

REAL COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2016

REAL COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
for the Year Ended September 30, 2016

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FINANCIAL SECTION

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EDE & COMPANY, LLC
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Judge and Members
of the Commissioners Court
Real County, Texas
P.O. Box 446
Leakey, TX 78873-0446

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 Real County, Texas, as of and for the year ended September 30, 2016, 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. 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 Real County, Texas, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of Changes in Net Pension Liability and Related Ratios, the schedule of Employer Contributions, and the schedule of Funding Progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual fund financial statements and budgetary comparison schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and budgetary comparison schedules 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 fund financial statements and budgetary comparison schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.


Ede & Company, LLC
Certified Public Accountants
Knippa, Texas

May 5, 2017

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Real County’s annual financial report presents our discussion and analysis of the County’s financial performance during the fiscal year ended September 30, 2016. Please read it in conjunction with the County’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The County’s total combined Governmental Fund net position was \$31,369,101 at September 30, 2016.
- During the year, the County’s income was \$1,075,307 less than the \$3,059,407 generated in taxes and other revenues for governmental activities.
- The general fund reported a fund balance this year of \$1,143,599.

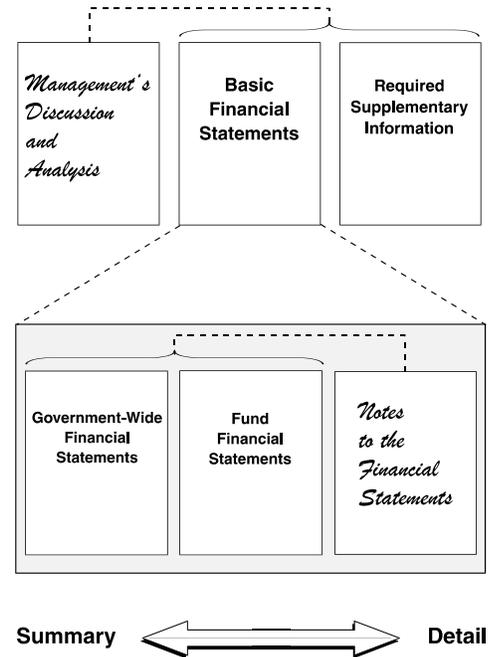
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management’s discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the County:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the County’s overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the County’s operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Fiduciary fund* statements provide information about the financial relationships in which the County acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1, Required Components of the County’s Annual Financial Report



Government-wide Statements

The government-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the County’s net position and how they have changed. Net position, the difference between the County’s assets and liabilities is one way to measure the County’s financial health or *position*.

- Over time, increases or decreases in the County’s net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the County, one needs to consider additional nonfinancial factors such as changes in the County’s tax base

Both of these Government-Wide Financial Statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, environmental protection, public transportation, health and welfare, public facilities, legal, elections, financial administration, conservation, capital projects, and culture and recreation. These activities are financed primarily by property taxes.

Fund Financial Statements

The fund financial statements provide more detailed information about the County's most significant funds—not the County as a whole. Funds are groupings of related accounts that the County uses to keep track of specific sources of funding and spending for particular purposes. Real County, like other state and local governments, uses funds to show compliance with finance-related legal requirements as well as to control and manage money for other particular purposes. The County has two kinds of funds: governmental and fiduciary.

- **Governmental funds** – Most of the County's basic services are included in governmental funds, which focus on short-term inflows and outflows of available resources and the balances of these resources that are available at the end of the year. Because the focus of governmental funds is narrower than that of the Government-Wide Financial Statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Government-Wide Financial Statements. By doing so, readers may better understand the long-term impact of the 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 this comparison between government funds and governmental activities.

The County maintains ten individual governmental funds. Information is presented separately in the governmental fund statements for the General Fund and Road and Bridge Fund, and the Grant fund, which are considered to be major funds. Individual fund data for non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its General Fund, County, and Road & Bridge Fund. Budgetary comparison schedules, as listed in the table of contents, have been provided to demonstrate compliance with this budget.

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

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

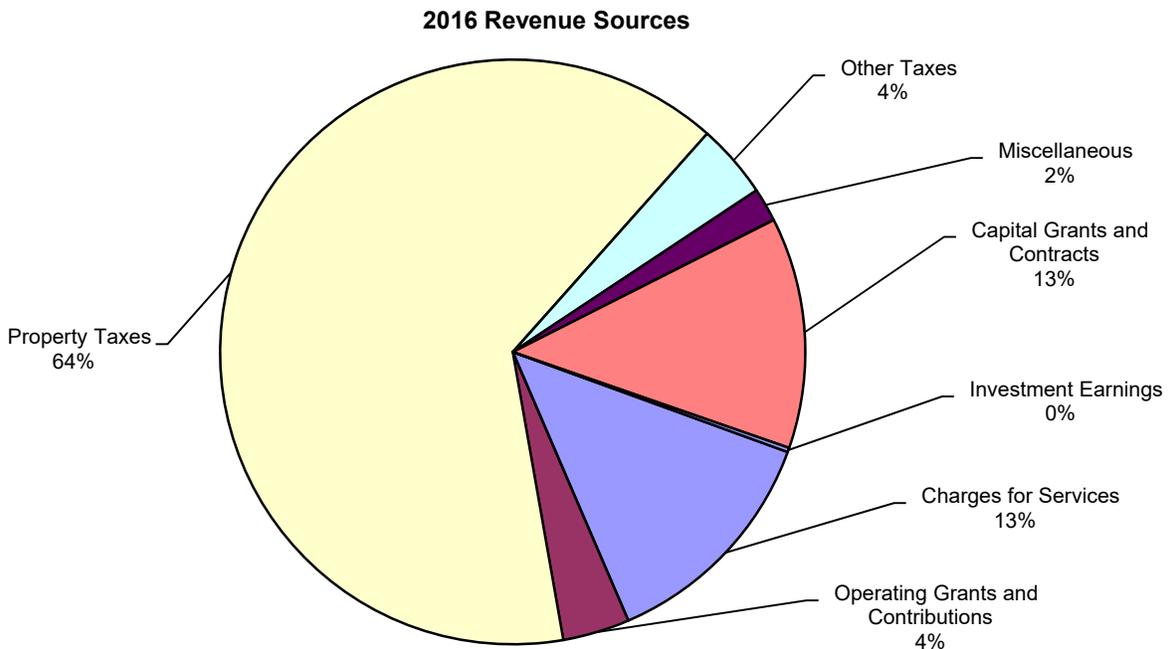
Real County's combined net position was approximately \$31.37 million at September 30, 2016. By far the largest portion of the County's net position reflects its investment in capital assets (e.g. land, buildings, machinery, equipment), less accumulated depreciation and any related long-term liabilities.

**Real County, Texas
Net Position**

| | Governmental Activities | | |
|--|-------------------------|-------------------|-----------------------|
| | 2016 | 2015 | % Change 2016-2015 |
| Current & Other Assets | \$ 2,554,271 | \$ 2,247,052 | 13.7% |
| Capital Assets | 30,663,245 | 31,802,172 | -3.6% |
| Total Assets | <u>33,217,516</u> | <u>34,049,224</u> | <u>-2.4%</u> |
| Deferred Outflows of Resources | | | |
| Deferred Outflow - Pensions | 599,367 | 146,684 | 308.6% |
| Total Deferred Outflows of Resources | <u>599,367</u> | <u>146,684</u> | <u>308.6%</u> |
| Current Liabilities | 87,310 | 66,157 | 32.0% |
| Long Term Liabilities | 2,381,012 | 1,686,855 | 41.2% |
| Total Liabilities | <u>2,468,322</u> | <u>1,753,012</u> | <u>40.8%</u> |
| Deferred inflows of Resources | | | |
| Deferred Inflow - Pensions | 7,470 | 14,939 | -50.0% |
| Total Deferred Inflows of Resources | <u>7,470</u> | <u>14,939</u> | <u>-50.0%</u> |
| Net Position | | | |
| Invested in Capital Assets, net of related debt | 30,691,255 | 30,951,559 | -0.8% |
| Restricted | 1,296,823 | 982,564 | 32.0% |
| Unrestricted | (618,977) | 493,834 | -225.3% |
| Total net position | <u>31,369,101</u> | <u>32,427,957</u> | <u>-3.3%</u> |

A portion of the County's net position 1,296.8 thousand, represents resources that are subject to external restriction on how they may be used. The remaining balance \$(619.0) thousand of unrestricted net position may be used to meet the County's ongoing obligation to citizens and creditors in accordance with the County's fund designation and fiscal policies. The overall financial condition of the county decreases from FY2015 to FY2016.

Governmental Activities – Total revenues for the fiscal year ended September 30, 2016 were 3.1 million. Approximately 64% of the County's revenue comes from taxes. The graph below shows the sources of revenues for FY2016. Table A-2 shows the changes in Net Position between FY2015 and FY2016.



2016 Expenses

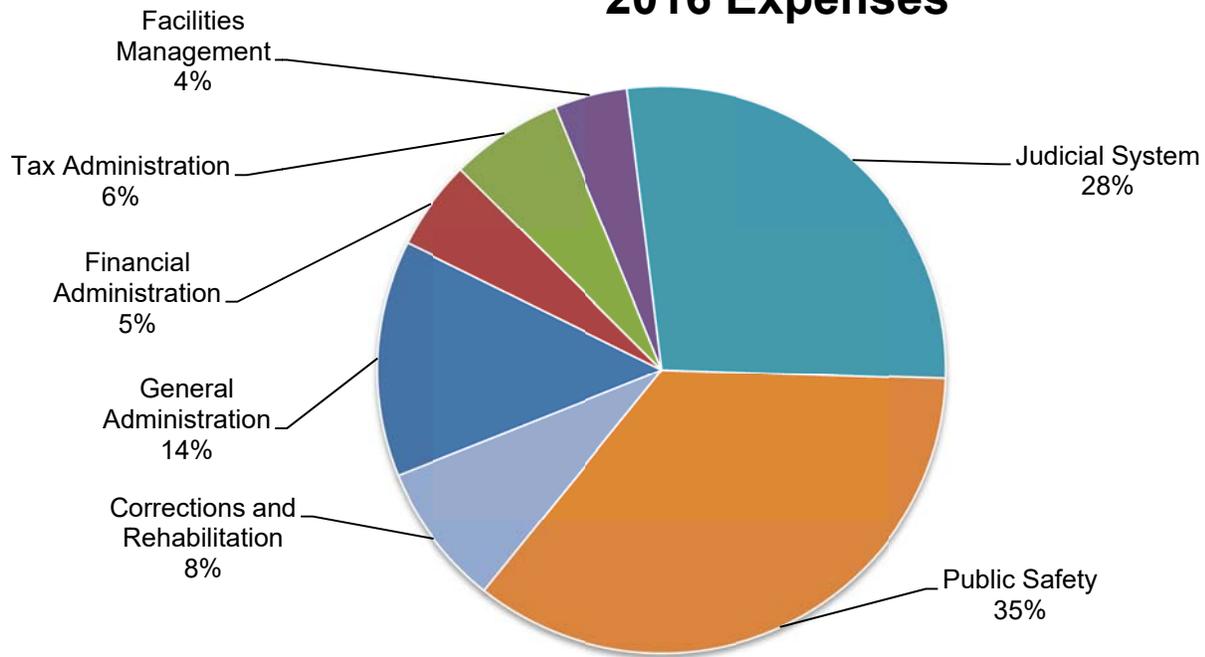


Table A-2
REAL COUNTY TX
CHANGE IN NET POSITION

| | Governmental Activities | | |
|--|-------------------------|-------------------|-----------------------|
| | 2016 | 2015 | % Change 2016-2015 |
| Revenues: | | | |
| Program Revenues: | | | |
| Charges for Services | \$ 397,060 | \$ 425,470 | -6.7% |
| Operating Grants | 113,168 | 59,283 | 90.9% |
| Capital Grants | 391,085 | 280,958 | 39.2% |
| General Revenue | | | |
| Property Taxes | 1,968,460 | 1,951,052 | 0.9% |
| Other Taxes | 125,396 | 114,879 | 9.2% |
| Investment Earnings | 7,128 | 9,893 | -27.9% |
| Other | 57,109 | 30,200 | 89.1% |
| Total Revenue | <u>3,059,406</u> | <u>2,871,735</u> | <u>6.5%</u> |
| Expenses: | | | |
| General Administration | 255,314 | 267,358 | -4.5% |
| Financial Administration | 97,485 | 94,749 | 2.9% |
| Tax Administration | 120,382 | 113,175 | 6.4% |
| Facilities Management | 79,504 | 64,220 | 23.8% |
| Judicial System | 520,942 | 457,106 | 14.0% |
| Public Safety | 667,748 | 622,868 | 7.2% |
| Corrections and Rehabilitation | 154,446 | 149,480 | 3.3% |
| Health Care | 5,092 | 4,258 | 19.6% |
| Public Health | 44,979 | 31,800 | 41.4% |
| Human Services | 181,288 | 135,527 | 33.8% |
| Community and Economic Dev. | 29,536 | 40,181 | -26.5% |
| Infrastructure and Environmental | 1,977,997 | 1,978,718 | 0.0% |
| Total Expense | <u>4,134,713</u> | <u>3,959,440</u> | <u>4.4%</u> |
| Increase (Decrease) in Net Position | (1,075,307) | (1,087,705) | -1.1% |
| Net Position- Beginning | <u>32,444,408</u> | <u>34,190,126</u> | -5.1% |
| Net Position - Ending | <u>31,369,101</u> | <u>33,102,421</u> | -5.2% |

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

Governmental Funds:

As of the end of the fiscal year, Real County's governmental funds reported a combined fund balance of \$2,353.7 thousand, an increase of \$278.4 thousand in comparison with the prior year. Approximately 44.9% of this total amount (\$1,056.9 thousand) is unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is restricted fund balance of \$1,296.8 thousand. The County's ability to spend each of these types of fund balance is more limited than with the unassigned fund balance, and the limitations on spending are discussed more fully in the notes to the financial statements.

General Fund Budgetary Highlights – The County amend the budget during the year. Even with these amendments actual revenues were \$230.6thousand less than budgeted amounts. Actual expenses were \$355.1 thousand less the amounts budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the County had invested \$66,792.0 thousand in a broad range of capital assets, including land, equipment, buildings, roads, bridges and vehicles. (See Table A-4.) This amount represents no change (including additions and deductions) from last year.

Table A-4
Real County's Capital Assets

| | Governmental Activities | | % Change 2016-2015 |
|--------------------------------|-------------------------|---------------|-----------------------|
| | 2016 | 2015 | |
| Land | \$ 189,778 | \$ 189,778 | 0.0% |
| Infrastructure | 64,363,679 | 64,195,804 | 0.3% |
| Building and Improvements | 1,075,090 | 1,075,090 | 0.0% |
| Machinery & Equipment | 1,163,446 | 1,123,395 | 3.6% |
| Totals at historical cost | 66,791,993 | 66,584,067 | 0.3% |
| Total Accumulated Depreciation | (36,100,738) | (34,781,894) | 3.8% |
| Net Capital Assets | \$ 30,691,255 | \$ 31,802,173 | -3.5% |

Long Term Debt – At the end of the fiscal year, the County had no outstanding bonded debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The taxable value used for the FY2017 budget preparation is estimated to be up slightly from FY2016.
- The tax rate established for the FY2017 budget is \$.5288, which is the same as the prior year.
- The 2017 budgeted revenue is \$2,089,328 budgeted disbursement are \$2,293,729.
- Inflationary trends in the region are comparable to national indices.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of Real County's finances and to demonstrate the County's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the County's business office, P.O. Box 69, Leakey, Texas 78873.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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REAL COUNTY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

| | Governmental Activities | Primary Government Total |
|--|----------------------------|--------------------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 2,407,630 | \$ 2,407,630 |
| Receivable (net of allowances for uncollectible) | 130,326 | 130,326 |
| Prepaid Items | 16,315 | 16,315 |
| Capital Assets | | - |
| Land | 189,778 | 189,778 |
| Infrastructure (Net) | 29,812,678 | 29,812,678 |
| Buildings (Net) | 653,286 | 653,286 |
| Machinery and Equipment (Net) | 35,513 | 35,513 |
| Total Assets | <u>33,245,526</u> | <u>33,245,526</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Outflows - Pension | 599,367 | 599,367 |
| Total Deferred Outflow of Resources | <u>599,367</u> | <u>599,367</u> |
| LIABILITIES | | |
| Accounts Payable | \$ 47,029 | \$ 47,029 |
| Accrued Wages Payable | 39,637 | 39,637 |
| Accrued Payroll Liabilities | 644 | 644 |
| Noncurrent Liabilities: | | |
| Due in More Than One Year | | |
| Net Pension Liability | 1,371,242 | 1,371,242 |
| Other Post-Employment Benefits | 994,637 | 994,637 |
| Compensated Absences | 15,133 | 15,133 |
| Total Liabilities | <u>2,468,322</u> | <u>2,468,322</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred Inflows - Pension | 7,470 | 7,470 |
| Total Deferred Inflow of Resources | <u>7,470</u> | <u>7,470</u> |
| NET POSITION | | |
| Invested in Capital Assets, Net of Related Debt | 30,691,255 | 30,691,255 |
| Restricted for: | | |
| Archives | 35,138 | 35,138 |
| Public Safety | 64,908 | 64,908 |
| Public Transportation | 1,196,777 | 1,196,777 |
| Unrestricted | (618,977) | (618,977) |
| Total Net Position | <u>\$ 31,369,101</u> | <u>\$ 31,369,101</u> |

The accompanying notes are an integral part of this statement.

REAL COUNTY, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2016

| Functions/Programs | Expenses | Program Revenues | | |
|---|------------------|--------------------------------------|------------------------------------|----------------------------------|
| | | Fees, Fines and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government: | | | | |
| GOVERNMENTAL ACTIVITIES: | | | | |
| General Government | | | | |
| General Administration | \$ 255,314 | \$ - | \$ - | \$ - |
| Financial Administration | 97,485 | - | - | - |
| Tax Administration | 120,382 | 38,629 | - | - |
| Facilities Management | 79,504 | 4,800 | - | - |
| Judicial System | 520,942 | 130,043 | 30,637 | - |
| Public Safety | 667,748 | 4,670 | 1,400 | 45,424 |
| Corrections and Rehabilitation | 154,446 | - | - | - |
| Health and Human Services | | | | |
| Health Care | 5,092 | 1,670 | - | - |
| Public Health | 44,979 | - | - | - |
| Human Services | 181,288 | 7,744 | 46,209 | - |
| Community and Economic Development | 29,536 | - | - | - |
| Infrastructure and Environmental Services | 1,977,998 | 209,503 | 34,923 | 345,661 |
| Total primary governmental activities | <u>4,134,714</u> | <u>397,060</u> | <u>113,168</u> | <u>391,085</u> |

General revenues:

Taxes:

 Property Taxes, Levied for General Purposes

 Other Taxes

Investment earnings

Special Transfers

Miscellaneous Revenue

Total general revenues, and transfers

Change in net position

Net position—beginning

Prior Period Adjustment

Net position—ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and
 Changes in Net Position
Primary Government

Governmental
 Activities

| | |
|----|--------------------|
| \$ | (255,314) |
| | (97,485) |
| | (81,753) |
| | (74,704) |
| | (360,262) |
| | (616,254) |
| | (154,446) |
| | (3,422) |
| | (44,979) |
| | (127,335) |
| | (29,536) |
| | <u>(1,387,911)</u> |
| | <u>(3,233,400)</u> |

| | |
|----|--------------------------|
| | 1,968,460 |
| | 125,396 |
| | 7,128 |
| | - |
| | <u>57,109</u> |
| | <u>2,158,093</u> |
| | (1,075,307) |
| | 32,444,408 |
| | - |
| \$ | <u><u>31,369,101</u></u> |

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FUND FINANCIAL STATEMENTS

REAL COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

| | General Fund | Road and Bridge Funds | Grant Fund |
|---|---------------------|--------------------------|-----------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 1,187,773 | \$ 1,164,669 | \$ - |
| Taxes Receivable | 88,060 | 37,740 | - |
| Allowance for Uncollectible Taxes (Credit) | (8,806) | (3,774) | - |
| Receivables (Net) | 11,276 | 5,745 | - |
| Prepaid Items | 16,315 | - | - |
| Due from Other Funds | - | - | - |
| Total Assets | <u>\$ 1,294,617</u> | <u>\$ 1,204,380</u> | <u>\$ -</u> |
| LIABILITIES | | | |
| Accounts Payable | \$ 42,527 | \$ 3,292 | \$ - |
| Accrued Wages Payable | 28,594 | 6,259 | 4,784 |
| Payroll Liabilities | 644 | - | - |
| Bank Overdraft | - | - | 81,897 |
| Short-Term Line of Credit | - | - | - |
| Due to Other Funds | - | - | - |
| Due to Other Governments | - | - | - |
| Total Liabilities | <u>71,765</u> | <u>9,551</u> | <u>86,682</u> |
| DEFERRED INFLOW OF RESOURCES | | | |
| Unavailable Revenue- Property Taxes | <u>79,254</u> | <u>33,966</u> | <u>-</u> |
| Total Deferred Inflows of Resources | <u>79,254</u> | <u>33,966</u> | <u>-</u> |
| FUND BALANCE | | | |
| Restricted For: | | | |
| Administration | - | - | - |
| Archives | - | - | - |
| Construction | - | - | - |
| Debt Service | - | - | - |
| Judicial | - | - | - |
| Public Safety | - | - | - |
| Public Transportation | - | 1,160,863 | - |
| Unassigned | 1,143,599 | - | (86,682) |
| Total Fund Balances | <u>1,143,599</u> | <u>1,160,863</u> | <u>(86,682)</u> |
| Total Liabilities Deferred Inflows and Fund Balances | <u>\$ 1,294,617</u> | <u>\$ 1,204,380</u> | <u>\$ -</u> |

The accompanying notes are an integral part of this statement.

| Nonmajor Governmental Funds | Total Governmental Funds |
|--------------------------------|-----------------------------|
| \$ 137,086 | \$ 2,489,527 |
| - | 125,800 |
| - | (12,580) |
| 85 | 17,106 |
| - | 16,315 |
| - | - |
| <u>\$ 137,171</u> | <u>\$ 2,636,168</u> |
| | |
| \$ 1,210 | \$ 47,029 |
| - | 39,637 |
| - | 644 |
| - | 81,897 |
| - | - |
| - | - |
| - | - |
| <u>1,210</u> | <u>169,207</u> |
| | |
| - | 113,220 |
| <u>-</u> | <u>113,220</u> |
| | |
| - | - |
| 35,138 | 35,138 |
| - | - |
| - | - |
| - | - |
| 64,908 | 64,908 |
| 35,914 | 1,196,777 |
| - | 1,056,917 |
| <u>135,960</u> | <u>2,353,741</u> |
| | |
| <u>\$ 137,171</u> | <u>\$ 2,636,168</u> |

REAL COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

| | |
|--|---------------------------------|
| Total Fund Balances - Governmental Funds | \$ 2,353,741 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$66,584,068 and accumulate depreciation was \$34,781,895. In addition, long-term liabilities including other post-employment benefits and compensated absences are not due and payable in the current period, and therefore are not reported as liabilities in the funds. The long -term debt was \$850,613. The net effect of including the beginning balances for the capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position. | 30,951,560 |
| Current year capital outlays and changes in long-term liabilities including other post-employment benefits and compensated absences are expended in the fund financial statements, but they should be shown as increases in capital assets and changes in long-term debt in the government-wide financial statements. The net effect of including the 2016 capital outlays and changes in other post-employment benefits and compensated absences is to increase net position. | 48,769 |
| Included in the items related to debt is the recognition of the District's net pension liability required by GASB 68 in the amount of \$1,371,242, Deferred Resources Inflows of \$7,470, and Deferred Resource Outflow of \$599,367 This resulted in a decrease in Net Position | (779,345) |
| The 2016 depreciation expense increased accumulate Depreciation. The net effect on the current year's depreciation is to decrease net position. | (1,318,844) |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position. | 113,220 |
| Net Position of Governmental Activities | <u><u>\$ 31,369,101</u></u> |

The accompanying notes are an integral part of this statement.

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REAL COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2016

| | General Fund | Road and Bridge Funds | Grant Fund |
|--|---------------------|--------------------------|--------------------|
| REVENUES: | | | |
| Taxes | | | |
| Property Taxes | \$ 1,384,140 | \$ 593,074 | \$ - |
| Sales | 125,396 | - | - |
| Intergovernmental | 32,036 | 25,308 | - |
| Licenses & Permits | - | 208,548 | - |
| Charges for services | 150,346 | 855 | - |
| Fines & Forfeitures | 11,384 | - | - |
| Interest | 7,044 | - | - |
| Grant Revenue | 46,209 | 90,000 | 301,085 |
| Miscellaneous | 56,987 | - | - |
| Total Revenue | <u>1,813,542</u> | <u>917,786</u> | <u>301,085</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| General Government | | | |
| General Administration | 214,589 | - | - |
| Financial Administration | 84,979 | - | - |
| Tax Administration | 106,254 | - | - |
| Facilities Management | 67,160 | - | - |
| Judicial System | 479,095 | - | - |
| Public Safety | 532,023 | - | 91,349 |
| Corrections and Rehabilitation | 154,446 | - | - |
| Health and Human Services | | | |
| Health Care | 5,092 | - | - |
| Public Health | 44,979 | - | - |
| Human Services | 159,957 | - | - |
| Community and Economic Development | 23,045 | - | - |
| Infrastructure and Environmental Services | - | 613,303 | 187,550 |
| Total Expenditures | <u>1,871,618</u> | <u>613,303</u> | <u>278,899</u> |
| Excess (Deficiency) Revenues Over Expenditures | <u>(58,076)</u> | <u>304,483</u> | <u>22,186</u> |
| OTHER FINANCING SOURCES (USES): | | | |
| Operating Transfers In | - | - | - |
| Operating Transfers Out | - | - | - |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | (58,076) | 304,483 | 22,186 |
| Fund Balance - October 1 (Beginning) | 1,201,675 | 856,381 | (108,868) |
| Prior Period Adjustment | - | - | - |
| Fund Balance - September 30 (Ending) | <u>\$ 1,143,599</u> | <u>\$ 1,160,863</u> | <u>\$ (86,682)</u> |

The accompanying notes are an integral part of this statement.

| Nonmajor Governmental Funds | Total Governmental Funds |
|--------------------------------|-----------------------------|
| \$ - | \$ 1,977,214 |
| - | 125,396 |
| 9,615 | 66,959 |
| - | 208,548 |
| 100 | 151,301 |
| 25,827 | 37,211 |
| 84 | 7,128 |
| - | 437,294 |
| 122 | 57,109 |
| <u>35,748</u> | <u>3,068,160</u> |
| | |
| 15,851 | 230,440 |
| - | 84,979 |
| - | 106,254 |
| - | 67,160 |
| - | 479,095 |
| 500 | 623,872 |
| - | 154,446 |
| - | 5,092 |
| - | 44,979 |
| - | 159,957 |
| - | 23,045 |
| 9,619 | 810,472 |
| 25,971 | 2,789,790 |
| <u>9,777</u> | <u>278,370</u> |
| | |
| - | - |
| <u>-</u> | <u>-</u> |
| <u>-</u> | <u>-</u> |
| 9,777 | 278,370 |
| 126,184 | 2,075,371 |
| - | - |
| <u>\$ 135,960</u> | <u>\$ 2,353,741</u> |

REAL COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | |
|--|------------------------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ 278,370 |
| Current year capital outlays and changes in long-term liabilities including other post-employment benefits and compensated absences are expenditures in the fund financial statements, but they should be shown as increases in capital assets and changes in long-term debt in the government-wide financial statements. The net effect of removing the 2016 capital outlays and changes in long-term debt is to decrease net position. | 48,769 |
| Current year changes due to GASB 68 required debits to expenses in the amount of \$74,848 resulting in a decrease in net position. | (74,848) |
| Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect on the current year's depreciation is to decrease net position. | (1,318,844) |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position. | (8,754) |
| Change in Net Position of Governmental Activities | <u><u>\$ (1,075,307)</u></u> |

The accompanying notes are an integral part of this statement.

REAL COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED SEPTEMBER 30, 2016

| | Agency Funds |
|-------------------------|--------------------------|
| <hr/> | |
| ASSETS: | |
| Cash & Cash Equivalents | <u>\$ 693,273</u> |
| Total Assets | <u><u>\$ 693,273</u></u> |
| LIABILITIES: | |
| Due to Others | <u>\$ 693,273</u> |
| Total Liabilities | <u><u>\$ 693,273</u></u> |

The accompanying notes are an integral part of this statement.

REAL COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Commissioners' Court has governance responsibilities over all activities related to Real County, Texas. The County receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the County is not included in any other governmental "reporting entity" as defined by Governmental Accounting Standards Board ("GASB"), Statement No. 14, "The Financial Reporting Entity", since County Commissioners and the County Judge are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. There are no separate organizations for which the County is financially accountable. There are no separate organizations for which the nature and significance of their relationship with the County are such that exclusion would cause Real County's financial statements to be misleading or incomplete.

The County provides the following services to its citizens: public safety (law enforcement and detention, fire and ambulance), public transportation (roads and bridges), health and welfare (pauper care, health clinic facilities, meals for the elderly and indigent health care), culture and recreation facilities, conservation, public facilities, judicial and legal, election functions, and general and financial administrative services.

B. Government-wide and fund financial statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Real County nonfiduciary activities with most of the interfund activities removed. Interfund services provided and used are not eliminated in the process of consolidation. Governmental Activities include programs supported primarily by taxes, fines and fees, grants and other intergovernmental revenues.

The Statement of Activities presents a comparison between expenses and program revenues for each function of the County's governmental activities and for the business-type activities of the County. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include a) fees, fines and charges paid by the recipients of goods and services offered by the program, and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

All interfund transactions between governmental funds are eliminated on the government-wide statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary and fiduciary. Since the resources in the fiduciary funds cannot be used for County operations, they are not included in the government-wide statements. The County considers some governmental funds major and reports their financial condition and results of operations in a separate column.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund financial statements. Fiduciary funds also utilize the accrual basis of accounting; however, the economic resources measurement focus is not applicable to agency funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both *measurable* and *available*. Available means collectible within the current period or expected to be collected within 60 days after year-end to be used to pay liabilities of the current period. Expenditures are generally recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are susceptible to accrual and have been recognized as revenues of the current fiscal period. Licenses and permits, fines and forfeits, and miscellaneous revenues are recorded as revenues when received because they are generally not measurable and available until cash is received by the government. Investment earnings are recorded on the accrual basis in all funds.

Intergovernmental revenues are recorded on a basis applicable to the legal and contractual requirements of the individual grant programs. If funds must be expended on the specific purpose or project before any amounts will be paid to the county, revenues are recognized as the expenditures or expenses recorded. If funds are virtually unrestricted and irrevocable, except for failure to comply with required compliance requirements, revenues are recognized when received or susceptible to accrual. Federal and State grants awarded on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other federal reimbursable-type grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred.

The County reports the following major governmental funds:

General Fund – The General Fund is the County’s primary operating fund. It accounts for and reports all financial resources not accounted for and reported in another fund. The General Fund balance is available for any purpose, provided it is expended or transferred in accordance with the legally adopted budget of the County.

Road & Bridge Fund – The Road & Bridge Fund is a special revenue fund that accounts for and reports the financial resources received from a designated part of the annual property tax levy and auto registration fees and traffic fines, which are used for operating and maintaining County owned roads and bridges.

Grant Funds – The Grant Fund is used to account for the grant projects of the County.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Additionally, the County reports the following fund types:

Non-Major Governmental Funds:

Special Revenue Funds – The County uses these funds to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Fiduciary Funds:

Trust and Agency Funds – The County accounts for and reports resources held for others in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurements of results of operations. Agency funds are used to account bond money received and held for others as a result of action in the County or District Courts, and to account for monies received and held in trust for other individuals or entities as a result of action in County and District Courts.

D. Assets, liabilities, and fund balance or Net Position

1. Deposits and investments

The County considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments for the County are recorded at fair value for all funds.

2. Receivables and payables

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.

In the fund financial statements, governmental fund types recognized bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

3. Inventories and prepaid items

Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

4. Capital Assets

Capital assets include land, buildings, furniture and equipment and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The County depreciates capital assets using the straight-line method over the following estimated useful lives:

| Assets | Years |
|-------------------------------------|-------|
| Buildings | 50 |
| Improvements (Other than Buildings) | 20 |
| System Infrastructure | 30 |
| Vehicles and Road Equipment | 5 |
| Office Equipment | 5 |
| Computer Equipment | 5 |

5. Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred outflows, found on the government-wide statement of net position, consist of outflows related to pensions. Deferred outflows related to pensions consist of amounts paid into the retirement system after the prescribed measurement date plus the net difference between projected and actual earnings.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows, found on the government-wide statement of net position, consist of deferred inflows related to pensions. On the governmental funds balance sheet, deferred inflows consist of deferred property tax revenue. All amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

6. Compensated Absences

It is the government’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. Vacation pay is accrued in the government-wide financial statements. Comp time is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the government-wide financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

7. *Net Position/Fund Balance (nonspendable, restricted, committed, etc.)*

For the government-wide financial statements, restricted net position represents assets that have externally imposed restrictions by creditors, grantors, contributors, or laws or regulations of other governments. Assets may also be restricted as imposed by law through constitutional provisions or enabling legislation. Net investment in capital assets represents capital assets, net of accumulated depreciation and is reduced by outstanding balances for bonds, certificates of obligation, and other debt that is attributed to the acquisition, construction, or improvement of those assets. When both restricted and unrestricted resources are available, it is the County’s policy to use restricted resources first, then unrestricted resources as they are needed (ie. committed resources second, assigned resources third, and lastly, unassigned resources).

Governmental funds are reported in the following classifications:

Nonspendable – Amounts that cannot be spent because they are either not in spendable form or they are required, legally or contractually, to be maintained intact. This classification includes items such as inventories, prepaid amounts, assets held for resale, and long-term receivables.

Restricted – As in the government-wide financial statements, these amounts represent assets that have externally imposed restrictions by creditors, grantors, contributors, or laws or regulations of other governments. Assets may also be restricted as imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. The County’s highest level of decision-making authority resides with the Commissioners’ Court and the formal action taken must be in the form of a Commissioners’ Court order. The constraints imposed by the Commissioners’ Court remain binding unless removed or changed in the same manner employed to previously commit those resources.

Assigned – Amounts that are constrained by the County’s intent to be used for specific purposes, but that do not meet the criteria to be restricted or committed. Such intent should be expressed by the Commissioners’ Court or its designated officials to assign amounts to be used. Constraints imposed on the use of assigned amounts can be removed with no formal action. The Commissioners’ Court has not delegated this responsibility to anyone.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary information

The County follows these procedures in establishing the budgetary data reflected in these basic financial statements:

1. The County Judge, as budget officer, with the assistance of the County Treasure, prepares a budget to cover all proposed expenditures and the means of financing them, for the succeeding year and delivers the proposed budget to Commissioners’ Court.
2. Commissioners’ Court holds budget sessions with each department head.
3. Commissioners’ Court holds budget hearings for the public at which all interested persons' comments

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, continued

concerning the budget are heard.

4. Commissioners' Court formally adopts the budget in an open court meeting. Annual budgets are legally adopted for the General Fund, and the Road and Bridge Fund. The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. The adopted budget becomes the authorization for all legal expenditures for the County for the fiscal year. Unencumbered appropriation balances lapse at year end and revert to the respective funds from which they were originally appropriated, thus becoming available for future appropriation.

Expenditures may not legally exceed appropriations at the departmental level for each legally adopted annual operating budget. Amendments to the 2013 budget were approved by the Commissioners' Court as provided by law. The reported budgetary data has been revised for amendments legally authorized during the year.

6. The formally adopted budget may legally be amended by commissioners in accordance with article 689A-11 or 689A-20 of Vernon's Annotated Civil Statutes. Management does not amend the budget above the departmental level without approval by the Commissioners' Court. The legal level of budgetary control is at the fund level.

NOTE 3 PROPERTY TAXES

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

Legislation was passed in 1979 and amended in 1981 by the Texas Legislature which affects the methods of property assessment and tax collection in the County. This legislation, with certain exceptions, exempts intangible personal property, household goods and family-owned automobiles from taxation. In addition, this legislation creates a "Property Tax Code" and provides, among other things, for the establishment of county-wide appraisal districts and for the State Property Tax Board which commenced operation in January, 1980.

As of October 1, 1981, the appraisal of property within the County was the responsibility of the county-wide appraisal district. The Appraisal District is required under the Property Tax Code to assess all property within the Appraisal District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. Beginning January 1, 1984, the value of property within the Appraisal District must be reappraised every three years. The County may challenge appraised values established by the Appraisal 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 rates for bonds and other contractual obligations and adjustments for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the County may petition for an election to determine whether to limit the tax rate to no more than 8% above the effective tax rate of the previous year. The Appraisal District is governed by a Board of Directors elected by the governing bodies of the taxing entities within 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.

NOTE 3 PROPERTY TAXES, continued

The County's taxes on real property are a lien against such property until paid. The County may foreclose real property upon which it has a lien for unpaid taxes. Although the County makes little effort to collect delinquent taxes through foreclosure proceedings, delinquent taxes on property not otherwise collected are generally paid

when there is a sale or transfer of the title on property.

Property tax revenues are recognized in the accounting period in which they become both measurable and available. Property tax revenues are considered measurable at the time of levy and are recognized as deferred revenue and taxes receivable, net of an allowance for estimated uncollectible taxes, at that time. Property tax revenues are considered available if collected within 60 days subsequent to year end.

NOTE 4: DEPOSITS, SECURITIES, AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The funds of the County must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the County's agent bank in an amount sufficient to protect County funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2016, the carrying amount of the County's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,100,903 and the bank balance was \$3,165,142.

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

Statutes authorize the County to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

The County had the following investments at September 30, 2016:

None

Policies Governing Deposits and Investments

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

NOTE 4: DEPOSITS, SECURITIES, AND INVESTMENTS, continued

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the County’s deposits may not be returned to it. The County’s policy regarding types of deposits allowed and collateral requirements is to deposit funds in FDIC insurance banks which have sufficient pledged collateral. The County was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2014 was covered by depository insurance or by pledged collateral held by the County’s agent bank in the County’s name.

NOTE 5: INTERFUND BALANCES AND TRANSFERS

Interfund transfers during the year ended September 30, 2016 consisted of the following:

None

NOTE 6: CAPITAL ASSET ACTIVITY

Capital asset activity for the County for the year ended September 30, 2016 was as follows:

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balances</u> |
|--|-------------------------------|-----------------------|------------------|----------------------------|
| <u>Governmental activities:</u> | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 189,778 | \$ - | \$ - | \$ 189,778 |
| Total capital assets not being depreciated | <u>189,778</u> | <u>-</u> | <u>-</u> | <u>189,778</u> |
| <i>Capital assets being depreciated:</i> | | | | |
| Infrastructure | 64,195,804 | 167,875 | - | 64,363,679 |
| Buildings and Improvements | 1,075,090 | - | - | 1,075,090 |
| Machinery, Equipment and Vehicles | 1,123,395 | 40,051 | - | 1,163,446 |
| Total capital assets being depreciated | <u>66,394,289</u> | <u>207,926</u> | <u>-</u> | <u>66,602,215</u> |
| Less accumulated depreciation for: | | | | |
| Infrastructure | 33,265,441 | 1,285,560 | - | 34,551,001 |
| Buildings and Improvements | 400,562 | 21,242 | - | 421,804 |
| Machinery, Equipment and Vehicles | 1,115,892 | 12,042 | - | 1,127,934 |
| Total accumulated depreciation | <u>34,781,895</u> | <u>1,318,844</u> | <u>-</u> | <u>36,100,739</u> |
| Total capital assets being depreciated, net | <u>31,612,394</u> | <u>(1,110,918)</u> | <u>-</u> | <u>30,501,476</u> |
| Governmental activities capital assets, net | <u>\$ 31,802,172</u> | <u>\$ (1,110,918)</u> | <u>\$ -</u> | <u>\$ 30,691,254</u> |

NOTE 6: CAPITAL ASSET ACTIVITY, continued

Depreciation was charged to functions as follows:

Governmental Activities:

| | |
|---|---------------------|
| General Administration | \$ 2,312 |
| Financial Administration | 1,880 |
| Facilities Management | 10,850 |
| Judicial System | - |
| Public Safety | 9,283 |
| Human Services | 7,798 |
| Community and Economic Development | 2,480 |
| Infrastructure and Environmental Services | 1,284,241 |
| | <u>\$ 1,318,844</u> |

NOTE 7: COMMITMENTS UNDER LEASES

Operating Leases

Commitments under operating (non-capitalized) lease agreements for equipment provide for minimum future rental payments as of September 30th as follows:

| <u>Year Ending September 30</u> | <u>Amount</u> |
|-------------------------------------|------------------|
| 2017 | 6,585 |
| 2018 | 5,692 |
| Total Minimum Rentals | <u>\$ 12,277</u> |
| Rental Expenditures in Current Year | <u>\$ 7,479</u> |

NOTE 8: LONG-TERM DEBT

The County has no capital leases or bonded debt as of September 30, 2016.

Changes in long-term debt are as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due Within One Year |
|--------------------------------|----------------------|-------------------|------------------|---------------------|-----------------------------------|
| <u>Governmental Activities</u> | | | | | |
| Compensated Absences | \$ 11,399 | \$ 15,133 | \$ 11,399 | \$ 15,133 | \$ - |
| OPEB Liability | 839,214 | 155,423 | - | 994,637 | - |
| Pension Liability | 836,242 | 535,000 | - | 1,371,242 | - |
| Total governmental activities | <u>\$ 1,686,855</u> | <u>\$ 705,556</u> | <u>\$ 11,399</u> | <u>\$ 2,381,012</u> | <u>\$ -</u> |

NOTE 9: RISK MANAGEMENT

The County's risk management program includes coverage for property, general liability, automobile liability, law enforcement liability, public officials' liability and employee dishonesty bonds. The County carries commercial insurance.

NOTE 10: COMPENSATED ABSENCES

Accumulated unpaid annual leave is not accrued in governmental funds using the modified accrual basis of accounting, but is reflected in the Government-Wide Statement of Net Position. At September 30th, accrued employee benefits recorded on the Statement of Net Position were as follows: Annual leave pay - \$15,133. All unpaid employee leave is due to active employees. Any unpaid leave due to an employee who is terminated is paid immediately upon the termination. The liability has typically been liquidated primarily in the General Fund and Road and Bridge Fund.

NOTE 11: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description:

The County of Real Post-retirement Healthcare Benefits Program is a single- employer defined benefit healthcare plan administered by the office of the County Treasurer. The Post-retirement Healthcare Benefits Program was initiated in 2009 by action of the Commissioners Court. The Post-retirement Healthcare Benefits Program provides medical benefits to eligible retirees. Dependent spouses who are eligible for Medicare may enroll but must pay 100% of the applicable premium. For employees who retire prior to age 65, they may continue medical coverage by paying the full premium applicable to the health benefits plan for active employees (this includes coverage for spouses). Medicare eligible retirees are covered by an County Silver Choice Monumental Medicare Supplemental policies (medical and prescription drugs). Retiring employees must meet one of the following criteria to be eligible for the County provided retiree health benefit: (i) be age 60 with at least 8 years of service, or (ii) any age with at least 30 years of service, or (iii) meet the Rule of 75 (age plus service equals 75 or more). Employees who retire prior to age 65 must continue coverage under the Blue Cross/Blue Shield plan for active employees (and pay the full premium rate for active employees) until age 65 in order to receive the County provided retiree coverage provided under the County Choice Medicare Supplemental policies.

Funding Policy:

The County currently funds the benefits provided through the Program on a pay-as-you-go basis. Since the County does not prefund future benefits to be provided under the Program, there are no accumulated plan assets. The County pays for 100% of the cost of Medicare Supplement for Medicare eligible retirees. The County subsidizes the cost of continued coverage for pre-65 retirees for those who elect coverage and pay the active employee premium rate. During the fiscal year ending September 30, 2016, the County paid \$39,860 in premiums for the current retiree's receiving benefits under the Program.

Annual OPEB Cost and Net OPEB Obligation:

The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for 2016, the amount actually contributed to the plan during 2016, and changes in the County's net OPEB obligation to

NOTE 11: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS, continued

Post-retirement Healthcare Benefits Program for 2016:

| | |
|---|--------------------------|
| Annual Required Contribution (ARC): | \$ 210,246 |
| Interest on Net OPEB Obligation | 33,569 |
| Adjustment to Annual Required Contribution | <u>(48,532)</u> |
| Annual OPEB Cost (expense) | 195,283 |
| Contributions Made | <u>(39,860)</u> |
| Increase in Net OPEB | 155,423 |
| Net OPEB Obligation, Beginning of Year- 9/30/2015 | <u>839,214</u> |
| Net OPEB Obligation, End of Year- 9/30/2016 | <u><u>\$ 994,637</u></u> |

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending September 30, 2016 and the two preceding years were as follows:

| Fiscal Year End | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Annual Covered Net OPEB Obligation |
|--------------------|---------------------|--|---|
| 09/30//2011/12 | 286,666 | 10.97% | 467,966 |
| 9/30/2013 | 144,374 | 10.97% | 596,994 |
| 09/30/2014/15 | 157,309 | 20.80% | 839,214 |
| 9/30/2016 | 195,283 | 20.40% | 994,637 |

Funded Status and Funding Progress

As of October 1, 2015, the most recent actuarial valuation date, the County’s plan was 0% funded, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,573,887. The covered payroll (annual payroll of active employees covered by the plan) was \$1,071,294. The ratio of the UAAL as a percentage of covered payroll was 240%. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents the results of OPEB valuations as of October 1, 2015.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the County’s current plan and include the types of benefits that the Commissioners’ Court has approved for the fiscal year. The actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. In order to perform the valuation, it was necessary for the County and the actuary to make certain assumptions regarding items such as rates of employee turnover, retirement, and mortality, as well as economic assumptions regarding healthcare trends and interest rates. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

In the October 1, 2015 actuarial valuation, a 4% discount rate was used and the initial health care cost trend rate

NOTE 11: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS, continued

was assumed to be 9.00% for retirees under the age of 65 and 8.00% for retirees over the age of 65, reduced to an ultimate rate of 5.0% in 2086. Inflation was assumed to be 2.5%, compounded annually. The actuarial cost method used in valuing the County's liabilities was the projected unit credit cost method. Under this method the benefits of each individual included in the valuation were allocated by a consistent formula over the years. The UAAL is being amortized over 30 years as a level percentage of pay, on an open basis.

Additional Disclosures

Since 2009, the County has included communications both in information provided to employees and in the previously issued annual financial statements which specifically state that the decision to provide funding, if any, for OPEB is made on an annual basis by the Commissioners' Court. County financial statements have consistently acknowledged an annual OPEB plan in each year that the Commissioners' Court adopted a plan, which may vary from year to year. Additionally, the County does not participate in any collective bargaining agreements which would impose obligations for post-employment healthcare benefits. Under Texas law, the County has no legally enforceable liability beyond the 2017 fiscal year.

Under GASB 45, the calculation of the liability for OPEB benefits is based on the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point, regardless of whether or not a legally enforceable obligation to pay future benefits exists. The County implemented GASB 45 during fiscal year 2013. Accordingly, information and amounts presented in the County's Annual Financial Report relative to OPEB expense/expenditures, related liabilities, note disclosures, and supplementary information are only intended to achieve compliance with the requirements of generally accepted accounting principles and do not constitute nor imply that the County has made a commitment or is legally obligated to provide OPEB benefits.

NOTE 12: PENSION PLAN

Plan Description.

Real County provides retirement, disability, and survivor benefits for all of its employees (excluding temporary) through a non-traditional defined benefit pension plan in the statewide Texas County and District Retirement System ("TCDRS"). This is accounted for as an agent multiple-employer defined benefit pension plan. The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system. TCDRS in the aggregate issues a comprehensive annual financial report ("CAFR") on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034 or the website at www.TCDRS.org.

Benefits Provided

The plan provisions are adopted by Commissioners Court of the County, within the options available in the state statutes governing TCDRS ("TCDRS Act"). Members can retire at ages 60 and above with eight or more years of service, with 30 years of service regardless of age, when the sum of their age and years of service equals 75 or more, or if they become disabled. Members are vested after eight years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the County. Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest and employer-financed monetary credits. The level of these monetary credits is adopted by Commissioners Court, 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. By law, employee accounts earn 7% interest. At retirement, death, or

NOTE 12: PENSION PLAN, continued

disability, the benefit is calculated by converting the sum of the employee’s accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act. The County’s current match is 250%

Employees Covered by Benefit Terms

At the measurement date, the following employees were covered by the benefit terms of the Real County plan:

| | <u>12/31/2014</u> | <u>12/31/2015</u> |
|--|-------------------|-------------------|
| Inactive employees or beneficiaries current receiving benefits | 35 | 38 |
| Inactive employees entitled but not yet receiving benefits | 26 | 26 |
| Active employees | 39 | 43 |
| Total | <u>100</u> | <u>107</u> |

Contributions

The County has elected the annually determined contribution rate (variable-rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 14.86% for the months of the accounting year in 2015, and 15.84% for the months of the accounting year in 2016. The deposit rate payable by the employee members for calendar year 2015 and 2016 is the rate of 7.0% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Actuarial assumptions:

For the County’s fiscal year ending September 30, 2016, the net pension liability was measured as of December 31, 2015, 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, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---------------|
| Inflation | 3.0% per year |
| Overall payroll growth | 4.9% per year |
| Investment rate of return | 8.0% |

Effective with the 2015 calendar year, employer contributions reflect that a 30% CPI COLA was adopted.

The annual salary increases 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.

Mortality rates for depositing members were based on the RP-2000 Active Employee Mortality Table for males and females as appropriate, with adjustments, with the projection scale AA. Service retirees, beneficiaries, and non-depositing members were based on RP-2000 Combined Mortality Table for males and females as appropriate, with adjustments with the projection scale AA. Disabled retirees were based on RP-2000 Disabled Mortality Table for males and females as appropriate, with adjustments, with the projection scale AA.

NOTE 12: PENSION PLAN, continued

The actuarial cost method was Entry Age Normal, as required by GASB 68. Straight-line amortization over Expected Working Life with a 5 year smoothing period, and a non-asymptotic recognition method with no corridor were utilized in the actuarial calculations. The actuarial assumptions used in the December 31, 2015 valuation 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. Updated mortality assumptions were adopted in 2015.

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 numbers shown are based on January 2016 information for a 7-10 year time horizon and are 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. The following target asset allocation was adopted by the TCDRS board in April 2016. The geometric real rate of return is net of inflation, assumed at 1.6%.

| Asset Class | Benchmark | Target Allocation (1) | Geometric Real Rate of Return (Expected minus Inflation) (2) |
|------------------------------------|--|-----------------------|--|
| US Equities | Dow Jones U.S. Total Stock Market Index | 14.50% | 5.45% |
| Private Equity | Cambridge Associates Global Private Equity & Venture Capital Index (3) | 14.00% | 8.45% |
| Global Equities | MSCI World (net) Index | 15.0% | 5.75% |
| International Equities - Developed | MSCI World Ex USA (net) | 10.00% | 5.45% |
| International Equities - Emerging | MSCI World Ex USA (net) | 8.00% | 6.45% |
| Investment-Grade Bonds | Barclay's Capital Aggregate Bond Index | 3.00% | 1.00% |
| High Yield Bonds | Citigroup High-Yield Cash-Pay Capped Index | 3.00% | 5.10% |
| Opportunistic Credit | Citigroup High-Yield Cash-Pay Capped Index | 2.00% | 5.09% |
| Direct Lending | Citigroup High-Yield Cash-Pay Capped Index | 5.00% | 6.40% |
| Distressed Debt | Citigroup High-Yield Cash-Pay Capped Index | 3.00% | 8.10% |
| REIT Equities | 67% FTSE NAREIT Equity REIT; Index + 33% FRSE EPRANAREIT Global Real Estate Fund | 3.00% | 4.00% |
| Master Limited Partnerships (MLPs) | Alerian MLP Index | 3.00% | 6.80% |
| Private Real Estate Partnerships | Cambridge Associates Real Estate Index (4) | 5.00% | 6.90% |
| Hedge Funds | Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index | 25.00% | 5.25% |

(1) Target asset allocation adopted at the April 2016 TCDRS Board meeting.

(2) Geometric real rates of return in addition to assumed inflation of 1.6%, per Cliffwater's 2016 capital market assumptions.

(3) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

(4) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

NOTE 12: PENSION PLAN, continued

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.1%. 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 the Net Pension Liability

| | Total Pension Liability (a) | Increase (Decrease) Fiduciary Net Position (b) | Net Pension Liability/(Asset) (a) - (b) |
|--|-----------------------------------|---|---|
| Balances as of December 31, 2014 | \$ 6,459,886 | \$ 5,623,644 | \$ 836,242 |
| Changes for the year: | | | |
| Service cost | 147,764 | - | 147,764 |
| Interest on total pension liability | 516,844 | - | 516,844 |
| Effect of plan changes | (16,676) | - | (16,676) |
| Effect of economic/demographic gains or losses | 2,991 | - | 2,991 |
| Effect of assumptions changes or inputs | 87,058 | - | 87,058 |
| Refund of Contributions | (6,960) | (6,960) | - |
| Benefit payments | (371,754) | (371,754) | - |
| Administrative expenses | - | (3,984) | 3,984 |
| Member contributions | - | 69,213 | (69,213) |
| Net investment income | - | (30,264) | 30,264 |
| Employer contributions | - | 146,928 | (146,928) |
| Other | - | 21,119 | (21,119) |
| Balances as of December 31, 2015 | \$ 6,819,153 | \$ 5,447,942 | \$ 1,371,211 |

Sensitivity Analysis

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

| | 1% Decrease 7.10% | Current Discount Rate 8.10% | 1% Increase 9.10% |
|-------------------------------|-------------------------|-----------------------------------|-------------------------|
| Total pension liability | \$ 7,597,959 | \$ 6,819,183 | \$ 6,163,726 |
| Fiduciary net position | 5,447,941 | 5,447,941 | 5,447,941 |
| Net pension liability/(Asset) | \$ 2,150,018 | \$ 1,371,242 | \$ 715,785 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TCDRS financial report. That report may be obtained on the Internet at www/tcdrs.org.

NOTE 12: PENSION PLAN, continued

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

For the current year, the district recognized pension expense of \$237,497.

As of December 31, 2015, the deferred inflows and outflows of resources are as follows:

| | <u>Deferred Inflows of Resources</u> | <u>Deferred Outflows of Resources</u> |
|--|--|---|
| Differences between expected and actual experience | \$ 7,470 | \$ 1,994 |
| Changes in assumptions | - | 58,039 |
| Net difference between projected and actual earnings | - | 417,881 |
| Contributions made subsequent to measurement date | N/A | 121,453 |
| Total | <u>\$ 7,470</u> | <u>\$ 599,367</u> |

Amounts currently reported a 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: | |
|-------------------------|---------|
| 2016 | 129,575 |
| 2017 | 137,044 |
| 2018 | 107,028 |
| 2019 | 96,797 |
| 2020 | 0 |
| Thereafter | 0 |

NOTE 13: CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

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REQUIRED SUPPLEMENTARY INFORMATION

REAL COUNTY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Budgeted Amounts | | Actual Amounts GAAP Basis | Variance With |
|--|---------------------|---------------------|------------------------------|-------------------------------------|
| | Original | Final | | Final Budget Positive (Negative) |
| REVENUES: | | | | |
| Taxes | | | | |
| Property Taxes | \$ 1,430,778 | \$ 1,430,778 | \$ 1,384,140 | \$ (46,638) |
| Sales | \$ 123,500 | \$ 123,500 | 125,396 | 1,896 |
| Intergovernmental | 30,833 | 30,833 | 32,036 | 1,203 |
| Charges for services | 241,500 | 241,500 | 150,346 | (91,154) |
| Fines & Forfeitures | 45,650 | 45,650 | 11,384 | (34,266) |
| Interest | 18,000 | 18,000 | 7,044 | (10,956) |
| Grant Funds | 93,000 | 93,000 | 46,209 | (46,791) |
| Miscellaneous | 60,920 | 60,920 | 56,987 | (3,933) |
| Total Revenue | <u>2,044,181</u> | <u>2,044,181</u> | <u>1,813,542</u> | <u>(230,639)</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government | | | | |
| General Administration | 234,997 | 233,111 | 214,589 | 18,523 |
| Financial Administration | 89,511 | 89,511 | 84,979 | 4,532 |
| Tax Administration | 107,407 | 107,407 | 106,254 | 1,153 |
| Facilities Management | 84,478 | 88,379 | 67,160 | 21,219 |
| Judicial System | 513,272 | 511,257 | 479,095 | 32,162 |
| Public Safety | 573,571 | 573,571 | 532,023 | 41,549 |
| Corrections and Rehabilitation | 175,250 | 175,250 | 154,446 | 20,804 |
| Health and Human Services | | | | |
| Health Care | 8,050 | 8,050 | 5,092 | 2,958 |
| Public Health | 230,318 | 230,318 | 44,979 | 185,339 |
| Human Services | 171,262 | 171,262 | 159,957 | 11,305 |
| Community and Economic Development | 38,634 | 38,634 | 23,045 | 15,589 |
| Total Expenditures | <u>2,226,750</u> | <u>2,226,750</u> | <u>1,871,618</u> | <u>355,133</u> |
| Excess (Deficiency) Revenues Over Expenditures | <u>(182,569)</u> | <u>(182,569)</u> | <u>(58,076)</u> | <u>124,494</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers In | - | - | - | - |
| Operating Transfers Out | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | (182,569) | (182,569) | (58,076) | 124,494 |
| Fund Balance - October 1 (Beginning) | 1,201,675 | 1,201,675 | 1,201,675 | - |
| Fund Balance - September 30 (Ending) | <u>\$ 1,019,105</u> | <u>\$ 1,019,105</u> | <u>\$ 1,143,599</u> | <u>\$ 124,494</u> |

The accompanying notes are an integral part of this statement.

REAL COUNTY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - ROAD & BRIDGE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Budgeted Amounts | | Actual Amounts GAAP Basis | Variance With |
|--|---------------------|-------------------|------------------------------|-------------------------------------|
| | Original | Final | | Final Budget Positive (Negative) |
| REVENUES: | | | | |
| Taxes | | | | |
| Property Taxes | \$ 617,048 | \$ 617,048 | \$ 593,074 | \$ (23,974) |
| Intergovernmental | 25,200 | 25,200 | 25,308 | 108 |
| Licenses & Permits | 233,000 | 233,000 | 208,548 | (24,452) |
| Charges for services | - | - | 855 | 855 |
| Grants | - | - | 90,000 | 90,000 |
| Total Revenue | <u>875,248</u> | <u>875,248</u> | <u>917,786</u> | <u>42,538</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Infrastructure and Environmental Services | <u>680,229</u> | <u>770,229</u> | <u>613,303</u> | <u>156,926</u> |
| Total Expenditures | <u>680,229</u> | <u>770,229</u> | <u>613,303</u> | <u>156,926</u> |
| Excess (Deficiency) Revenues Over Expenditures | <u>195,019</u> | <u>105,019</u> | <u>304,483</u> | <u>199,463</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers In | - | - | - | - |
| Operating Transfers Out | - | - | - | - |
| Proceeds from Issuance of Long-term Debt | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | 195,019 | 105,019 | 304,483 | 199,463 |
| Fund Balance - October 1 (Beginning) | <u>856,381</u> | <u>856,381</u> | <u>856,381</u> | <u>-</u> |
| Fund Balance - September 30 (Ending) | <u>\$ 1,051,400</u> | <u>\$ 961,400</u> | <u>\$ 1,160,863</u> | <u>\$ 199,463</u> |

The accompanying notes are an integral part of this statement.

**REAL COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
SEPTEMBER 30, 2016**

OTHER POST-EMPLOYMENT BENEFITS PLAN

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (b-a)/c |
|--------------------------------|--|---|------------------------------------|--------------------------|-------------------------------------|---|
| 10/1/2008 | - | 1,130,225 | 1,130,225 | 0.00% | 957,667 | 118.02% |
| 10/1/2009 | - | 1,301,048 | 1,301,048 | 0.00% | 1,385,662 | 93.89% |
| 10/1/2010 | - | 1,461,017 | 1,461,017 | 0.00% | 1,042,963 | 140.08% |
| 10/1/2011 | - | 1,596,649 | 1,596,649 | 0.00% | 1,044,369 | 152.88% |
| 10/1/2012 | - | 1,595,965 | 1,595,965 | 0.00% | 1,010,608 | 157.92% |
| 10/1/2013 | - | 1,818,499 | 1,818,499 | 0.00% | 1,030,816 | 176.41% |
| 10/1/2014 | - | 2,146,177 | 2,146,177 | 0.00% | 1,017,079 | 211.01% |
| 10/1/2015 | - | 2,573,887 | 2,573,887 | 0.00% | 1,071,294 | 240.26% |

REAL COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2016

| | Year Ended December 31 | | | | | | | | | |
|--|------------------------|-----------|------|------|------|------|------|------|------|------|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
| Total Pension Liability | | | | | | | | | | |
| Service cost | \$ 147,764 | 169,590 | N/A |
| Interest on total pension liability | 516,874 | 488,515 | N/A |
| Effect of plan changes | (16,676) | - | N/A |
| Effect of assumption changes or input | 87,058 | - | N/A |
| Effect of economic gains or losses | 2,991 | (22,409) | N/A |
| Benefit payments/refund of contributions | (378,714) | (242,717) | N/A |
| Net change in total pension liability | 359,297 | 392,979 | N/A |
| Total pension liability, beginning | 6,459,886 | 6,066,906 | N/A |
| Total pension liability, ending | \$ 6,819,183 | 6,459,885 | N/A |
| Fiduciary Net Position | | | | | | | | | | |
| Employer contributions | \$ 146,928 | 150,495 | N/A |
| Member contributions | 69,213 | 70,845 | N/A |
| Investment income net of investment expenses | (30,264) | 379,791 | N/A |
| Benefit payments/refunds of contributions | (378,714) | (242,717) | N/A |
| Administrative expenses | (3,984) | (4,208) | N/A |
| Other | 21,119 | (22,455) | N/A |
| Net change in fiduciary net position | (175,702) | 331,751 | N/A |
| Fiduciary net position, beginning | 5,623,643 | 5,291,892 | N/A |
| Fiduciary net position, ending | \$ 5,447,941 | 5,623,643 | N/A |
| Net pension liability/asset | \$ 1,371,242 | 836,242 | N/A |
| Fiduciary net position as a % of total pension liability | 79.89% | 87.05% | N/A |
| Pension covered payroll | \$ 981,898 | 1,012,072 | N/A |
| Net pension liability as a % of covered payroll | 139.65% | 82.63% | N/A |

REAL COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
SEPTEMBER 30, 2016

| Year Ending December 31 | Actuarially Determined Contribution | Actual Employer Contribution | Contribution Deficiency (Excess) | Pension Covered Payroll (1) | Actual Contribution as a % of Covered Payroll |
|-------------------------------|---|------------------------------------|--|-----------------------------------|---|
| 2005 | Not Available | Not Available | Not Available | Not Available | Not Available |
| 2006 | \$ 58,756 | \$ 58,756 | \$ - | \$ 639,347 | 9.2% |
| 2007 | 68,660 | 68,660 | - | 706,377 | 9.7% |
| 2008 | 71,451 | 71,451 | - | 848,592 | 8.4% |
| 2009 | 80,820 | 80,820 | - | 911,158 | 8.9% |
| 2010 | 109,004 | 109,004 | - | 891,286 | 12.2% |
| 2011 | 110,653 | 110,653 | - | 896,709 | 12.3% |
| 2012 | 132,544 | 132,544 | - | 974,588 | 13.6% |
| 2013 | 142,179 | 142,179 | - | 1,027,306 | 13.8% |
| 2014 | 150,495 | 150,495 | - | 1,012,072 | 14.9% |
| 2015 | 145,910 | 146,928 | (1,018) | 981,898 | 15.0% |

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

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

REAL COUNTY, TEXAS
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2016

| | 20 ABANDONED VEHICLE FUND | 18 FLOOD PLAIN FUND | 16 LATERAL ROAD FUND |
|---|------------------------------------|------------------------------|-------------------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 2,118 | \$ 5,311 | \$ 35,914 |
| Taxes Receivable | - | - | - |
| Allowance for Uncollectible Taxes (Credit) | - | - | - |
| Receivables (Net) | - | - | - |
| Due from Other Governments | - | - | - |
| Due from Other Funds | - | - | - |
| Total Assets | <u>\$ 2,118</u> | <u>\$ 5,311</u> | <u>\$ 35,914</u> |
| LIABILITIES | | | |
| Accounts Payable | \$ - | \$ - | \$ - |
| Accrued Wages Payable | - | - | - |
| Bank Overdraft | - | - | - |
| Due to Other Funds | - | - | - |
| Due to Other Governments | - | - | - |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> |
| DEFERRED INFLOW OF RESOURCES | | | |
| Unavailable Revenue- Property Taxes | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Deferred Inflows of Resources | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCE | | | |
| Restricted For: | | | |
| Administration | - | - | - |
| Archives | - | - | - |
| Construction | - | - | - |
| Judicial | - | - | - |
| Public Safety | 2,118 | 5,311 | - |
| Public Transportation | - | - | 35,914 |
| Unassigned | - | - | - |
| Total Fund Balances | <u>2,118</u> | <u>5,311</u> | <u>35,914</u> |
| Total Liabilities Deferred Inflows and Fund Balances | <u>\$ 2,118</u> | <u>\$ 5,311</u> | <u>\$ 35,914</u> |

| 12 RECORDS ARCHIVE FUND | 14 RECORDS MANAGEMENT FUND | 11 SHERIFF FORFITURE FUND | 21 TECHNOLOGY FEE FUND | TOTAL NON-MAJOR GOVERNMENTAL FUNDS |
|----------------------------------|-------------------------------------|------------------------------------|---------------------------------|---|
| \$ 24,690 | \$ 11,659 | \$ 48,646 | \$ 8,748 | \$ 137,086 |
| - | - | - | - | - |
| - | - | - | 85 | 85 |
| - | - | - | - | - |
| - | - | - | - | - |
| <u>\$ 24,690</u> | <u>\$ 11,659</u> | <u>\$ 48,646</u> | <u>\$ 8,834</u> | <u>\$ 137,171</u> |
| \$ - | \$ 1,210 | \$ - | \$ - | \$ 1,210 |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| <u>-</u> | <u>1,210</u> | <u>-</u> | <u>-</u> | <u>1,210</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| - | - | - | - | - |
| 24,690 | 10,448 | - | - | 35,138 |
| - | - | - | - | - |
| - | - | 48,646 | 8,834 | 64,908 |
| - | - | - | - | 35,914 |
| - | - | - | - | - |
| <u>24,690</u> | <u>10,448</u> | <u>48,646</u> | <u>8,834</u> | <u>135,960</u> |
| <u>\$ 24,690</u> | <u>\$ 11,659</u> | <u>\$ 48,646</u> | <u>\$ 8,834</u> | <u>\$ 137,171</u> |

REAL COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2016

| | 20 ABANDONED VEHICLE FUND | 18 FLOOD PLAIN FUND | 16 LATERAL ROAD FUND |
|--|------------------------------------|------------------------------|-------------------------------|
| REVENUES: | | | |
| Taxes | | | |
| Property Taxes | \$ - | \$ - | \$ - |
| Other Taxes | - | - | - |
| Intergovernmental | - | - | 9,615 |
| Licenses & Permits | - | - | - |
| Charges for services | - | 100 | - |
| Fines & Forfeitures | - | - | - |
| Interest | - | - | - |
| Miscellaneous | - | - | - |
| Total Revenue | <u>-</u> | <u>100</u> | <u>9,615</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| General Government | | | |
| General Administration | - | - | - |
| Financial Administration | - | - | - |
| Tax Administration | - | - | - |
| Facilities Management | - | - | - |
| Judicial System | - | - | - |
| Public Safety | - | - | - |
| Corrections and Rehabilitation | - | - | - |
| Health and Human Services | - | - | - |
| Health Care | - | - | - |
| Public Health | - | - | - |
| Human Services | - | - | - |
| Community and Economic Development | - | - | - |
| Infrastructure and Environmental Services | - | - | 9,619 |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>9,619</u> |
| Excess (Deficiency) Revenues Over Expenditures | <u>-</u> | <u>100</u> | <u>(5)</u> |
| OTHER FINANCING SOURCES (USES): | | | |
| Operating Transfers In | - | - | - |
| Operating Transfers Out | - | - | - |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | - | 100 | (5) |
| Fund Balance - January 1 (Beginning) | 2,118 | 5,211 | 35,919 |
| Prior Period Adjustment | - | - | - |
| Fund Balance - December 31 (Ending) | <u>\$ 2,118</u> | <u>\$ 5,311</u> | <u>\$ 35,914</u> |

| 12 RECORDS ARCHIVE FUND | 14 RECORDS MANAGEMENT FUND | 11 SHERIFF FORFITURE FUND | 21 TECHNOLOGY FEE FUND | TOTAL NON-MAJOR GOVERNMENTAL FUNDS |
|----------------------------------|-------------------------------------|------------------------------------|---------------------------------|---|
| \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - |
| - | - | - | - | 9,615 |
| - | - | - | - | - |
| - | - | - | - | 100 |
| 11,292 | 12,749 | - | 1,786 | 25,827 |
| - | - | 84 | - | 84 |
| - | - | 122 | - | 122 |
| <u>11,292</u> | <u>12,749</u> | <u>206</u> | <u>1,786</u> | <u>35,748</u> |
| 3,683 | 12,169 | - | - | 15,851 |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | 500 | - | 500 |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | 9,619 |
| <u>3,683</u> | <u>12,169</u> | <u>500</u> | <u>-</u> | <u>25,971</u> |
| <u>7,609</u> | <u>580</u> | <u>(294)</u> | <u>1,786</u> | <u>9,777</u> |
| - | - | - | - | - |
| - | - | - | - | - |
| <u>7,609</u> | <u>580</u> | <u>(294)</u> | <u>1,786</u> | <u>9,777</u> |
| 17,081 | 9,868 | 48,940 | 7,048 | 126,184 |
| - | - | - | - | - |
| <u>\$ 24,690</u> | <u>\$ 10,448</u> | <u>\$ 48,646</u> | <u>\$ 8,834</u> | <u>\$ 135,960</u> |