

COUNTY OF MILLS
Annual Financial Report
Year Ended September 30, 2016

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FINANCIAL SECTION



A Limited Liability Partnership

Michael E. Oliphant, CPA
Wayne Barr, CPA
Cathryn A. Pitcock, CPA

(325) 944-3571
FAX: (325) 942-1093
www.eckertcpa.com

Members of
American Institute of CPAs
Texas Society of CPAs

INDEPENDENT AUDITOR'S REPORT

The Honorable County Judge
and Commissioners' Court
County of Mills
P.O. Box 483
Goldthwaite, TX 76844-0483

Report on the Financial Statements

We have audited the accompanying modified cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Mills, 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 the modified cash basis of accounting described in Section I., Note C.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Mills, Texas, as of September 30, 2016, and the respective changes in modified cash-basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Section I., Note C.

Basis of Accounting

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

Other Matters

Other Information

The management's discussion and analysis, budgetary comparison information, and net pension liability and contributions information for the Texas County & District Retirement System on pages 3 through 7, 34 through 37, and 38 through 39, respectively, are presented to supplement the basic financial statements. We have applied certain limited procedures to this information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2017, on our consideration of the County of Mills' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County of Mills' internal control over financial reporting and compliance.

Eckert & Company, LLP

January 19, 2017

Commissioners' Court
Mills County Courthouse
P.O. Box 34
Goldthwaite, Texas 76844

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the County of Mills' financial performance provides an overview of the County's financial activities for the year ended September 30, 2016, within the limitations of the County's modified cash basis of accounting. It should be read in conjunction with the County's basic financial statements and independent auditor's report.

Financial Highlights - Modified Cash Basis of Accounting

The County's assets exceeded its liabilities at the end of the current year by \$9,997,541 (net position). Of this amount, \$2,730,901 (unrestricted) is available to meet the County's ongoing obligations.

The County's total net position increased by \$716,773 or 8% from current year operations. The County's statement of activities shows total revenues of \$4,963,662 and total expenses of \$4,246,889.

The total fund balance of the General Fund is \$1,582,432, which is an increase of \$458,148 or 41% compared to the prior year.

Overview of the Financial Statements

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Overview of the Financial Statements - Continued

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

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

The County has no component units.

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

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

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Government-Wide Financial Analysis

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

NET POSITION - MODIFIED CASH BASIS

	Governmental Activities	
	September 30,	
	2016	2015
Current and Other Assets	\$ 3,372,509	\$ 8,788,028
Capital Assets	14,761,520	8,866,388
Total Assets	\$ 18,134,029	\$ 17,654,416
Long-Term Liabilities Outstanding	\$ 8,111,535	\$ 8,352,889
Other Liabilities	24,953	20,759
Total Liabilities	\$ 8,136,488	\$ 8,373,648
Net Position		
Net Investment in Capital Assets	\$ 7,238,902	\$ 7,121,282
Restricted for Debt Service	27,738	16,085
Unrestricted	2,730,901	2,143,401
Total Net Position	\$ 9,997,541	\$ 9,280,768

A portion of the County's net position resulting from modified cash basis transactions (\$7,238,902) reflects the County's investment in capital assets, less any related debt used to acquire those assets that is still outstanding. These assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the County's net position (\$27,738) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$2,730,901) may be used to meet the County's ongoing obligations.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Government-Wide Financial Analysis - Continued

Governmental Activities - Governmental activities increased the County's net position resulting from modified cash basis transactions by \$716,773 and \$458,072 for the fiscal years ended September 30, 2016 and 2015, respectively. Key elements of these increases are as follows:

CHANGES IN NET POSITION - MODIFIED CASH BASIS

	<u>Governmental Activities</u>	
	<u>Year Ended September 30,</u>	
	<u>2016</u>	<u>2015</u>
Revenues		
Program Revenues		
Charges for Services	\$ 690,341	\$ 750,278
Operating Grants and Contributions	277,526	260,500
General Revenues		
Maintenance and Operations Taxes	3,223,219	3,086,446
Debt Service Taxes	511,949	177,174
Investment Earnings	58,880	15,919
Other Revenues	<u>201,747</u>	<u>134,186</u>
Total Revenues	<u>\$ 4,963,662</u>	<u>\$ 4,424,503</u>
Expenses		
General Government	\$ 1,056,978	\$ 1,060,556
Roads and Bridges	1,061,565	942,291
Justice System	453,481	424,042
Public Safety	1,300,542	1,371,922
Public Health and Welfare	98,526	22,449
Culture and Recreation	16,308	15,376
Debt Service	<u>259,489</u>	<u>129,795</u>
Total Expenses	<u>\$ 4,246,889</u>	<u>\$ 3,966,431</u>
Change in Net Position	\$ 716,773	\$ 458,072
Net Position - Beginning	<u>9,280,768</u>	<u>8,822,696</u>
Net Position - Ending	<u><u>\$ 9,997,541</u></u>	<u><u>\$ 9,280,768</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Financial Analysis of the County's Funds

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

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

The County's governmental funds reported combined ending fund balances on the modified cash basis of accounting of \$3,347,556, a decrease of \$5,419,713 or 62% in comparison with the prior year. These fund balances are reported in various governmental funds as follows:

General Fund \$1,582,432. All of this balance is unassigned.

Special Revenue Funds \$1,148,469. All of this balance is committed to special programs.

Law Enforcement Construction Fund \$588,917. This balance is restricted for construction costs.

Debt Service Fund \$27,738. This balance is restricted for payment of long-term debt principal and interest.

General Fund Budget

The original budget for the General Fund was \$1,495,088, and the final amended budget was \$1,499,688, which represents a \$4,600 increase in appropriations. Variances between the original budget and the final amended budget are shown on page 34 in the other information section of the audit report.

The County has adopted a budget for the General Fund in the amount of \$2,033,353 for the fiscal year 2017, which is an increase of \$533,665 from the fiscal year 2016.

Capital Assets and Debt - Modified Cash Basis

Capital Assets - Financial statement footnote III., C. discloses the County's capital asset activity for the year ended September 30, 2016.

Long-Term Debt - Financial statement footnote III., E. discloses the County's debt activity for the year ended September 30, 2016.

Requests for Information

The financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Kirkland A. Fulk, County Judge, County of Mills, P.O. Box 483, Goldthwaite, TX 76844-0483.

Basic Financial Statements

COUNTY OF MILLS
Statement of Net Position - Modified Cash Basis
September 30, 2016

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 3,338,624
Due from Fiduciary Funds	33,885
Capital Assets (Net of Accumulated Depreciation):	
Land	185,119
Buildings and Improvements	7,338,017
Machinery and Equipment	549,481
Construction in Progress	<u>6,688,903</u>
Total Assets	<u>\$ 18,134,029</u>
<u>LIABILITIES</u>	
TCDRS Payable	\$ 24,884
Other Payables	69
Noncurrent Liabilities:	
Due Within One Year	225,000
Due in More Than One Year	<u>7,886,535</u>
Total Liabilities	<u>\$ 8,136,488</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	\$ 7,238,902
Restricted for Debt Service	27,738
Unrestricted	<u>2,730,901</u>
Total Net Position	<u><u>\$ 9,997,541</u></u>

The accompanying notes are an integral part of this financial statement.

COUNTY OF MILLS
Statement of Activities - Modified Cash Basis
Year Ended September 30, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:				
General Government	\$ 1,056,978	\$ 251,677	\$ 25,276	\$ (780,025)
Roads and Bridges	1,061,565	332,578	48,976	(680,011)
Justice System	453,481	87,332	43,873	(322,276)
Public Safety	1,300,542	17,470	109,401	(1,173,671)
Public Health and Welfare	98,526	1,284	0	(97,242)
Culture and Recreation	16,308	0	50,000	33,692
Debt Service	259,489	0	0	(259,489)
 Total Governmental Activities	 <u>\$ 4,246,889</u>	 <u>\$ 690,341</u>	 <u>\$ 277,526</u>	 <u>\$ (3,279,022)</u>
 General Revenues:				
				\$ 3,223,219
				511,949
				58,880
				184,747
				<u>17,000</u>
				 Total General Revenues
				<u>\$ 3,995,795</u>
				 Change in Net Position
				\$ 716,773
				 Net Position - Beginning
				<u>9,280,768</u>
				 Net Position - Ending
				<u>\$ 9,997,541</u>

The accompanying notes are an integral part of this financial statement.

COUNTY OF MILLS
Balance Sheet - Modified Cash Basis
Governmental Funds
September 30, 2016

	<u>General</u>	<u>Road and Bridge</u>	<u>Law Enforcement</u>	<u>Law Enforcement Construction Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>							
Cash and Cash Equivalents	\$ 1,566,111	\$ 461,318	\$ 377,103	\$ 588,917	\$ 27,738	\$ 317,437	\$ 3,338,624
Due from Other Funds	<u>23,265</u>	<u>6,625</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,995</u>	<u>33,885</u>
Total Assets	<u>\$ 1,589,376</u>	<u>\$ 467,943</u>	<u>\$ 377,103</u>	<u>\$ 588,917</u>	<u>\$ 27,738</u>	<u>\$ 321,432</u>	<u>\$ 3,372,509</u>
<u>LIABILITIES</u>							
TCDRS Payable	\$ 6,944	\$ 6,581	\$ 10,993	\$ 0	\$ 0	\$ 366	\$ 24,884
Other Payables	<u> </u>	<u>18</u>	<u>51</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>69</u>
Total Liabilities	<u>\$ 6,944</u>	<u>\$ 6,599</u>	<u>\$ 11,044</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 366</u>	<u>\$ 24,953</u>
<u>FUND BALANCES</u>							
Restricted Fund Balance:							
Debt Service Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 27,738	\$ 0	\$ 27,738
Law Enforcement Construction Fund	0	0	0	588,917	0	0	588,917
Committed Fund Balance:							
Special Revenue Funds	0	461,344	366,059	0	0	321,066	1,148,469
Unassigned Fund Balance	<u>1,582,432</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,582,432</u>
Total Fund Balances	<u>\$ 1,582,432</u>	<u>\$ 461,344</u>	<u>\$ 366,059</u>	<u>\$ 588,917</u>	<u>\$ 27,738</u>	<u>\$ 321,066</u>	<u>\$ 3,347,556</u>
Total Liabilities and Fund Balances	<u>\$ 1,589,376</u>	<u>\$ 467,943</u>	<u>\$ 377,103</u>	<u>\$ 588,917</u>	<u>\$ 27,738</u>	<u>\$ 321,432</u>	<u>\$ 3,372,509</u>

The accompanying notes are an integral part of this financial statement.

COUNTY OF MILLS
 Reconciliation of the Governmental Funds Balance Sheet to the
 Statement of Net Position - Modified Cash Basis
 September 30, 2016

Total Fund Balances - Governmental Funds	\$ 3,347,556
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The net effect of including the beginning balances for capital assets (net of depreciation) is to increase net position.	8,866,388
Debt that is not due and payable in the current period is not reported as a liability in the governmental fund statements. The net effect of including the beginning balances of debt is to decrease net position.	(8,352,889)
Current year capital outlays are expenditures in the fund financial statements but are shown as increases in capital assets in the government-wide financial statements. The net effect of including capital outlays is to increase net position.	6,265,443
Current year debt principal payments are expenditures in the fund financial statements but are shown as reductions of debt in the government-wide financial statements. The net effect of including debt principal payments is to increase net position.	220,000
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(370,311)
Various reclassifications are necessary to record the amortization of bond premium. The net effect of recording current year amortization is to increase net position.	<u>21,354</u>
Net Position of Governmental Activities	<u><u>\$ 9,997,541</u></u>

The accompanying notes are an integral part of this financial statement.

COUNTY OF MILLS
Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis
Governmental Funds
Year Ended September 30, 2016

	General	Road and Bridge	Law Enforcement	Law Enforcement Construction Fund	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 1,419,014	\$ 525,675	\$ 1,278,530	\$ 0	\$ 511,949	\$ 0	\$ 3,735,168
Fees	126,152	332,578	0	0	0	69,726	528,456
Fines	161,885	0	0	0	0	0	161,885
Intergovernmental	60,276	32,527	109,401	0	0	75,322	277,526
Interest	14,473	2,960	2,410	37,625	547	865	58,880
Miscellaneous	109,092	19,445	17,999	25,000	0	13,211	184,747
Total Revenues	\$ 1,890,892	\$ 913,185	\$ 1,408,340	\$ 62,625	\$ 512,496	\$ 159,124	\$ 4,946,662
EXPENDITURES							
Current:							
General Government	\$ 893,041	\$ 0	\$ 0	\$ 0	\$ 0	\$ 22,374	\$ 915,415
Roads and Bridges	0	1,024,375	0	0	0	16,449	1,040,824
Justice System	336,441	0	0	0	0	117,040	453,481
Public Safety	53,346	0	1,156,366	6,081,491	0	45,450	7,336,653
Public Health and Welfare	11,628	0	0	0	0	86,898	98,526
Culture and Recreation	0	0	0	0	0	20,633	20,633
Debt Service:							
Principal	0	0	0	0	220,000	0	220,000
Interest	0	0	0	0	280,643	0	280,643
Fees	0	0	0	0	200	0	200
Total Expenditures	\$ 1,294,456	\$ 1,024,375	\$ 1,156,366	\$ 6,081,491	\$ 500,843	\$ 308,844	\$ 10,366,375
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 596,436	\$ (111,190)	\$ 251,974	\$ (6,018,866)	\$ 11,653	\$ (149,720)	\$ (5,419,713)

OTHER FINANCING SOURCES (USES)

Transfers In (Out)	<u>(138,288)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>138,288</u>	<u>0</u>
Net Change in Fund Balances	\$ 458,148	\$ (111,190)	\$ 251,974	\$ (6,018,866)	\$ 11,653	\$ (11,432)	\$ (5,419,713)
Fund Balances - Beginning	<u>1,124,284</u>	<u>572,534</u>	<u>114,085</u>	<u>6,607,783</u>	<u>16,085</u>	<u>332,498</u>	<u>8,767,269</u>
Fund Balances - Ending	<u>\$ 1,582,432</u>	<u>\$ 461,344</u>	<u>\$ 366,059</u>	<u>\$ 588,917</u>	<u>\$ 27,738</u>	<u>\$ 321,066</u>	<u>\$ 3,347,556</u>

The accompanying notes are an integral part of this financial statement.

COUNTY OF MILLS
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
 Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
 Year Ended September 30, 2016

Total Net Change in Fund Balances - Governmental Funds	\$ (5,419,713)
Current year capital outlays are expenditures in the fund financial statements but are shown as increases in capital assets in the government-wide financial statements. The net effect of removing capital outlays is to increase net position.	6,265,443
Current year debt principal payments are expenditures in the fund financial statements but are shown as reductions of debt in the government-wide financial statements. The net effect of removing debt principal payments is to increase net position.	220,000
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(370,311)
Various reclassifications are necessary to record the amortization of bond premium. The net effect of recording current year amortization is to increase net position.	<u>21,354</u>
Change in Net Position of Governmental Activities	<u><u>\$ 716,773</u></u>

The accompanying notes are an integral part of this financial statement.

COUNTY OF MILLS
Statement of Fiduciary Net Position - Modified Cash Basis
Fiduciary Funds
September 30, 2016

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$ 152,500</u>
<u>LIABILITIES</u>	
Due to Other Funds	\$ 33,885
Due to Other Governments	85,776
Due to Others	<u>32,839</u>
Total Liabilities	<u>\$ 152,500</u>

The accompanying notes are an integral part of this financial statement.

COUNTY OF MILLS
Notes to the Financial Statements
September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The County of Mills, Texas, was organized by an Act of the Texas Legislature in 1887. The County is governed by the Commissioners' Court, a five-member group consisting of an elected County Judge and four County Commissioners elected from individual precincts. Services provided by the County include public transportation through roads and bridges, justice system, public safety, public health and welfare, culture and recreation, and debt service, as well as general administrative and support services. There are no component units included within the reporting entity.

B. Government-Wide and Fund Financial Statements

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus and Basis of Accounting - Continued

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

Basis of Accounting

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

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

The government reports the following major governmental funds:

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

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

Law Enforcement Fund - This Fund is a special revenue fund and is used to account for revenues for the County's law enforcement activities.

Law Enforcement Center Construction Fund - This Fund is a construction fund and is used to account for construction of the County's Law Enforcement Center.

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

Additionally, the government reports the following fund type:

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

D. Interfund Receivables and Payables

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

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E. Prepayments

Prepayments for an emergency medical services contract are described in Note IV., E. to the financial statements.

F. Capital Assets

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	15-40
Machinery and Equipment	5-10

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

G. Long-Term Debt

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

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

H. Compensated Absences

County employees are entitled to vacation and sick leave based on their length of employment. Vacation does not accumulate or vest. Employees may accumulate up to 320 hours of sick leave. Employees are not paid for unused sick leave upon separation from service. Employees are paid only for the current year's unused vacation, not to exceed 80 hours, and provided proper notice was given, they are not under disciplinary action or suspension, and they have been a fulltime employee a minimum of 12 months.

I. Net Position on the Statement of Net Position

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

Net Investment in Capital Assets- This component of net position represents the difference between capital assets net of accumulated depreciation and the outstanding balance of debt, excluding any unspent debt proceeds, that is directly attributable to the acquisition, construction, or improvement of those assets.

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I. Net Position on the Statement of Net Position - Continued

Restricted for Debt Service - This component of net position represents the difference between assets and liabilities of the Debt Service Fund that consists of assets with constraints placed on their use by creditors.

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

J. Fund Balances

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

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

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

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

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

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

K. Property Tax Revenues

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

Property taxes are recognized as revenues when they are collected.

Taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy.

L. Interfund Transfers

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

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budget

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

Budgets for the General Fund and Special Revenue Funds are adopted on a modified cash basis and cover a one-year period. The Law Enforcement Center Construction Fund adopts a project length budget which does not correspond to the County's fiscal year. Appropriations lapse at year end.

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

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

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

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

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

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

A. Deposits and Investments - Continued

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At September 30, 2016, the County was not significantly exposed to credit risk.

Interest Rate Risk: Not applicable

Foreign Currency Risk: Not applicable

B. Interfund Receivables, Payables, and Transfers

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

	<u>Due From</u>	<u>Due To</u>	<u>Purpose</u>
General Fund			
Fiduciary Funds	\$ 23,265	\$ 0	Unremitted Fees
Road and Bridge Fund			
Fiduciary Funds	\$ 6,625	\$ 0	Unremitted Fees
Nonmajor Governmental Funds			
Fiduciary Funds	\$ 3,995	\$ 0	Unremitted Fees
Fiduciary Funds			
General Fund	\$ 0	\$ 23,265	Unremitted Fees
Road and Bridge Fund	0	6,625	Unremitted Fees
Nonmajor Governmental Funds	0	3,995	Unremitted Fees
	<u>\$ 0</u>	<u>\$ 33,885</u>	
Totals	<u>\$ 33,885</u>	<u>\$ 33,885</u>	

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

2. Interfund transfers consist of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Nonmajor Governmental Funds	\$ 151,000	To Cover Fund Deficit
Emergency Medical Services Fund	General Fund	<u>12,712</u>	Close out Fund
Total		<u>\$ 163,712</u>	

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

C. Capital Assets

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

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets				
Land	\$ 185,119	\$ 0	\$ 0	\$ 185,119
Buildings and Improvements	9,687,908	0	0	9,687,908
Machinery and Equipment	2,245,581	178,120	95,800	2,327,901
Construction in Progress	601,580	6,087,323	0	6,688,903
Total Capital Assets	\$ 12,720,188	\$ 6,265,443	\$ 95,800	\$ 18,889,831
Less Accumulated Depreciation				
Buildings and Improvements	\$ (2,114,354)	\$ (235,537)	\$ 0	\$ (2,349,891)
Machinery and Equipment	(1,739,446)	(134,774)	(95,800)	(1,778,420)
Total Accumulated Depreciation	\$ (3,853,800)	\$ (370,311)	\$ (95,800)	\$ (4,128,311)
Governmental Activities Capital Assets, Net	\$ 8,866,388	\$ 5,895,132	\$ 0	\$ 14,761,520

Depreciation expense was charged to governmental activities functions as follows:

General Government	\$ 162,070
Roads and Bridges	143,958
Public Safety	62,359
Culture and Recreation	1,924
Total	\$ 370,311

D. Capital Leases/Government Obligation Contract

The County entered into a lease agreement to finance the acquisition of radio system equipment for the Sheriff's Office. This lease agreement qualifies as a capital lease for accounting purposes and is payable from the Law Enforcement Fund. The effective interest rate is 4.12%.

The County entered into lease agreements to finance the acquisition of equipment for the Road and Bridge Department. These lease agreements qualify as capital leases for accounting purposes and are payable from the Road and Bridge Fund. The effective interest rate is 3.90% for each.

The County entered into a contract to finance the acquisition of equipment for the Road and Bridge Department. This agreement qualifies as a government obligation contract for accounting purposes and is payable from the Road and Bridge Fund. The effective interest rate is 3.32%.

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

D. Capital Leases/Government Obligation Contract - Continued

Future minimum lease payments are as follows:

Year Ending September 30,	Capital Leases		Government Obligation Contract		Total
	Principal	Interest	Principal	Interest	
2017	\$ 123,656	\$ 17,355	\$ 38,067	\$ 6,753	\$ 185,831
2018	128,624	12,387	39,331	5,489	185,831
2019	89,221	7,218	40,636	4,184	141,259
2020	92,761	3,678	41,986	2,834	141,259
2021	0	0	43,380	1,440	44,820
Totals	<u>\$ 434,262</u>	<u>\$ 40,638</u>	<u>\$ 203,400</u>	<u>\$ 20,700</u>	<u>\$ 699,000</u>

The following is a summary of the changes in capital leases for the year ended September 30, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital Leases	\$ 123,410	\$ 444,100	\$ 133,248	\$ 434,262
Government Obligation Contract	0	226,000	22,600	203,400
Totals	<u>\$ 123,410</u>	<u>\$ 670,100</u>	<u>\$ 155,848</u>	<u>\$ 637,662</u>

E. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended September 30, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Limited Tax Refunding Bonds	\$ 985,000	\$ 0	\$ 155,000	\$ 830,000	\$ 160,000
Limited Tax Bonds	6,850,000	0	65,000	6,785,000	65,000
Bond Premium/Discount	517,889	0	21,354	496,535	0
Totals	<u>\$ 8,352,889</u>	<u>\$ 0</u>	<u>\$ 241,354</u>	<u>\$ 8,111,535</u>	<u>\$ 225,000</u>

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

E. Long-Term Debt - Continued

The County's outstanding long-term debt is as follows:

Mills County, Texas, Limited Tax Refunding Bonds, Series 2012. Issued to currently refund \$1,495,000 of Mills County, Texas, Tax Notes, Series 2008. Due in variable installments through the fiscal year ending September 30, 2021, with an interest of 2.1%.	\$ 830,000
Mills County, Texas, Limited Tax Bonds, Series 2015. Issued to purchase, design, renovate, construct, reconstruct, improve, or equip a building or buildings for a law enforcement center, including purchasing technology; to purchase the necessary sites therefor; and to pay the costs of issuance related thereto in the original amount of \$6,850,000. Due in variable installments through February 15, 2040, with interest rates of 2% to 4.5%.	<u>6,785,000</u>
Total Bonds Payable	<u><u>\$ 7,615,000</u></u>

The combined annual debt service requirements are as follows:

<u>Year Ending September 30,</u>	Limited Tax Refunding Bonds		Limited Tax Bonds		<u>Total</u>
	Principal	Interest	Principal	Interest	
2017	\$ 160,000	\$ 15,750	\$ 65,000	\$ 274,125	\$ 514,875
2018	160,000	12,390	80,000	272,275	524,665
2019	165,000	8,978	95,000	269,650	538,628
2020	170,000	5,460	110,000	266,575	552,035
2021	175,000	1,837	110,000	263,275	550,112
2022-2026	0	0	1,225,000	1,199,750	2,424,750
2027-2031	0	0	1,495,000	929,875	2,424,875
2032-2036	0	0	1,825,000	597,888	2,422,888
2037-2040	0	0	1,780,000	164,700	1,944,700
Totals	<u>\$ 830,000</u>	<u>\$ 44,415</u>	<u>\$ 6,785,000</u>	<u>\$ 4,238,113</u>	<u>\$ 11,897,528</u>

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

IV. OTHER INFORMATION

A. Defined Benefit Pension Plan

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

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

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

Funding Policy - The employer has elected the annually determined contribution rate (Variable-Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed the actuarially determined rate of 11.94% for the months of the accounting year in 2015 and 12.15% for the months of the accounting year in 2016.

The deposit rate payable by the employee members for calendar year 2016 is 7% as adopted by the governing body of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Actuarial Assumptions - All actuarial methods and assumptions used for this GASB analysis were the same as those used in the December 31, 2015 funding valuation, except as noted below and throughout this report. Please see the County's December 31, 2015 Summary Valuation Report for further details.

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

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

Valuation Timing	Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age Normal ⁽¹⁾
Amortization Method	
Recognition of Economic/Demographic Gains or Losses	Straight-Line Amortization Over Expected Working Life
Recognition of Assumptions Changes or Inputs	Straight-Line Amortization Over Expected Working Life
Asset Valuation Method	
Smoothing Period	5 Years
Recognition Method	Non-Asymptotic
Corridor	None
Inflation	3.0%
Salary Increases	4.9%
Investment Rate of Return	8.1%
Cost-of-Living Adjustments	Cost-of-Living Adjustments for the County are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Members eligible for service retirement are assumed to retire at various rates based upon age and gender. Deferred members are assumed to retire (100% probability) at the later of age 60 or earliest retirement eligibility. For all eligible members ages 75 and later, retirement is assumed to occur immediately.
Turnover	New employees are assumed to replace any terminated members and have similar entry ages.
Mortality	Mortality rates for depositing members are based on the gender-distinct RP-2000 Active Employee Mortality Table with a two-year set-forward for males and a four-year setback for females. Service retirees, beneficiaries, and non-depositing members are based on the RP-2000 Combined Mortality Table with a one-year set-forward for males and no age adjustment for females. Disabled retirees are based on the gender-distinct RP-2000 Disabled Mortality Table with no age adjustment for males and a two-year set-forward for females. The rates are projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.

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

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

Long-Term Expected Rate of Return - The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2016 information for a 7-10 year time horizon.

Note the valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is set based on a 30-year time horizon; the most recent analysis was performed in 2013.

<u>Asset Class</u>	<u>Benchmark</u>	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected Minus Inflation) ⁽²⁾
U.S. 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	1.50%	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	Barclays 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 REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	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 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.

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

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

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

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

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

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

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

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

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

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

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

<u>Changes in the Net Pension Liability/(Asset)</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Fiduciary Net Position (b)</u>	<u>Net Pension Liability/(Asset) (a) - (b)</u>
Balance as of December 31, 2014	\$ 5,493,861	\$ 4,925,366	\$ 568,495
Changes for the Year:			
Service Cost	\$ 230,066	\$ 0	\$ 230,066
Interest on Total Pension Liability ⁽¹⁾	442,558	0	442,558
Effect of Plan Changes ⁽²⁾	(30,437)	0	(30,437)
Effect of Economic/Demographic Gains or Losses	(215,193)	0	(215,193)
Effect of Assumptions Changes or Inputs	66,557	0	66,557
Refund of Contributions	(42,194)	(42,194)	0
Benefit Payments	(285,568)	(285,568)	0
Administrative Expenses	0	(3,515)	3,515
Member Contributions	0	100,806	(100,806)
Net Investment Income	0	(1,323)	1,323
Employer Contributions	0	171,946	(171,946)
Other ⁽³⁾	0	(15,631)	15,631
Net Changes	<u>\$ 165,789</u>	<u>\$ (75,479)</u>	<u>\$ 241,268</u>
Balance as of December 31, 2015	<u>\$ 5,659,650</u>	<u>\$ 4,849,887</u>	<u>\$ 809,763</u>

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

⁽²⁾ Reflects new annuity purchase rates applicable to all TCDRS employers effective January 1, 2018.

⁽³⁾ Relates to allocation of system-wide items.

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

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

	<u>1% Decrease in Discount Rate (7.1%)</u>	<u>Current Discount Rate (8.1%)</u>	<u>1% Increase in Discount Rate (9.1%)</u>
Total Pension Liability	\$ 6,339,928	\$ 5,659,650	\$ 5,091,947
Fiduciary Net Position	<u>4,849,887</u>	<u>4,849,887</u>	<u>4,849,887</u>
Net Pension Liability/(Asset)	<u>\$ 1,490,041</u>	<u>\$ 809,763</u>	<u>\$ 242,060</u>

Pension Expense/Income - The following presents the components of pension expense/income:

<u>Pension Expense (Income)</u>	<u>January 1, 2015 to December 31, 2015</u>
Service Cost	\$ 230,066
Interest on Total Pension Liability ⁽¹⁾	442,558
Effect of Plan Changes	(30,437)
Administrative Expenses	3,515
Member Contributions	(100,806)
Expected Investment Return Net of Investment Expenses	(399,524)
Recognition of Deferred Inflows/Outflows of Resources:	
Recognition of Economic/Demographic Gains or Losses	(54,187)
Recognition of Assumption Changes or Inputs	22,186
Recognition of Investment Gains or Losses	91,978
Other ⁽²⁾	<u>15,631</u>
Total Pension Expense (Income)	<u>\$ 220,980</u>

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

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

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

Deferred Inflows/Deferred Outflows of Resources -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	\$ 143,462	\$ 35,089
Changes in Assumptions	-	44,371
Net Differences Between Projected and Actual Earnings	-	356,104
Contributions Made Subsequent to Measurement Date ⁽³⁾	<u>-</u>	<u>139,229</u>
Totals	<u><u>\$ 143,462</u></u>	<u><u>\$ 574,793</u></u>

⁽³⁾ Any eligible employer contributions made subsequent to the measurement date through the employer's fiscal year-end should be reflected as outlined in Appendix D of the TCDRS GASB 68 Report.

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

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2016	\$ 59,977
2017	59,977
2018	91,978
2019	80,170
2020	0
Thereafter ⁽⁴⁾	0

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

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

Schedule of Deferred Inflows and Outflows of Resources - The following presents the components of deferred inflows and outflows of resources:

	Original Amount	Date Established	Original Recognition Period ⁽¹⁾	Amount Recognized in 12/31/15 Expense ⁽¹⁾	Balance of Deferred Inflows 12/31/15	Balance of Deferred Outflows 12/31/15
Investment (Gains) or Losses						
	\$ 400,847	12/31/15	5	\$ 80,169	\$ -	\$ 320,678
	59,045	12/31/14	5	11,809	-	35,427
Economic/Demographic (Gains) or Losses						
	(215,193)	12/31/15	3	(71,731)	143,462	-
	70,178	12/31/14	4	17,544	-	35,089
Assumption Changes or Inputs						
	66,557	12/31/15	3	22,186	-	44,371
	-	12/31/14	4	-	-	-
Employer Contributions Made Subsequent to Measurement Date ⁽²⁾						139,229

⁽¹⁾ Investment (gains)/losses are recognized in pension expense over a period of five years; economic/ demographic (gains)/losses and assumption changes or inputs are recognized over the average remaining service life for all active, inactive, and retired members.

⁽²⁾ Any eligible employer contributions made subsequent to the measurement date through the employer's fiscal year end should be reflected as outlined in Appendix D of the TCDRS GASB 68 Report.

B. Other Postemployment Benefits

Plan Description - The County participates in a cost-sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas County & District Retirement System (TCDRS). This plan is referred to as the Group Term Life Fund (GTLF). This optional plan provides group term life insurance coverage to current eligible employees.

The GTLF is a separate trust administered by the TCDRS' Board of Trustees. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the GTLF. This report is available at www.tcdrs.org. TCDRS' CAFR may also be obtained by writing to the Texas County & District Retirement System, P.O. Box 2034, Austin, TX 78768-2034, or by calling 1-800-823-7782.

Funding Policy - Each participating employer contributes to the GTLF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is determined using the unit credit method for providing one-year term life insurance. The County contributions to the GTLF for the years ended September 30, 2016, 2015, and 2014, were \$4,432, \$4,432 and \$4,684, respectively, which equaled the contractually required contributions each year.

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

IV. OTHER INFORMATION - Continued

C. Self-Insurance

The County has entered into an interlocal participation agreement with the Texas Political Subdivisions Joint Self-Insurance Fund (TPS). The TPS is a nonassessable risk sharing pool comprised of school districts, municipalities, hospital districts, counties, appraisal districts, port authorities, junior colleges, cities, housing authorities, municipal water districts, and other political subdivisions formed in accordance with the terms of interlocal agreements among members. TPS was organized on September 22, 1983, under the authority of the Texas Workers' Compensation and State Interlocal Cooperation Acts, as the Texas Political Subdivisions Workers' Compensation Joint Self-Insurance Fund (WC Fund) to provide a vehicle for workers' compensation coverage. The purpose of TPS is to provide the membership with a program of self-insurance, lower costs for insurance coverage, and a comprehensive safety program.

Members participate in the workers' compensation fund through a guaranteed-cost plan. Guaranteed-cost members, who are nonassessable, combine their contributions to cover pooled losses and expenses. The required contribution for each guaranteed-cost member is based upon the members' expenses and the rated manual contribution affected by a factor for individual loss experience. As required by interlocal agreement, TPS obtains specific excess of loss coverage over and above the self-insured retention stated in the interlocal agreement so that members will not have joint or several liability other than their required contribution.

TPS members own and control the Funds. The Members elect a Board of Trustees from its membership to govern the Fund. The Board adopts bylaws and policies to operate the Funds and has created Sub-Committees to provide guidance in Claims/Loss Control, Underwriting/Member Relations and Finance/MIS. The Board continuously monitors the financial integrity of the Funds and commissions an independent audit firm to perform an annual audit, using generally accepted accounting principles that fully comply with the General Accounting Standards Board Statement Number Ten. The Board also commissions an annual independent actuarial review of reserves to ensure funding of all outstanding claims.

The County has entered into an interlocal agreement with the Texas Association of Political Subdivisions Interlocal Agreement Self-Insurance League (TAPS) through insurance provided by Argonaut Great Central Insurance Company for property and casualty coverage. TAPS is a self-funded risk pools created by political subdivisions under the authority of Chapter 172 of the Local Government Code. Political subdivisions, including counties and school districts, may establish risk pools or enter into interlocal agreements with other political subdivisions to establish risk pools. TAPS was formed under an interlocal agreement to pool the self-insured risks of the participating political subdivisions and provide insurance to participating members. Under the terms of the contracts, Argonaut agreed to indemnify TAPS for losses under certificates or policies issued to participating members under the interlocal agreements. TAPS agreed to cede to Argonaut 100% of the premiums received on policies issued to their members.

D. Commitments

The taxpayers of the County passed a bond election during the 2015 fiscal year for the purpose of acquiring, constructing, and equipping a Law Enforcement Center in the original amount of \$6,850,000. The County still had \$588,917 to be expended as of September 30, 2016. This balance is to be paid from the Law Enforcement Center Construction Fund.

The County approved a motion to construct a Senior Center building for use by the residents of Mills County that qualifies for services provided by the Center. The amount allocated for the construction project is not to exceed \$525,000, and the project will be financed via a loan with Mills County State Bank with a maximum loan amount of \$332,500. The first draw on the construction loan occurred on October 6, 2016. A grant of \$50,000 was received on October 23, 2015, to assist with the construction project. Construction is anticipated to be finalized on or before February 28, 2017.

COUNTY OF MILLS
Notes to the Financial Statements - Continued
September 30, 2016

IV. OTHER INFORMATION - Continued

E. Discontinued Operations

On December 12, 2014, the County Commissioners approved an interlocal government contract with The Hamilton County Hospital District whereby said Hospital District will provide emergency medical services for the residents of Mills County for a period of three years beginning January 1, 2015. A subsidy of \$4,167 per month will be paid to the Hospital District to supplement its emergency medical services in the County. During the fiscal year ended September 30, 2016, \$50,000 was recorded as an expenditure. This consists of \$37,500 remitted to the Hospital District representing nine months of payments at \$4,167 per month and \$12,500 reflected as a prepaid expenditure in the prior year being recorded as an expenditure in the current year.

F. Subsequent Events

The County's management has evaluated subsequent events through January 19, 2017, the date which the financial statements were available for issue.

Other Information

COUNTY OF MILLS
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Modified Cash Basis - Budget and Actual
General Fund
Year Ended September 30, 2016

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Taxes	\$ 1,383,027	\$ 1,383,027	\$ 1,419,014	\$ 35,987
Fees	104,000	104,000	126,152	22,152
Fines	142,000	142,000	161,885	19,885
Intergovernmental	60,200	60,200	60,276	76
Interest	5,000	5,000	14,473	9,473
Miscellaneous	51,000	51,000	109,092	58,092
Total Revenues	<u>1,745,227</u>	<u>\$ 1,745,227</u>	<u>\$ 1,890,892</u>	<u>\$ 145,665</u>
<u>EXPENDITURES</u>				
Current:				
General Government	\$ 936,748	\$ 930,688	\$ 893,041	\$ 37,647
Justice System	328,990	339,650	336,441	3,209
Public Safety	66,500	66,500	53,346	13,154
Public Health and Welfare	11,850	11,850	11,628	222
Total Expenditures	<u>\$ 1,344,088</u>	<u>\$ 1,348,688</u>	<u>\$ 1,294,456</u>	<u>\$ 54,232</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 401,139	\$ 396,539	\$ 596,436	\$ 199,897
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In (Out)	<u>(151,000)</u>	<u>(151,000)</u>	<u>(138,288)</u>	<u>12,712</u>
Net Change in Fund Balances	\$ 250,139	\$ 245,539	\$ 458,148	\$ 212,609
Fund Balances - Beginning	<u>1,124,284</u>	<u>1,124,284</u>	<u>1,124,284</u>	<u>0</u>
Fund Balances - Ending	<u><u>\$ 1,374,423</u></u>	<u><u>\$ 1,369,823</u></u>	<u><u>\$ 1,582,432</u></u>	<u><u>\$ 212,609</u></u>

COUNTY OF MILLS
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Modified Cash Basis - Budget and Actual
Road and Bridge Fund
Year Ended September 30, 2016

	Budget Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<u>REVENUES</u>				
Taxes	\$ 513,438	\$ 513,438	\$ 525,675	\$ 12,237
Fees	326,000	326,000	332,578	6,578
Intergovernmental	25,000	25,000	32,527	7,527
Interest	2,000	2,000	2,960	960
Miscellaneous	0	0	19,445	19,445
	<u>0</u>	<u>0</u>	<u>19,445</u>	<u>19,445</u>
Total Revenues	<u>\$ 866,438</u>	<u>\$ 866,438</u>	<u>\$ 913,185</u>	<u>\$ 46,747</u>
<u>EXPENDITURES</u>				
Roads and Bridges				
Precinct Employees	\$ 444,888	\$ 444,888	\$ 433,540	\$ 11,348
Medical Expense	115,556	115,556	112,519	3,037
Social Security	34,480	34,480	31,596	2,884
Retirement	55,716	55,716	54,050	1,666
Parts and Repairs	66,500	68,200	63,763	4,437
Fuel	76,500	65,700	38,347	27,353
Tires and Batteries	18,500	21,500	19,743	1,757
Office	1,300	1,300	155	1,145
Utilities	7,600	7,600	6,163	1,437
Conference	6,000	6,000	1,366	4,634
Road Material	28,000	21,500	14,873	6,627
Equipment Purchase	128,000	140,600	128,077	12,523
Miscellaneous	6,000	6,000	1,144	4,856
Capital Lease Payments	97,000	97,000	96,439	561
Government Obligation Contract Payments	50,000	50,000	22,600	27,400
	<u>50,000</u>	<u>50,000</u>	<u>22,600</u>	<u>27,400</u>
Total Expenditures	<u>\$ 1,136,040</u>	<u>\$ 1,136,040</u>	<u>\$ 1,024,375</u>	<u>\$ 111,665</u>
Net Change in Fund Balance	\$ (269,602)	\$ (269,602)	\$ (111,190)	\$ 158,412
Fund Balance - Beginning	<u>572,534</u>	<u>572,534</u>	<u>572,534</u>	<u>0</u>
Fund Balance - Ending	<u>\$ 302,932</u>	<u>\$ 302,932</u>	<u>\$ 461,344</u>	<u>\$ 158,412</u>

COUNTY OF MILLS
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Modified Cash Basis - Budget and Actual
Law Enforcement Fund
Year Ended September 30, 2016

	Budget Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		Positive (Negative)
<u>REVENUES</u>				
Taxes	\$ 1,251,310	\$ 1,251,310	\$ 1,278,530	\$ 27,220
Intergovernmental	100,626	100,626	109,401	8,775
Interest	400	400	2,410	2,010
Miscellaneous	3,300	3,300	17,999	14,699
	<u>3,300</u>	<u>3,300</u>	<u>17,999</u>	<u>14,699</u>
Total Revenues	<u>\$ 1,355,636</u>	<u>\$ 1,355,636</u>	<u>\$ 1,408,340</u>	<u>\$ 52,704</u>
<u>EXPENDITURES</u>				
Salaries	\$ 670,258	\$ 668,378	\$ 621,588	\$ 46,790
Social Security and Retirement	130,545	130,545	124,505	6,040
Repairs and Supplies	20,000	33,000	32,718	282
Utilities and Telephone	44,600	47,550	34,045	13,505
Inmate Expense	41,000	41,000	19,213	21,787
Medical Expense	163,706	159,186	134,409	24,777
Fuel	30,000	18,300	12,612	5,688
Office Expense	19,900	20,150	20,260	(110)
Bonds and Dues	1,000	1,000	681	319
New Equipment	47,000	36,700	13,328	23,372
Conventions	9,000	11,200	9,875	1,325
Radio Communications	4,000	4,000	45	3,955
Schools and Training	4,500	4,500	2,239	2,261
Boarding Prisoners	100,000	100,000	59,937	40,063
Medical Examiner	1,400	1,400	1,492	(92)
Sheriff Expense	4,800	4,800	3,952	848
Impound Expense	3,000	3,000	1,010	1,990
Records Management	24,340	24,340	8,208	16,132
Miscellaneous	3,100	13,100	11,677	1,423
Capital Lease	44,655	44,655	44,572	83
	<u>44,655</u>	<u>44,655</u>	<u>44,572</u>	<u>83</u>
Total Expenditures	<u>\$ 1,366,804</u>	<u>\$ 1,366,804</u>	<u>\$ 1,156,366</u>	<u>\$ 210,438</u>
Net Change in Fund Balance	\$ (11,168)	\$ (11,168)	\$ 251,974	\$ 263,142
Fund Balance - Beginning	<u>114,085</u>	<u>114,085</u>	<u>114,085</u>	<u>0</u>
Fund Balance - Ending	<u>\$ 102,917</u>	<u>\$ 102,917</u>	<u>\$ 366,059</u>	<u>\$ 263,142</u>

COUNTY OF MILLS
 Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Modified Cash Basis - Budget and Actual
 Debt Service Fund
 Year Ended September 30, 2016

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Taxes	\$ 502,196	\$ 502,196	\$ 511,949	\$ 9,753
Interest	<u>90</u>	<u>90</u>	<u>547</u>	<u>457</u>
Total Revenues	<u>\$ 502,286</u>	<u>\$ 502,286</u>	<u>\$ 512,496</u>	<u>\$ 10,210</u>
<u>EXPENDITURES</u>				
Debt Service:				
Principal	\$ 210,000	\$ 220,000	\$ 220,000	\$ 0
Interest	292,084	281,884	280,643	1,241
Fees	<u>0</u>	<u>200</u>	<u>200</u>	<u>0</u>
Total Expenditures	<u>\$ 502,084</u>	<u>\$ 502,084</u>	<u>\$ 500,843</u>	<u>\$ 1,241</u>
Net Change in Fund Balance	\$ 202	\$ 202	\$ 11,653	\$ 11,451
Fund Balance - Beginning	<u>16,085</u>	<u>16,085</u>	<u>16,085</u>	<u>0</u>
Fund Balance - Ending	<u><u>\$ 16,287</u></u>	<u><u>\$ 16,287</u></u>	<u><u>\$ 27,738</u></u>	<u><u>\$ 11,451</u></u>

COUNTY OF MILLS
Schedule of Changes in Net Pension Liability and Related Ratios -
Texas County & District Retirement System
Year Ended September 30, 2016

	<u>Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Total Pension Liability		
Service Cost	\$ 230,066	\$ 224,001
Interest on Total Pension Liability	442,558	408,005
Effect of Plan Changes	(30,437)	0
Effect of Assumptions Changes or Inputs	66,557	0
Effect of Economic/Demographic (Gains) or Losses	(215,193)	70,178
Benefit Payments/Refunds of Contributions	<u>(327,762)</u>	<u>(266,028)</u>
Net Change in Total Pension Liability	\$ 165,789	\$ 436,156
Total Pension Liability, Beginning	<u>5,493,861</u>	<u>5,057,705</u>
Total Pension Liability, Ending	<u>\$ 5,659,650</u>	<u>\$ 5,493,861</u>
Fiduciary Net Position		
Employer Contributions	\$ 171,946	\$ 195,672
Member Contributions	100,806	113,012
Investment Income Net of Investment Expenses	(1,323)	315,301
Benefit Payments/Refunds of Contributions	(327,762)	(266,027)
Administrative Expenses	(3,515)	(3,646)
Other	<u>(15,631)</u>	<u>26,767</u>
Net Change in Fiduciary Net Position	\$ (75,479)	\$ 381,079
Fiduciary Net Position, Beginning	<u>4,925,366</u>	<u>4,544,287</u>
Fiduciary Net Position, Ending	<u>\$ 4,849,887</u>	<u>\$ 4,925,366</u>
Net Pension Liability/(Asset), Ending	<u>\$ 809,763</u>	<u>\$ 568,495</u>
Fiduciary Net Position as a % of Total Pension Liability	85.69%	89.65%
Pensionable Covered Payroll	\$ 1,440,086	\$ 1,614,455
Net Pension Liability as a % of Covered Payroll	56.23%	35.21%

This schedule is presented to illustrate the requirement to show information for ten years. However, recalculations of prior years are not required; therefore, only the years for which the new GASB statements have been implemented are shown. The data in this schedule is presented for the time period covered by the measurement date as opposed to the County's fiscal year.

COUNTY OF MILLS
Schedule of Employer Contributions -
Texas County & District Retirement System
Year Ended September 30, 2016

<u>Year Ending September 30,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Pensionable Covered Payroll⁽¹⁾</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2014	\$ 189,526	\$ 189,526	\$ 0	\$ 1,580,431	12.0%
2015	179,507	179,507	0	1,496,408	12.0%
2016	187,916	187,916	0	1,553,636	12.1%

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

This schedule is presented to illustrate the requirement to show information for ten years. However, recalculations of prior years are not required; therefore, only the years for which the new GASB statements have been implemented are shown. The data in this schedule is presented for the time period covered by the County's fiscal year as opposed to the time period covered by the measurement date.

COUNTY OF MILLS
Notes to the Other Information
September 30, 2016

Note A - Net Pension Liability

Changes in Benefit Terms

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Changes of Assumptions

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

Valuation Timing	Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age Normal ⁽¹⁾
Amortization Method	
Recognition of Economic/ Demographic Gains or Losses	Straight-Line Amortization Over Expected Working Life
Recognition of Assumptions Changes or Inputs	Straight-Line Amortization Over Expected Working Life
Asset Valuation Method	
Smoothing Period	5 Years
Recognition Method	Non-Asymptotic
Corridor	None
Inflation	3.0%
Salary Increases	4.9%
Investment Rate of Return	8.1%
Cost-of-Living Adjustments	Cost-of-Living Adjustments for the County are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Members eligible for service retirement are assumed to retire at various rates based upon age and gender. Deferred members are assumed to retire (100% probability) at the later of age 60 or earliest retirement eligibility. For all eligible members ages 75 and later, retirement is assumed to occur immediately.
Turnover	New employees are assumed to replace any terminated members and have similar entry ages.
Mortality	Mortality rates for depositing members are based on the gender-distinct RP-2000 Active Employee Mortality Table with a two-year set-forward for males and a four-year setback for females. Service retirees, beneficiaries, and non-depositing members are based on the RP-2000 Combined Mortality Table with a one-year set-forward for males and no age adjustment for females. Disabled retirees are based on the gender-distinct RP-2000 Disabled Mortality Table with no age adjustment for males and a two-year set-forward for females. The rates are projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.

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

Supplementary Information

COUNTY OF MILLS
Schedule of Certificates of Deposit
September 30, 2016

Description	Identifying Number	Interest Rate %	Maturity Date	Amount
<u>GOVERNMENTAL FUNDS</u>				
General Fund				
Mills County State Bank	163902	1.10	3/8/17	\$ 201,098
Mills County State Bank	163905	1.10	4/8/17	201,098
Mills County State Bank	163906	1.10	5/8/17	201,098
Mills County State Bank	164095	0.30	11/12/16	<u>202,227</u>
				<u>\$ 805,521</u>
Road and Bridge Fund				
Mills County State Bank	164082	0.25	10/7/16	<u>\$ 202,227</u>
Law Enforcement Fund				
Mills County State Bank	164055	0.65	10/28/16	\$ 150,326
Mills County State Bank	164089	0.30	11/7/16	<u>105,613</u>
				<u>\$ 255,939</u>
Law Enforcement Construction Fund				
Mills County State Bank	164023	0.65	10/7/16	<u>\$ 200,428</u>
Senior Citizens Fund				
Mills County State Bank	164054	0.60	10/27/16	<u>\$ 50,150</u>
Indigent Health Fund				
Mills County State Bank	164104	0.60	12/31/16	<u>\$ 40,121</u>
Courthouse Security Fund				
Mills County State Bank	163831	1.05	9/14/17	<u>\$ 30,319</u>
Total Governmental Funds				<u><u>\$ 1,584,705</u></u>
<u>FIDUCIARY FUNDS</u>				
County and District Clerk				
Mills County State Bank	162662	0.42	8/17/17	\$ 11,844
Mills County State Bank	162377	0.37	11/23/16	12,909
Mills County State Bank	163485	0.58	8/4/18	<u>3,217</u>
Total Fiduciary Funds				<u><u>\$ 27,970</u></u>

COMPLIANCE AND INTERNAL CONTROLS SECTION



A Limited Liability Partnership

Michael E. Oliphant, CPA
Wayne Barr, CPA
Cathryn A. Pitcock, CPA

(325) 944-3571
FAX: (325) 942-1093
www.eckertcpa.com

Members of
American Institute of CPAs
Texas Society of CPAs

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

The Honorable County Judge
and Commissioners' Court
County of Mills
P.O. Box 483
Goldthwaite, TX 76844-0483

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of County of Mills, 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, and have issued our report thereon dated January 19, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

Eckert & Company, LLP

January 19, 2017