13,499,690
-	-	549,914
-	-	2,020,834
-	-	2,000,000
<u>212,571</u>	<u>29,102</u>	<u>39,932,612</u>
-	-	202,166
-	-	676,712
-	-	2,000,000
<u>-</u>	<u>-</u>	<u>2,878,878</u>
-	-	172,605
-	-	13,327,083
-	-	4,128,301
<u>-</u>	<u>-</u>	<u>17,627,989</u>
212,571	24,598	534,486
-	-	4,145,254
-	4,504	4,504
-	-	14,741,500
<u>212,571</u>	<u>29,102</u>	<u>19,425,744</u>
<u>212,571</u>	<u>29,102</u>	<u>39,932,611</u>

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MC MULLEN COUNTY, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO STATEMENT OF NET POSITION
 DECEMBER 31, 2015

Exhibit 3-R

Total fund balance - total governmental funds	\$ 19,425,744
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	8,585,732
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	172,605
Fines receivable, net of allowances for uncollectibles	412,747
Certificates of Obligation Payable	(6,090,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(37,225)
Recognition of County's proportionate share of the net pension asset (liability) is not reported in the funds.	476,788
Deferred resource outflows related to pension are not reported in the funds.	579,941
Net position of governmental activities - statement of net position	\$ <u><u>23,526,332</u></u>

The accompanying notes are an integral part of this statement.

**MC MULLEN COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	GENERAL FUND	ROAD AND BRIDGE FUND
REVENUES		
Taxes	12,994,716	8,672,452
Licenses and Permits	-	152,604
Intergovernmental	201,781	3,038,559
Fees	765,218	-
Fines and Forfeitures	593,660	-
Interest Income	19,358	9,330
Other	308,358	461,561
Total Revenues	<u>14,883,091</u>	<u>12,334,506</u>
EXPENDITURES		
Current		
General Administration	888,905	-
Judicial	546,788	-
Elections	8,485	-
Financial Administration	1,037,083	-
Public Facilities	681,258	-
Public Safety	2,249,137	-
Environmental Protection	1,325,508	-
Public Transportation	272,758	10,793,286
Culture and Recreation	8,344	-
Health and Welfare	74,856	-
Conservation	75,962	-
Debt Service		
Principal Retirement	488,333	976,668
Interest and Fiscal Charges	37,069	74,138
Total Expenditures	<u>7,694,486</u>	<u>11,844,092</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>7,188,605</u>	<u>490,414</u>
OTHER FINANCING SOURCES (USES)		
Transfers In	-	1,529,639
Transfers Out	(165,807)	(1,363,832)
Total Other Financing Sources (Uses)	<u>(165,807)</u>	<u>165,807</u>
Net Change in Fund Balances	7,022,798	656,221
Fund Balances at Beginning of Year	<u>8,016,019</u>	<u>3,489,033</u>
Fund Balances at End of Year	<u><u>15,038,817</u></u>	<u><u>4,145,254</u></u>

The accompanying notes are an integral part of this statement.

Exhibit 4

SHERIFF'S FEDERAL FORFEITURE FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
-	-	21,667,168
-	-	152,604
-	-	3,240,340
-	-	765,218
9,435	14,245	617,340
255	1,167	30,110
-	-	769,919
<u>9,690</u>	<u>15,412</u>	<u>27,242,699</u>
-	5,000	893,905
-	-	546,788
-	-	8,485
-	-	1,037,083
-	1,911,321	2,592,579
29,298	926	2,279,361
-	-	1,325,508
-	-	11,066,044
-	-	8,344
-	-	74,856
-	-	75,962
-	-	1,465,001
-	-	111,207
<u>29,298</u>	<u>1,917,247</u>	<u>21,485,123</u>
<u>(19,608)</u>	<u>(1,901,835)</u>	<u>5,757,576</u>
-	-	1,529,639
-	-	(1,529,639)
-	-	-
(19,608)	(1,901,835)	5,757,576
<u>232,179</u>	<u>1,930,937</u>	<u>13,668,168</u>
<u>212,571</u>	<u>29,102</u>	<u>19,425,744</u>

MC MULLEN COUNTY, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO
 THE STATEMENT OF ACTIVITIES
 YEAR ENDED DECEMBER 31, 2015

Exhibit 4-R

Net change in fund balance - total governmental funds	5,757,576
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are not reported as expenses in the SOA.	3,816,188
The depreciation of capital assets used in governmental activities is not reported in the funds.	(602,323)
Loss on disposal of capital assets	(8,000)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	40,592
Change in fines receivable	(606,507)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	1,465,001
(Increase) decrease in accrued interest from beginning of period to end of period	8,955
Implementing GASB 68 required certain expenditures to be de-expended and recorded as deferred resource outflows	1,034,529
Change in net assets of governmental activities - statement of activities	<u>10,906,011</u>

The accompanying notes are an integral part of this statement.

**MC MULLEN COUNTY, TEXAS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2015**

Exhibit 5

ASSETS	
Cash and Cash Equivalents	1,353,071
Total Assets	<u>1,353,071</u>
 LIABILITIES	
Due to Others	1,353,071
Total Liabilities	<u>1,353,071</u>

The accompanying notes are an integral part of this statement.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

McMullen County, Texas (the County) was organized in 1873. The County operates using a commission form of government under the statutes and the Constitution of the State of Texas. The County (government) provides the following services throughout the County: public safety (fire, ambulance, and law enforcement), public transportation (highways and roads), health and welfare, culture and recreation, conservation (agriculture), public facilities, judicial and legal, election functions, and general and financial administrative services.

The financial statements of McMullen County, Texas have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements include all the funds and account groups of the County. There are no component units applicable to the County. Therefore, the primary government (McMullen County) is the same as the reporting entity. The County is not a component unit of any other entity.

B. Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the County. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The County had no business-type activities in 2015.

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

Fund Financial Statements

The County segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column. The County had no proprietary activities in 2015.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The County has presented the following major governmental funds:

General Fund –

The General Fund is the general operating fund of the County and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, charges for services, intergovernmental revenues and investment of idle funds. Primary expenditures are for general administration, public safety, judicial, public welfare, health services and capital acquisition.

Road and Bridge Fund –

The Road and Bridge Fund is a special revenue fund that accounts for current funds used for the purpose of constructing and maintaining roads and bridges.

Sheriff's Federal Forfeiture Fund –

The Sheriff's Federal Forfeiture Fund is used to collect forfeiture monies and expend them for public safety.

Additionally, the County reports the following fund types:

Fiduciary Fund Types

Agency Funds –

Agency funds are used to account for money and property held by the County as trustee or agent for individuals, other governmental units and other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. This measurement focus is also used for the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Major revenue types, which have been accrued, are revenue from the investments, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Governmental fund level financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred inflows of resources. Property taxes which were levied in September, 2015, and became due October 1, 2015 have been assessed to finance the budget of the fiscal year beginning January 1, 2016 and, accordingly, have been reflected as taxes receivable, and deferred inflows of resources: deferred revenues-property taxes, and advanced tax collections in the fund financial statements at December 31, 2015.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

D. Encumbrances

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Encumbrances outstanding at year end are either canceled or appropriations are provided for in the subsequent year's budget.

E. Investments

The County can legally invest in certificates of deposit, obligations of the U.S. Government and its Agencies or instrumentalities, State obligations, local government investment pools and certain money market funds.

The County has implemented GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." As a governmental entity other than an external investment pool, in accordance with GASB 31 the County's investments are stated at market value, except for money market investments with remaining maturity of one year or less when purchased and nonparticipating interest earning investment contracts.

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

F. Prepaid Items

Prepaid balances are for payments made by the County in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

G. Inventories

The County records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory. Inventory at year end is immaterial.

H. Interfund Activity

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

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the governmental column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on capital assets.

Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	50	Years
Building Improvements	25	Years
System Infrastructure	50	Years
Vehicles	5	Years
Office Equipment	5	Years
Computer Equipment	5	Years

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

J. Compensated Absences

It is the County's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. However, vacation time not taken by the end of the calendar year is not carried over to the next year. All regular full-time employees can accrue up to 480 hours of sick leave. There is no liability for unpaid accumulated sick leave or vacation pay since the County does not have a policy to pay any amounts when employees separate from service with the County. Therefore, no liability for these amounts is reported in government-wide financial statements.

K. Net Position and Fund Equity

In the government-wide financial statements, net position is reported in three categories: net position invested in capital assets, net of related debt; restricted net position; and unrestricted net position. Net position invested in capital assets, net of related debt represents capital assets less accumulated depreciation less outstanding principal of related debt. Net position invested in capital assets, net of related debt does not include the unspent proceeds of capital debt. Restricted net position represents net position restricted by parties outside of the County (such as creditors, grantors, contributors, laws, and regulations of other governments). All other net position is considered unrestricted.

In the fund financial statements, fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the Commissioners Court, the County's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Commissioners Court removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Commissioners Court. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the County intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Commissioners Court or by an official or body to which the Commissioners Court delegates the

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the County itself.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is 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.

L. Use of Estimates

The preparation of basic financial statements in conformance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

M. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None Noted	Not Applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None Reported	Not Applicable	Not Applicable

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

N. Accounting Pronouncements

Recently Issued and Adopted Accounting Announcements

In 2015, the County adopted four new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.*
- Statement No. 69, *Government Combinations and Disposals of Governmental Operations*
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.*

- a. Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements criteria detailed above in the description of Statement No. 67. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement.

The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and RSI requirements about pensions also are addressed. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Implementation of this new Statement resulted in a restatement of beginning net position in the County's government-wide financial statements (see Note 14).

- b. Statement No. 69 improves financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operation. The term "government combinations" is used to refer to a variety of arrangements including mergers and acquisitions. Mergers include combinations of legally separate entities without the exchange of

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

significant consideration. Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. Government combinations also include transfers of operations that do not constitute entire legally separate entities in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services. There was no impact on the County's financial statements as a result of the implementation of Statement No. 69.

- c. Statement No. 70 was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

The Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The Statement requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. There was no impact on the County's financial statements as a result of the implementation of Statement No. 70.

- d. Statement No. 71 amends Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Since the measurement date of the pension plan was different than the County's final year-end, the effects from the County's reported contributions to the plan subsequent to the respective measurement date of the plan as an increase in deferred outflow of resources and a decrease in net position.

2. CASH AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Texas 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

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

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, 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.

A. Cash Deposits

At December 31, 2015, the carrying amount of the County's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$23,215,245 and the bank balance was \$29,317,988. The County's cash deposits at December 31, 2015 and during the period ended December 31, 2015, were entirely covered by FDIC insurance or by pledged collateral held by the trust department of the County's depository bank in the County's name. It is County policy not to carry unsecured bank balances. Deposits were properly secured for all months.

B. Investments

During fiscal year ended 2015, the County invested only in short-term certificates of deposit, which were classified as cash equivalents.

Interest Rate Risk – In accordance with state law and County policy, the County does not purchase any investments with maturities greater than 10 years.

Credit Risk – In accordance with state law and the County's investment policy, investments in mutual funds and investment pools must be rated at least AAA, commercial paper must be rated at least A-1 or P-1, and investments in obligations from other states, municipalities, counties, etc. must be rated at least A.

Concentration of Credit Risk – The County does not place a limit on the amount the County may invest in any one issuer. The County does not have a concentration of credit risk.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County does not have a custodial credit risk.

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015, was as follows:

	<u>Balance January 1</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Balance December 31</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	734,179	340,877	-	1,075,056
Construction in Progress	595,668	2,559,896	-	3,155,564
Total capital assets, not being depreciated	<u>1,329,847</u>	<u>2,900,773</u>	<u>-</u>	<u>4,230,620</u>
Capital assets, being depreciated:				
Building and Improvements	1,752,482	357,813	-	2,110,295
Machinery, Equipment and Vehicles	5,191,971	557,602	(298,278)	5,451,295
Infrastructure	2,824,795	-	-	2,824,795
Total capital assets, being depreciated	<u>9,769,248</u>	<u>915,415</u>	<u>(298,278)</u>	<u>10,386,385</u>
Less accumulated depreciation for:				
Buildings and Improvements	(483,725)	(42,151)	-	(525,876)
Machinery, Equipment and Vehicles	(4,097,812)	(508,588)	290,278	(4,316,122)
Infrastructure	(1,137,690)	(51,584)	-	(1,189,274)
Total accumulated depreciation	<u>(5,719,227)</u>	<u>(602,323)</u>	<u>290,278</u>	<u>(6,031,272)</u>
Total capital assets, being depreciated, net	<u>4,050,021</u>	<u>313,092</u>	<u>(8,000)</u>	<u>4,355,113</u>
Governmental activities capital assets, net	<u>5,379,868</u>	<u>3,213,865</u>	<u>(8,000)</u>	<u>8,585,733</u>

Depreciation expense was charged to functions/programs of the County for the 2015 year as follows:

Governmental Activities:

General Administration	35,739
Public Facilities	51,585
Public Safety	288,473
Environmental Protection	77,861
Public Transportation	141,886
Health and Welfare	692
Culture and Recreation	924
Conservation - Agriculture	<u>5,163</u>
Total Depreciation Expense	<u><u>602,323</u></u>

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

4. LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended December 31, 2015.

Description	Original Debt	Interest Rate Payable	Balance January 1	Additions	Reductions	Balance December 31	Due Within One Year
Governmental Activities							
Long-term Debt:							
Certificates of Obligation	9,000,000	1.63%	7,555,000	-	1,465,000	6,090,000	1,485,000
Total Long-term Debt			7,555,000	-	1,465,000	6,090,000	1,485,000
Net Pension Liability (Asset)			135,897	104,538	717,223	(476,788)	-
Total Governmental Activities Long-term Liabilities			7,690,897	104,538	2,182,223	5,613,212	1,485,000

The General Fund and the Road and Bridge Fund service the debt payments for the Certificates of Obligation.

The annual requirements for the Certificates of Obligation for years subsequent to December 31, 2015 are as follows:

Fiscal Year Ending December 31	Governmental Activities		
	Principal	Interest	Total
2016	1,485,000	87,164	1,572,164
2017	1,510,000	62,755	1,572,755
2018	1,535,000	37,938	1,572,938
2019	1,560,000	12,714	1,572,714
TOTALS	6,090,000	200,571	6,290,571

5. PROPERTY TAXES

Levy and Collection –

Taxes levied by the County are levied and collected through the offices of the McMullen County Tax Assessor-Collector. Ad valorem taxes are due and payable from October 1 of the year in which levied until January 31 of the following year without interest or penalty. On February 1, unpaid taxes become subject to penalty and interest charges.

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

The County's taxes on real property are a lien against such property until paid. The County may foreclose on real property upon which it has a lien for unpaid taxes. Delinquent taxes on property not otherwise collected are generally paid when there is a sale or transfer of the title to the property.

Any liens and subsequent suits against the taxpayer for payment of delinquent personal property taxes are barred unless instituted within four years after the time such taxes become delinquent. Unlike real property, the sale or transfer of most personal property does not require any evidence that taxes thereon are paid. A lien on such property becomes enforceable as of January 1.

Taxes Receivable and Advance Tax Collections –

In the Governmental Funds, Current and Delinquent Taxes Receivable have been reported as Taxes Receivable in the assets section of the various balance sheets where applicable and offset in the deferred inflows of resources section. The Taxes Receivable is shown net of allowances for uncollectible accounts.

The "Unavailable Revenues-Property Taxes" consists of taxes levied in prior years, but not collected or available for operations at December 31, 2015. The "Deferred Revenues-Property Taxes" consists of taxes levied in 2015 and budgeted for 2016 operations, but not collected at December 31, 2015. The "Advance Tax Collections" consist of taxes levied and collected in 2015 but are budgeted for 2016 operations.

The County begins to collect taxes in October, levied for the subsequent year's budget. These advance tax collections are recognized in the deferred inflows of resources section of the various balance sheets where applicable in both the governmental funds and the government-wide statements.

Appraisal District –

The appraisal of property within the County is the responsibility of the county-wide appraisal district. The McMullen County, Texas Appraisal District (the District) is required under the Property Tax Code to assess all property within the District on the basis of one hundred (100) percent of its market value and is prohibited from applying any assessment ratios. The District, which began its appraisal and equalization functions in 1982, is governed by a Board of Directors elected by the governing bodies of certain taxing entities in the District. The Board of Directors appoints a Chief Appraiser to act as chief administrator of the Appraisal District and an Appraisal Review Board to equalize appraised values.

The County may challenge appraised values established by the District through various appeals and, if necessary, legal action. Under this legislation, the County continues to set tax rates on County property. However, if the "effective tax rate" (excluding tax rates for bonds and other contractual obligations adjusted for new improvements) exceeds the rate for the previous year by more than eight (8) percent, qualified voters of the County may petition for an election to determine whether to limit the tax rate to no more than eight (8) percent above the tax rate for the previous year. This legislation also provides that, if mandated by the qualified voters in the District, the collection function must be placed with the District.

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

Tax Rate –

The effective tax rate for the 2014 levy year was \$0.53 per \$100 assessed valuation. This tax roll was used for fiscal year 2015 operations. The 2015 tax roll is to be used for 2016 operations and its tax rate is \$0.53 per \$100 valuation.

6. RECEIVABLES

Receivables for the County's individual major funds and nonmajor funds are as follows:

	Property Taxes	Grants	Other	Total
Governmental activities:				
General Fund	6,749,844	18,124	1,075,722	7,843,690
Road and Bridge Fund	6,749,846	531,790	945,112	8,226,748
Totals	<u>13,499,690</u>	<u>549,914</u>	<u>2,020,834</u>	<u>16,070,438</u>

7. DEFERRED INFLOW OF RESOURCES

Deferred inflow of resources at year end consisted of the following:

Description	General Fund	Road and Bridge Fund	Total
Unavailable Revenue - Property Taxes	86,303	86,302	172,605
Deferred Revenues--Property Taxes	6,663,542	6,663,542	13,327,084
Advanced Tax Collections	2,064,150	2,064,151	4,128,301
Total Deferred Inflow of Resources	<u>8,813,995</u>	<u>8,813,995</u>	<u>17,627,990</u>

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables:

Balances due to and due from other funds at December 31, 2015, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Road and Bridge	<u>2,000,000</u>	Temporary Loan

All amounts due are scheduled to be paid within one year.

Interfund transfers:

	<u>Transfer In:</u>	
	<u>Road and Bridge Fund</u>	<u>Total</u>
Transfer Out:		
General Fund	<u>165,807</u>	<u>165,807</u>
Total:	<u>165,807</u>	<u>165,807</u>

Interfund transfers to Road and Bridge Fund and Nonmajor Governmental Funds were to supplement funds sources.

9. PENSION PLAN

Plan Description

The County provides retirement, disability, and death benefits for all of its eligible employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system which consists of 677 nontraditional defined benefit pension plans. TCDRS, in the aggregate, issues a Comprehensive Annual

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

Financial Report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted and may be amended by the governing body of the County within the options available in the Texas State statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with eight or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight 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 and who are not eligible to retire are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employees' 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.

At December 31, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	-
Active employees	67
	<u>71</u>

Funding Policy

The County has elected the Annually Determined Contribution 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 County contributed using the actuarially determined rate of 10.00% of covered payroll for the months of the calendar year in 2015.

The deposit rate payable by all employee members for the calendar year 2015 is 7% as adopted by the governing body of the County. 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.

The TCDRS board hires independent outside consulting actuaries to conduct an annual valuation to measure the funding status and to determine the required employer contribution rate for each employer plan. In order to calculate the employer contribution rate, the actuary does the following:

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

1. Studies each employer's adopted plan of benefits and the profile of its plan participants, and uses assumptions established by the board to estimate future benefit payments.
2. Discounts the estimate of future benefit payments to the present based on the long-term rate of investment return to determine the present value of future benefits.
3. Compares the present value of future benefits with the plan's assets to determine the difference that needs to be funded based on the funding policy.

Net Pension Liability

The County's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary Increases	4.90%
Investment Rate of Return	8.10%

Mortality rates for service retirees, as well as the beneficiaries of both service and disability retirees were based on the RP-2000 Combined Male Table with an age set forward of one year and Projection Scale AA for Males, and the RP-2000 Combined Female Table with no age adjustment and Projection Scale AA for Females. For disabled retirees, the RP-2000 Disabled Male Table with no age adjustment and Projection Scale AA for Males, and the RP-2000 Disabled Female Table with an age set forward of two years and Projection Scale AA for Females are used.

The actuarial assumptions that determined the total pension liability as of December 31, 2014 were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68.

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 2015 information for a 7-10 year time horizon.

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

Actuarial Methods and 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 ⁽¹⁾
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	3.00%
Salary Increases	3.50% 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 0.5% 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 McMullen 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	For all eligible members ages 75 and later, retirement is assumed to occur immediately.
Mortality ⁽²⁾	
Depositing members ⁽²⁾	The RP-2000 Active Employee Mortality Table for males with two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year set-back, both with the projected scale AA.
Service retirees, beneficiaries and non-depositing members ⁽²⁾	The RP-2000 Combined Mortality Table with the projected scale AA, with a one-year set-forward for males and no age adjustment for females.
Disabled retirees ⁽²⁾	RP-2000 Disabled Mortality Table for males with no age adjustment and RP-2000 Disabled Mortality Table for females with a two-year set-forward, both with the projection scale AA.

⁽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.

⁽²⁾ Studies were prepared in July 2000.

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

Long-Term Expected Rate of Return

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. The accounts shown are based on January 2015 information for a 7 – 10 year time horizon.

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.

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.

Asset Class	Target Allocation	Geometric Real Rate of Return
US Equities	16.50%	5.35%
Private Equity	12.00%	8.35%
Global Equities	1.50%	5.65%
International Equities - Developed	11.00%	5.35%
International Equities - Emerging	9.00%	6.35%
Investment-Grade Bonds	3.00%	0.55%
High-Yield Bonds	3.00%	3.75%
Opportunistic Credit	5.00%	5.54%
Direct Lending	2.00%	5.80%
Distressed Debt	3.00%	6.75%
REIT Equities	2.00%	4.00%
Commodities	2.00%	-0.20%
Mater Limited Partnerships (MLPs)	2.00%	5.30%
Private Real Estate Partnerships	3.00%	7.20%
Hedge Funds	25.00%	5.15%

Discount Rate/Depletion of Plan Assets

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.

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

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

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

In order to determine the discount rate to be used by the employer, TCDRS used an alternative method to determine the sufficiency of the fiduciary net position in all future years. The alternative method reflects the funding requirements under the County'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 benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

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, a discount rate of 8.10% was used. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

Changes in Net Pension Liability / (Asset)	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) - (b)
Balances as of December 31, 2013	4,720,869	4,584,972	135,897
Changes for the year:			
Service cost	226,605	-	226,605
Interest on total pension liability ⁽¹⁾	378,169	-	378,169
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	75,289	-	75,289
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(30,269)	(30,269)	-
Benefit payments	(302,635)	(302,635)	-
Administrative expenses	-	(3,911)	3,911
Member contributions	-	157,323	(157,323)
Net investment income	-	317,976	(317,976)
Employer contributions	-	843,700	(843,700)
Other ⁽²⁾	-	(22,340)	22,340
Balances as of December 31, 2014	<u>5,068,029</u>	<u>5,544,817</u>	<u>(476,788)</u>

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

⁽²⁾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 McMullen County, Texas 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.

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total pension liability	5,561,253	5,068,029	4,649,839
Fiduciary net position	5,544,817	5,544,817	5,544,817
Net pension liability / (asset)	16,436	(476,788)	(894,978)

Pension Expense / (Income)

	January 1, 2014 to December 31, 2014
Service cost	226,605
Interest on total pension liability ⁽¹⁾	378,169
Effect of plan changes	-
Administrative expenses	3,911
Member contributions	(157,323)
Expected investment return net of investment expenses	(400,783)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	15,058
Recognition of assumption changes or inputs	-
Recognition of investment gains or losses	16,562
Other ⁽²⁾	22,340
	<hr/>
Pension expense / (income)	104,538
	<hr/> <hr/>

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

⁽²⁾Relates to allocation of system-wide items.

Deferred Inflows / Outflows of Resources

As of December 31, 2014 the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	-	60,231
Changes of assumptions	-	-
Net difference between projected and actual earnings	-	66,246
Contributions made subsequent to measurement date	N/A	453,464

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

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:	
2015	31,619
2016	31,619
2017	31,619
2018	31,619
2019	-
Thereafter	-

10. RISK MANAGEMENT

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County has utilized the purchase of commercial insurance to cover any potential losses. Except for minimal deductibles, the County has transferred risk of loss to commercial issuers. There have been no significant reductions in insurance coverage from coverage in the prior year. Settlement amounts have not exceeded insurance coverage for the year ended December 31, 2015 or the three prior years.

11. COMMITMENTS AND CONTINGENT LIABILITIES

In the opinion of County Attorney and management, there is no pending or threatened litigation against the County that would have a material effect on the County's financial position or operations.

The County participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

12. COMMITMENTS UNDER NONCAPITALIZED LEASES

Operating Leases:

The County leases equipment. Most of the leases are cancelable.

Minimum lease commitments for the next five years are immaterial.

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

13. FUND BALANCES

The following is a summary of Governmental fund balances of the County at December 31, 2015:

<u>GENERAL FUND</u>	
Restricted:	
Landfill	137,016
Technology	26,754
Records Management	14,850
Abandoned Vehicles	39,809
Old Tax Assessor Funds	78,888
	<u>297,317</u>
Unassigned	<u>14,741,500</u>
TOTAL GENERAL FUND BALANCE	<u>15,038,817</u>
<u>ROAD AND BRIDGE FUND</u>	
Committed:	
Highways, Streets and Bridges	<u>4,145,254</u>
<u>SHERIFF'S FEDERAL FORFEITURE FUND</u>	
Restricted:	
Law Enforcement	<u>212,571</u>
<u>OTHER GOVERNMENTAL FUNDS</u>	
Restricted:	
Law Enforcement	24,598
Assigned:	
Health Clinic	100
Capital Projects	4,404
	<u>4,504</u>
TOTAL OTHER GOVERNMENTAL FUND BALANCE	<u>29,102</u>
TOTAL GOVERNMENTAL FUND BALANCE	<u>19,425,744</u>

MC MULLEN COUNTY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

14. RESTATEMENT OF NET POSITION

Beginning net position as of January 1, 2015 has been restated as follows for the implementation of GASB Statement No. 68. *Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date.*

	<u>Net Position</u>
Beginning net position, as originally stated	12,598,121
Prior-period adjustment--implementation of GASB 68:	
Deferred outflows of resources--investment and economic/demographic losses	158,097
Net pension liability (measurement date as of December 31, 2014)	<u>(135,897)</u>
Beginning net position, as restated	<u><u>12,620,321</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

Major General and Special Revenue Funds Budgetary Comparisons

The following are the Major governmental funds of the County:

The General Fund is utilized to account for all County revenues and expenditures except those which are required by law to be classified in other funds and such other funds that are presented separately to facilitate proper accountability.

The Road and Bridge Special Revenue Fund is used to account for costs associated with the construction and maintenance of roads and bridges in the County. Revenues are derived primarily from ad valorem taxes, vehicle registration charges, State Lateral Road Distribution funds, and interest.

NOTES

The Notes to Required Supplementary Information provide information on the County's budget process.

TCDRS PENSION PLAN

Schedule of Changes in Net Pension Liability and Related Ratios for McMullen County
Schedule of Employer Contributions for McMullen County

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MC MULLEN COUNTY, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES -
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2015

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Taxes	11,982,254	11,982,254	12,244,218	261,964
Licenses and Permits	-	-	-	-
Intergovernmental	55,450	99,114	141,032	41,918
Fees	423,050	401,550	807,309	405,759
Fines and Forfeitures	371,000	369,500	648,275	278,775
Interest Income	5,000	5,000	19,358	14,358
Other	244,770	237,750	345,346	107,596
Total Revenues	<u>13,081,524</u>	<u>13,095,168</u>	<u>14,205,538</u>	<u>1,110,370</u>
EXPENDITURES				
Current				
General Administration	1,144,743	1,328,907	950,473	378,434
Judicial	701,863	701,988	539,240	162,748
Elections	10,725	10,725	8,485	2,240
Financial Administration	1,230,869	1,230,869	1,021,386	209,483
Public Facilities	3,338,383	3,338,383	646,638	2,691,745
Public Safety	3,495,745	3,500,745	2,205,578	1,295,167
Environmental Protection	2,643,790	2,653,790	960,636	1,693,154
Public Transportation	273,626	373,626	266,846	106,780
Culture and Recreation	158,450	59,950	8,301	51,649
Health and Welfare	2,625,385	1,302,740	73,426	1,229,314
Conservation	113,950	113,950	74,812	39,138
Debt Service				
Principal Retirement	490,000	490,000	488,333	1,667
Interest and Fiscal Charges	38,000	38,000	37,069	931
Total Expenditures	<u>16,265,529</u>	<u>15,143,673</u>	<u>7,281,223</u>	<u>7,862,450</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,184,005)</u>	<u>(2,048,505)</u>	<u>6,924,315</u>	<u>8,972,820</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Bond Proceeds	-	-	-	-
Transfers Out	-	(165,807)	(165,807)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(165,807)</u>	<u>(165,807)</u>	<u>-</u>
Net Change in Fund Balance (Budgetary Basis)	<u>(3,184,005)</u>	<u>(2,214,312)</u>	6,758,508	<u>8,972,820</u>
Add (Deduct) Other Reconciling Items to Adjust from Budgetary Basis to Modified Accrual Basis				
Change in Amounts Due from County Officials			(912,761)	
Change in Other			(444,626)	
Change in Accounts Payable			51,427	
Change in Advanced Tax Collections			1,509,501	
Law Enforcement Grant			60,749	
Bond Proceeds			-	
Transfer Out			-	
Net Change in Fund Balance (GAAP Basis)			7,022,798	
Fund Balance (GAAP Basis), Beginning of Year			<u>8,016,019</u>	
Fund Balance (GAAP Basis), End of Year			<u>15,038,817</u>	

See accompanying notes to required supplementary information.

MC MULLEN COUNTY, TEXAS
ROAD AND BRIDGE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES -
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2015

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Taxes	7,988,168	8,149,668	8,546,550	396,882
Licenses and Permits	140,000	140,000	153,336	13,336
Intergovernmental	3,062,592	3,255,092	3,255,686	594
Interest Income	1,600	1,640	9,331	7,691
Other	128,050	39,010	472,057	433,047
Total Revenues	<u>11,320,410</u>	<u>11,585,410</u>	<u>12,436,960</u>	<u>851,550</u>
EXPENDITURES				
Current				
Public Transportation:				
Road and Bridge	10,730,725	12,331,225	11,013,375	1,317,850
Debt Service				
Principal Retirement	976,800	976,800	976,666	134
Interest and Fiscal Charges	79,200	79,200	74,138	5,062
Total Expenditures	<u>11,786,725</u>	<u>13,387,225</u>	<u>12,064,179</u>	<u>1,323,046</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(466,315)</u>	<u>(1,801,815)</u>	<u>372,781</u>	<u>2,174,596</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	165,807	165,807	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>165,807</u>	<u>165,807</u>	<u>-</u>
Net Change in Fund Balance (Budgetary Basis)	<u>(466,315)</u>	<u>(1,636,008)</u>	538,588	<u>2,174,596</u>
Add (Deduct) Other Reconciling Items to Adjust from Budgetary Basis to Modified Accrual Basis				
Change in Amounts Due from County Officials			(193,114)	
Change in Other			(204,461)	
Change in Accounts Payable			414,049	
Change in Advanced Tax Collections			318,286	
TXDOT Grant			(217,127)	
Transfer In			-	
Bond Proceeds			-	
Transfer Out			-	
Net Change in Fund Balance (GAAP Basis)			656,221	
Fund Balance (GAAP Basis), Beginning of Year			<u>3,489,033</u>	
Fund Balance (GAAP Basis), End of Year			<u>4,145,254</u>	

See accompanying notes to required supplementary information.

**MC MULLEN COUNTY, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2015**

BUDGETS AND BUDGETARY ACCOUNTING

The original budget is adopted by the Commissioner's Court and filed with the County Clerk. Amendments are made during the year on approval by the Commissioner's Court.

The final amended budget is used in this report.

The budget should not be exceeded in any expenditure category under State law. Unused appropriations lapse at the end of each year.

The County Judge is, by statute, the Budget Officer of the County and usually requests and relies on the assistance of the County Treasurer to prepare the annual budget. After being furnished budget guidelines by the Commissioner's Court, the County Treasurer prepares an estimate of revenues and a compilation of requested departmental expenditures and submits this data to the Commissioner's Court.

The Commissioner's Court invites various department heads to appear for a hearing concerning the departments' budget requests. Before determining the final budget, the Commissioner's Court may increase or decrease the amounts requested by the various departments. Amounts finally budgeted may not exceed the County Treasurer's estimate of revenues and available cash. The final budget can be legally amended by the Commissioner's Court to whatever extent the Court desires as long as the amended figures do not exceed the County Treasurer's estimate of revenues and available cash. The legal level of control is the fund.

When the Budget has been adopted by the Commissioner's Court, the County Treasurer is responsible for monitoring the expenditures of the various departments of the County to prevent expenditures from exceeding budgeted appropriations and for keeping the members of the Commissioner's Court advised of the condition of the various funds and accounts. The level of control for each legally adopted annual operating budget is the fund.

Budgets for all budgeted General and Special Revenue Funds are adopted on a cash basis rather than in conformity with generally accepted accounting principles (GAAP). Budgets for the 2015 fiscal year were adopted for the General Fund and the Road and Bridge Fund.

MC MULLEN COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM

Schedule of Changes in Net Pension Liability and Related Ratios

	<u>Year Ended December 31, 2014</u>
Total Pension Liability	
Service cost	226,605
Interest on total pension liability	378,169
Effect of plan changes	-
Effect of assumption changes or inputs	-
Effect of economic/demographic (gains) or losses	75,289
Benefit payments/refunds of contributions	<u>(332,904)</u>
Net change in total pension liability	347,159
Total pension liability, beginning	4,720,869
Total pension liability, ending (a)	<u>5,068,029</u>
Fiduciary Net Position	
Employer contributions	843,700
Member contributions	157,323
Investment income net of investment expenses	317,976
Benefit payments/refunds of contributions	(332,904)
Administrative expenses	(3,911)
Other	<u>(22,340)</u>
Net change in fiduciary net position	959,845
Fiduciary net position, beginning	4,584,972
Fiduciary net position, ending (b)	<u>5,544,817</u>
Net pension liability / (asset), ending = (a) - (b)	<u><u>(476,788)</u></u>
Fiduciary net position as a % of total pension liability	109.41%
Pensionable covered payroll	2,133,370
Net pension liability as a % of covered payroll	-22.35%

Note: only one year of data is presented in accordance with GASB #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."

MC MULLEN COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM

Schedule of Employer Contributions

Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll ⁽¹⁾	Actual Contribution as a % of Covered Payroll
2005	Not Available	Not Available	Not Available	Not Available	Not Available
2006	64,090	64,090	-	638,350	10.0%
2007	74,855	74,855	-	693,105	10.8%
2008	87,891	87,891	-	846,735	10.4%
2009	96,520	96,520	-	983,895	9.8%
2010	113,646	113,646	-	1,114,176	10.2%
2011	125,213	125,213	-	1,232,415	10.2%
2012	156,314	156,314	-	1,561,543	10.0%
2013	170,383	186,957	(16,574)	1,864,141	10.0%
2014	181,763	843,700	(661,937)	2,133,370	39.5%

⁽¹⁾Payroll is calculated based on contributions as reported to TCDRS.

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**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES AS
SUPPLEMENTARY INFORMATION**

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NON-MAJOR GOVERNMENTAL FUNDS

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MC MULLEN COUNTY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2015

	<u>SPECIAL REVENUE FUNDS</u>		Total Special Revenue Funds	<u>CONSTRUCTION FUNDS</u>	
	Sheriff's State Forfeiture	Health Clinic		Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash and Cash Equivalents	24,598	100	24,698	4,404	29,102
Due from Other Funds	-	-	-	-	-
Total Assets	<u>24,598</u>	<u>100</u>	<u>24,698</u>	<u>4,404</u>	<u>29,102</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	-	-	-	-	-
Due to Other Funds	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted	24,598	-	24,598	-	24,598
Assigned	-	100	100	4,404	4,504
Total Fund Balance	<u>24,598</u>	<u>100</u>	<u>24,698</u>	<u>4,404</u>	<u>29,102</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>24,598</u>	<u>100</u>	<u>24,698</u>	<u>4,404</u>	<u>29,102</u>

**MC MULLEN COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>SPECIAL REVENUE FUNDS</u>		Total Special Revenue Funds	<u>CONSTRUCTION FUNDS</u>	Total Nonmajor Governmental Funds
	<u>Sheriff's State Forfeiture</u>	<u>Health Clinic</u>		<u>Capital Projects Fund</u>	
REVENUES					
Taxes	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Fines & Forfeitures	14,245	-	14,245	-	14,245
Charges for Services	-	-	-	-	-
Interest Income	25	-	25	1,142	1,167
Miscellaneous	-	-	-	-	-
Total Revenues	<u>14,270</u>	<u>-</u>	<u>14,270</u>	<u>1,142</u>	<u>15,412</u>
EXPENDITURES					
Current					
General Administration	-	-	-	5,000	5,000
Judicial	-	-	-	-	-
Elections	-	-	-	-	-
Financial Administration	-	-	-	-	-
Public Facilities	-	-	-	1,911,321	1,911,321
Public Safety	926	-	926	-	926
Environmental Protection	-	-	-	-	-
Public Transportation	-	-	-	-	-
Culture and Recreation	-	-	-	-	-
Health and Welfare	-	-	-	-	-
Conservation	-	-	-	-	-
Debt Service					
Principal Retirement	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-
Total Expenditures	<u>926</u>	<u>-</u>	<u>926</u>	<u>1,916,321</u>	<u>1,917,247</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>13,344</u>	<u>-</u>	<u>13,344</u>	<u>(1,915,179)</u>	<u>(1,901,835)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change In Fund Balances	13,344	-	13,344	(1,915,179)	(1,901,835)
Fund Balances at Beginning of Year	<u>11,254</u>	<u>100</u>	<u>11,354</u>	<u>1,919,583</u>	<u>1,930,937</u>
Fund Balances at End of Year	<u>24,598</u>	<u>100</u>	<u>24,698</u>	<u>4,404</u>	<u>29,102</u>

ROAD AND BRIDGE SUB-FUNDS

MC MULLEN COUNTY, TEXAS
SCHEDULE - COMBINING BALANCE SHEET
ROAD AND BRIDGE SUB-FUNDS
DECEMBER 31, 2015

	ROAD AND BRIDGE		
	Road and Bridge Precinct 1	Road and Bridge Precinct 2	Road and Bridge Precinct 3
ASSETS			
Cash and Cash Equivalents	1,476,273	1,626,332	1,920,651
Receivables			
Taxes Receivable, Net	2,699,938	2,699,938	674,985
Grant Receivable	531,790	-	-
Due from County Officials	377,407	377,407	95,149
Total Assets	<u><u>5,085,408</u></u>	<u><u>4,703,677</u></u>	<u><u>2,690,785</u></u>
LIABILITIES			
Accounts Payable	8,950	7,840	10,040
Accrued Wages	128,687	30,581	55,665
Due to Other Funds	1,000,000	1,000,000	-
Total Liabilities	<u><u>1,137,637</u></u>	<u><u>1,038,421</u></u>	<u><u>65,705</u></u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenues - Property Taxes	34,521	34,521	8,630
Deferred Revenues - Property Taxes	2,665,417	2,665,417	666,354
Advanced Tax Collections	825,660	825,660	206,415
Total Deferred Inflows of Resources	<u><u>3,525,598</u></u>	<u><u>3,525,598</u></u>	<u><u>881,399</u></u>
FUND BALANCES			
Committed	422,175	139,657	1,743,681
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u><u>5,085,410</u></u>	<u><u>4,703,676</u></u>	<u><u>2,690,785</u></u>

SUB-FUNDS

Road and Bridge Precinct 4	Road Fund Right of Way	Total Road and Bridge Fund
1,928,889	37,518	6,989,663
674,985	-	6,749,846
-	-	531,790
95,149	-	945,112
<u>2,699,023</u>	<u>37,518</u>	<u>15,216,411</u>
14,680	-	41,510
719	-	215,652
-	-	2,000,000
<u>15,399</u>	<u>-</u>	<u>2,257,162</u>
8,630	-	86,302
666,354	-	6,663,542
206,415	-	2,064,150
<u>881,399</u>	<u>-</u>	<u>8,813,994</u>
1,802,224	37,517	4,145,254
<u>2,699,022</u>	<u>37,517</u>	<u>15,216,410</u>

**MC MULLEN COUNTY, TEXAS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 ROAD AND BRIDGE SUB-FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>ROAD AND BRIDGE</u>	
	<u>Road and Bridge Precinct 1</u>	<u>Road and Bridge Precinct 2</u>
REVENUES		
Taxes	2,172,301	2,172,301
Licenses and Permits	38,151	38,151
Intergovernmental	2,401,691	626,370
Interest Income	1,483	1,684
Other	384,680	19,462
Total Revenues	<u>4,998,306</u>	<u>2,857,968</u>
EXPENDITURES		
Current		
Public Transportation:		
Road and Bridge	4,422,024	2,909,371
Debt Service		
Principal Retirement	325,556	325,556
Interest and Fiscal Charges	24,713	24,713
Total Expenditures	<u>4,772,293</u>	<u>3,259,640</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>226,013</u>	<u>(401,672)</u>
OTHER FINANCING SOURCES (USES)		
Transfers In - From General Fund	-	-
Transfers In - From Road and Bridge Sub-Funds	679,292	679,292
Transfers Out - To Road and Bridge Sub-Funds	-	-
Total Other Financing Sources (Uses)	<u>679,292</u>	<u>679,292</u>
Net Change in Fund Balances	905,305	277,620
Fund Balances at Beginning of Year	<u>(483,130)</u>	<u>(137,963)</u>
Fund Balances at End of Year	<u><u>422,175</u></u>	<u><u>139,657</u></u>

SUB-FUNDS

Road and Bridge Precinct 3	Road and Bridge Precinct 4	Road Fund Right of Way	Total Road and Bridge Fund
2,163,925	2,163,925	-	8,672,452
38,151	38,151	-	152,604
-	-	10,498	3,038,559
3,202	2,913	48	9,330
25,222	32,197	-	461,561
<u>2,230,500</u>	<u>2,237,186</u>	<u>10,546</u>	<u>12,334,506</u>
2,032,131	1,261,792	167,968	10,793,286
162,778	162,778	-	976,668
12,356	12,356	-	74,138
<u>2,207,265</u>	<u>1,436,926</u>	<u>167,968</u>	<u>11,844,092</u>
<u>23,235</u>	<u>800,260</u>	<u>(157,422)</u>	<u>490,414</u>
-	-	165,807	165,807
2,624	2,624	-	1,363,832
(676,667)	(676,667)	(10,498)	(1,363,832)
<u>(674,043)</u>	<u>(674,043)</u>	<u>155,309</u>	<u>165,807</u>
(650,808)	126,217	(2,113)	656,221
2,394,489	1,676,007	39,630	3,489,033
<u>1,743,681</u>	<u>1,802,224</u>	<u>37,517</u>	<u>4,145,254</u>

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FIDUCIARY FUNDS

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MC MULLEN COUNTY, TEXAS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2015

	Balance 01/01/2015	Additions	Deletions	Balance 12/31/2015
<u>PERMANENT SCHOOL FUND</u>				
ASSETS				
Cash in bank	112,214	19	-	112,233
	<u>112,214</u>	<u>19</u>	<u>-</u>	<u>112,233</u>
LIABILITIES				
Due to others	112,214	19	-	112,233
	<u>112,214</u>	<u>19</u>	<u>-</u>	<u>112,233</u>
<u>PERMANENT UNDISTRIBUTED FUND</u>				
ASSETS				
Cash in bank	91,143	240	-	91,383
	<u>91,143</u>	<u>240</u>	<u>-</u>	<u>91,383</u>
LIABILITIES				
Due to others	91,143	240	-	91,383
	<u>91,143</u>	<u>240</u>	<u>-</u>	<u>91,383</u>
<u>SHERIFFS PENDING ASSET FUND</u>				
ASSETS				
Cash in bank	2	-	2	-
	<u>2</u>	<u>-</u>	<u>2</u>	<u>-</u>
LIABILITIES				
Due to others	2	-	2	-
	<u>2</u>	<u>-</u>	<u>2</u>	<u>-</u>

MC MULLEN COUNTY, TEXAS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2015
 (Continued)

	Balance 01/01/2015	Additions	Deletions	Balance 12/31/2015
<u>COUNTY-DISTRICT CLERK FUND</u>				
ASSETS				
Cash in bank	30,238	1,071,307	-	1,101,545
	<u>30,238</u>	<u>1,071,307</u>	<u>-</u>	<u>1,101,545</u>
LIABILITIES				
Due to others	30,238	1,071,307	-	1,101,545
	<u>30,238</u>	<u>1,071,307</u>	<u>-</u>	<u>1,101,545</u>
<u>JUSTICE OF THE PEACE FUND</u>				
ASSETS				
Cash in bank	206,853	-	209,136	(2,283)
	<u>206,853</u>	<u>-</u>	<u>209,136</u>	<u>(2,283)</u>
LIABILITIES				
Due to others	206,853	-	209,136	(2,283)
	<u>206,853</u>	<u>-</u>	<u>209,136</u>	<u>(2,283)</u>
<u>TAX ASSESSOR COLLECTOR FUND</u>				
ASSETS				
Cash in bank	(7,711)	19,851	-	12,140
	<u>(7,711)</u>	<u>19,851</u>	<u>-</u>	<u>12,140</u>
LIABILITIES				
Due to others	(7,711)	19,851	-	12,140
	<u>(7,711)</u>	<u>19,851</u>	<u>-</u>	<u>12,140</u>

MC MULLEN COUNTY, TEXAS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2015
 (Continued)

	Balance 01/01/2015	Additions	Deletions	Balance 12/31/2015
<u>DISTRICT CLERK COST ACCOUNT FUND</u>				
ASSETS				
Cash in bank	25,649	9,918	-	35,567
	<u>25,649</u>	<u>9,918</u>	<u>-</u>	<u>35,567</u>
LIABILITIES				
Due to others	25,649	9,918	-	35,567
	<u>25,649</u>	<u>9,918</u>	<u>-</u>	<u>35,567</u>
<u>DISTRICT COURT TRUST FUND</u>				
ASSETS				
Cash in bank	677	1	-	678
	<u>677</u>	<u>1</u>	<u>-</u>	<u>678</u>
LIABILITIES				
Due to others	677	1	-	678
	<u>677</u>	<u>1</u>	<u>-</u>	<u>678</u>
<u>DC TRUST FUND</u>				
ASSETS				
Cash in bank	189	-	-	189
	<u>189</u>	<u>-</u>	<u>-</u>	<u>189</u>
LIABILITIES				
Due to others	189	-	-	189
	<u>189</u>	<u>-</u>	<u>-</u>	<u>189</u>

MC MULLEN COUNTY, TEXAS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2015
 (Continued)

	<u>Balance</u> 01/01/2015	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> 12/31/2015
<u>VOTER REGISTRATION CH 19 FUND</u>				
ASSETS				
Cash in bank	50	1,569	-	1,619
	<u>50</u>	<u>1,569</u>	<u>-</u>	<u>1,619</u>
LIABILITIES				
Due to others	50	1,569	-	1,619
	<u>50</u>	<u>1,569</u>	<u>-</u>	<u>1,619</u>
<u>TOTAL - AGENCY FUNDS</u>				
ASSETS				
Cash in bank	459,304	1,102,905	209,138	1,353,071
	<u>459,304</u>	<u>1,102,905</u>	<u>209,138</u>	<u>1,353,071</u>
LIABILITIES				
Due to others	459,304	1,102,905	209,138	1,353,071
	<u>459,304</u>	<u>1,102,905</u>	<u>209,138</u>	<u>1,353,071</u>

STATE SINGLE AUDIT SECTION

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Lovvorn & Kieschnick, LLP
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 County Judge
and County Commissioners
McMullen County, Texas

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 and the provisions of the State of Texas, *Uniform Grant and Contract Management Standards (UGCMS)*, the basic financial statements of McMullen County, Texas (the County) as of and for the year ended December 31, 2015 and the related notes to the financial statements, which collectively comprise McMullen County, Texas' basic financial statements, and have issued our report thereon dated September 9, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

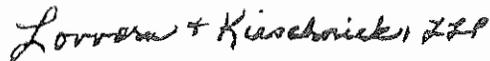
Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



Lovvorn & Kieschnick, LLP
September 9, 2016



Lovvorn & Kieschnick, LLP
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control
Over Compliance Required by the Uniform Guidance**

To the Honorable County Judge
and County Commissioners
McMullen County, Texas

Report on Compliance for Each Major State Program

We have audited McMullen County, Texas' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the provisions of the State of Texas, *Uniform Grant and Contract Management Standards* (UGCMS) that could have a direct and material effect on each of McMullen County, Texas' major state programs for the year ended December 31, 2015. McMullen County, Texas' major state programs are identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of McMullen County, Texas' major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the provisions of the State of Texas, *Uniform Grant and Contract Management Standards* (UGCMS). Those standards and *the Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of

compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about McMullen County, Texas' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination on McMullen County, Texas' compliance.

Opinion on Each Major State Program

In our opinion, McMullen County, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2015.

Report on Internal Control Over Compliance

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

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

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

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Lovvorn & Kieschnick, LLP".

Lovvorn & Kieschnick, LLP
September 9, 2016

MC MULLEN COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weakness(es) identified? Yes X No

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

Noncompliance material to financial statements noted? Yes X No

2. State Awards

Internal control over major programs:

One or more material weakness(es) identified? Yes X No

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

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

Any audit findings disclosed that are required to be reported in accordance with State of Texas Single Audit Circular Yes X No

Identification of major programs:

<u>Grant Number</u>	<u>Name of State Program</u>
CTIF-01-162	County Transportation Infrastructure Fund

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

Auditee qualified as low-risk auditee? Yes X No

B. Financial Statement Findings

NONE

C. State Award Findings and Questioned Costs

NONE

MC MULLEN COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
N/A - No prior findings		

MC MULLEN COUNTY, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2015

Program

None

Corrective Action Plan

No corrective action required

MC MULLEN COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Grantor Agency/Program Title</u>	<u>Grant Contract Number</u>	<u>Expenditures</u>
Texas Department of Public Safety County Transportation Infrastructure Fund Precinct 1 - Old Fowlerton Road Precinct 2 - Franklin Ranch Road Total County Transportation Infrastructure Fund	CTIF-01-162	\$ 2,401,691 <u>626,370</u> <u>3,028,061</u>
Passed Through Texas Homeland Security State Administrative Agency Local Border Security Program	LBSP-15-0010	49,958
Total Texas Department of Public Safety		<u>3,078,019</u>
Texas Indigent Defense Commission Formula Grant	221-15-156	<u>6,078</u>
Total State Financial Assistance		<u><u>\$ 3,084,097</u></u>

The accompanying notes are an integral part of this schedule.

MC MULLEN COUNTY, TEXAS

**NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Basis of Presentation

The accompanying schedule of expenditures of state awards includes the state grant activity of McMullen County, Texas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and UGCMS. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.