

**Dawson County
Annual Financial Report
For the Year Ended September 30, 2017**

APPROVED
FEB 13 2018
COMMISSIONERS COURT

RECEIVED
FEB 13 2018
DAWSON COUNTY AUDITOR

**DAWSON COUNTY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	<u>EXHIBIT</u>	<u>PAGE</u>
Independent Auditor's Report		1
Management's Discussion and Analysis (Unaudited)		3
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Position	A-1	10
Statement of Activities	B-1	11
Governmental Fund Financial Statements:		
Balance Sheet	C-1	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	C-2	13
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	C-3	14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	C-4	15
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Position	D-1	16
Statement of Changes in Fiduciary Fund Net Position	D-2	17
Notes to the Financial Statements		18
Required Supplemental Information:		
Budgetary Comparisons:		
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual-General Fund	E-1	37
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual-Precinct	E-2	38
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual-District Court Fund	E-3	39
Other Required Supplemental Information:		
Information About Infrastructure Assets Reported Using the Modified Approach	E-4	40
Schedule of Changes in Net Pension Liability and Related Ratios	E-5	42
Schedule of Employer Pension Contributions	E-6	43
Compliance and Internal Controls Section		
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 <i>Government Auditing Standards</i>		44

Steve Gary, C.P.A., PC
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Melvin Eaker, C.P.A., PC
Lindi Stapp, C.P.A., PC



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Professional Corporations

INDEPENDENT AUDITOR'S REPORT

To the Honorable Judge O'Brien and the Commissioner's Court
Dawson County, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County, as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, information about infrastructure assets reported using the modified approach, and Texas County and District Retirement System information on pages 3–9 and 37–43 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2018, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Gary, Bowers & Miller

Lubbock, Texas
February 9, 2018

COUNTY OF DAWSON



RICK DOLLAHAN, County Auditor

P.O. Box 1268
Lamesa, Texas 79331

February 13, 2018

Honorable Carter T. Schildknecht, District Judge, 106th Judicial District

Honorable Commissioners Court:

Foy O'Brien	County Judge		
Ricky Minjarez	Commissioner, PCT 1	Joe Raines	Commissioner, PCT 2
Nicky Goode	Commissioner, PCT 3	Russell Cox	Commissioner, PCT 4

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, the management of Dawson County, Texas, discusses and analyzes the County's financial performance for the fiscal year ended September 30, 2017. Please read it in conjunction with the independent auditor's report on page 1 and the County's basic financial statements which begin on page 10.

FINANCIAL HIGHLIGHTS

- At the close of the most recent fiscal year, Dawson County's assets exceeded its liabilities by \$12,446,800. Of this amount, \$4,444,781 was unrestricted net assets.
- The County's net position decreased by \$355,834 because of this year's operation.
- The County had expenditures of \$9,839,944 as compared to FY 2016 expenditures of \$9,833,111.
- The County had revenues of \$9,484,110 as generated in tax and other revenues for governmental programs. This compares to last year when revenues were \$9,770,520.
- The General Fund ended the year with a fund balance of \$2,534,859 as compared to last year's fund balance of \$2,210,436. The fund balance of the General Fund is unreserved and undesignated.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Dawson County's basic financial statements. Dawson County's basic financial statements comprise three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements.

The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 9 and 10). These provide information about the activities of the County as a whole and present a longer-term view of the County's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

The Road to Excellence is Built with Vision

Fund financial statements (starting on page 12) report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. The fiduciary statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of other county funds or those outside of the County. They show what assets these funds have and who they belong to.

The notes to the financial statements (starting on page 18) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

REPORTING THE COUNTY AS A WHOLE – THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The analysis of the County's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the County is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the County's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the County's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies as opposed to the modified accrual basis used in the prior reporting model.

All changes in net position are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods (e.g. uncollected taxes). The County's revenues are divided into those provided by outside parties who share the costs of some programs such as grants provided by the Texas State Library and Archives Commission to improve the County's libraries and fees for services such as commissions received for property tax collection and revenues provided by the taxpayers and other general revenues. All the County's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the County's net assets and changes in them. The County's net assets (the difference between assets and liabilities) provide one measure of the County's financial health or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the County, however, you should consider non-financial factors as well such as changes in the County's property tax base and the condition of the County's facilities.

In the Statement of Net Position and the Statement of Activities, the County has one kind of activity:

- I. Governmental activities – Most of the basic services are reported here, including general administration, law enforcement, judicial, road and bridge maintenance, cemetery, parks, and airport and library services. Property taxes and fines, fees and vehicle registration fees finance most of these activities.

REPORTING THE COUNTY'S MOST SIGNIFICANT FUNDS – THE FUND FINANCIAL STATEMENTS

The fund financial statements begin on page 12 and provide detailed information about the most significant funds—not the County as a whole. A fund is a group 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. Laws and contracts require the County to establish some funds. The County's administration can establish many other funds to help it control and manage money for particular purposes (e.g. capital projects). All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. Each category uses a different accounting approach.

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 statements, governmental funds focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements. These funds use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) to reflect that focus. The governmental fund statements provide a detailed near-term view of the County's general operations and the basic services it provides.

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. Following each of the governmental fund financial statements (the balance sheet and the statement of revenues, expenditures and changes in fund balance) is a reconciliation to facilitate this comparison between the governmental fund financial statements and the government-wide statements.

Fiduciary funds – The County is the trustee, or fiduciary, for money received in numerous offices. All of the County's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 16. We report the resources these activities produce that are due to County operating funds as an interfund receivable in those funds and as an interfund payable in the Statement of Fiduciary Net Assets. All other resources within the fiduciary activities are excluded from the County's other financial reports because the County cannot use those assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the County's governmental and business-type activities.

Net position of the County's governmental activities decreased from \$12,802,634 to \$12,446,800. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – were \$4,444,781 at September 30, 2017, as compared to \$4,432,114 at September 30, 2016.

Table I
Dawson County, Texas
NET POSITION

	Governmental Activities	
	<u>2017</u>	<u>2016</u>
Assets:		
Cash and Cash Equivalents	5,067,382	5,422,781
Restricted Assets: Cash	493,375	388,611
Capital Assets	7,008,787	6,527,024
Total Assets	12,569,544	12,338,416
Deferred Outflows of Resources	1,411,219	1,738,581
Liabilities:		
Current Liabilities	277,271	301,211
Noncurrent Liabilities	1,021,931	748,516
Total Liabilities	1,299,202	1,049,727
Deferred Inflows of Resources	234,761	224,636
Net Position:		
Invested in Capital Assets, Net of Related Debt	6,089,570	5,900,345
Restricted	1,912,449	2,470,175
Unrestricted Net Position	4,444,781	4,432,114
Total Net Position	12,446,800	12,802,634

Table II
Dawson County, Texas
CHANGES IN NET POSITION

	Governmental Activities	
	<u>2017</u>	<u>2016</u>
Revenues:		
Program Revenues:		
Charges for Services	2,223,648	2,618,022
Grants and Contributions	312,299	367,345
Capital Grants	9,608	208,633
Total, Program Revenues:	2,545,555	3,194,000
General Revenues:		
Property Taxes, General Purposes	5,896,862	6,045,483
Sales Taxes	756,671	721,741
Tax Abatement Income	74,907	0
Mixed Beverage Tax	5,842	7,749
Penalty and Interest	89,739	75,808
Miscellaneous Revenue	0	0
Investment Earnings	67,869	33,826
Gain on Disposal of Assets	46,665	(99,454)
Total General Revenue and Special Items:	6,938,555	6,785,153
Total Revenue	9,484,110	9,979,153

Table II (Cont.) Dawson County, Texas CHANGES IN NET POSITION		
Governmental Activities		
Expenses	2017	2016
General Government	1,375,201	1,138,379
Judicial	1,888,091	2,092,272
Elections	31,311	23,713
Financial Administration	314,403	296,880
Tax Administration	367,418	324,369
Facilities Management	791,336	829,337
Public Safety	3,712	306
Law Enforcement	810,302	777,176
Fire Protection	187,023	189,729
Corrections	1,222,580	1,403,271
Roads & Bridges	1,734,996	1,921,891
Sanitation	65,340	88,340
Public Transportation	10,000	28,683
Health Care	119,171	112,884
Human Services	420,464	65,023
Parks & Recreation	83,841	83,436
Museums	1,000	1,000
County Extension Service	87,119	138,846
Libraries	326,636	317,776
Total Expenses	9,839,944	9,833,111
Change in Net Position	(355,834)	146,042
Net Position at Beginning of Year	12,802,634	12,656,592
Net Position at End of Year	12,446,800	12,802,634

Key factors related to the County's financial performance over the last year include the following:

1. Mineral and Related taxable values increased slightly. Local Property taxable values were up slightly and sales tax numbers increased.
2. County personnel numbers remained the same as the previous year.
3. Officials and department heads controlled their spending and stayed within budgets.

The cost of all governmental activities this year was \$9,839,944. However, as shown in the Statement of Activities Exhibit B-1, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$5,896,862 because some of the costs were paid with charges for services of \$2,223,648, grants and contributions of \$321,907, sales tax of \$756,671 and other various general revenues of \$285,022.

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as reported on the Statement of Revenues, Expenditures, and changes in Fund Balance, Exhibit C-3) showed a combined fund balance of \$4,934,264 as compared to last year's total of \$5,284,574. Included in this year's total change in fund balance is an increase of \$324,423 in the County's General Fund.

For fiscal year 2017, actual revenue on a budgetary basis was \$6,919,595 compared to the original revenue budget of \$6,425,458. Reasons for the actual numbers varying from the budget follow:

- In many revenue categories receipts were higher than budgeted.
- Sales tax revenues were higher
- Interest earnings received were higher than budgeted.
- The county received the first of 10 annual "pilot" payments from the wind farm development

For fiscal year 2017, actual expenditures on a budgetary basis for the General Fund were \$6,237,607, compared to the original expenditure budget of \$6,426,428. FY 2017 spending was well below FY 2016 levels. The Commissioners' Court revised the County budget several times. These revisions include amendments and supplemental appropriations that were approved during the year to address mid-year situational changes. The primary amendments include:

- Was awarded the 60 acre memorial cemetery (land, all buildings and cash by the state) and took over complete operations amending the budget several times in the process
- Paid cash to purchase much needed new equipment and to fund building repairs for the new cemetery
- Paid cash for new equipment and warranty coverage for the Road and Bridge precinct
- Paid cash to purchase a new vehicle for the Ag agent
- Used the cash settlement from the previous year to chip seal 84,000 Sq. Ft. of county roads
- Paid cash to purchase a new Jaws of Life for the Lamesa Fire Dept., and new radios, tasers and a new vehicle for the Sheriff's dept.

Exhibit E-1 provides a detailed comparison of these changes as they relate to the General Funds. This General Fund presentation reflects a combination of the General, Jury and the Road & Bridge funds.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At the beginning of fiscal year 2017, the County had \$6,527,024 invested in a broad range of capital assets, including land, buildings and equipment. By the end of fiscal year 2017 that number had increased by \$481,763 and ended the year with \$7,008,787 in Capital Assets. More detailed information about the County's capital assets is presented in Note IV, Item F to the financial statements.

As has been the case for the last few years, the County had no Debt. It does lease various pieces of equipment and at year end had \$999,985 in Capital and Operating leases. More detailed information about the County's long-term liabilities is presented in Note IV, Items H and I to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2018 budget and tax rates. Some key items that should be noted are as follows:

1. Mineral taxable values increased slightly (3.01%) although nowhere near previous levels. The continuing weakness in the valuations and a decision by the court to fully fund the budget by going above the effective tax rate for the first time in many years raised the tax rate above the effective tax rate. The net result was that the adopted tax rate was set at \$0.890895 cents per \$100 of valuation, an increase in the tax rate of just over 5 cents from the prior year.
2. Sales tax collections increased significantly last year and are forecast to continue that trend. On a positive note, the Mesquite Creek Wind Farm is now operational and the county has started receiving annual payments for each megawatt (MW) of generation, averaging one thousand dollars per MW for the next 9 years. There is also a solar farm under construction and that will also provide pilot payments equal to about half what the county will get from the wind farm.
3. The budget will allow for approximately the same number of employees in 2018. The Commissioners Court funded all employee benefits at the same levels as last year.
4. The Road and Bridge combined precinct's performance is again exceeding expectations.

There is the potential for a continued weakness in mineral valuations in this County as world production is driving the cost of oil. There was hope that production would begin on a large scale basis this next year, but that is no longer the case. It is still difficult to accurately predict long-term economic numbers for Dawson County based upon worldwide pricing and other economic considerations that drive the price of oil. Possibilities that will help strengthen and expand existing business and industry remain a focal point for economic development, along with seeking and pursuing opportunities not directly linked to oil, wind, and agriculture to help create stability and diversification for our local economy.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, consumers, investors and creditors with a general overview of Dawson County's finances and to show the County's accountability for the money it receives. For questions concerning any information provided in this report or requests for additional financial information, contact the County Auditor, Dawson County, Texas, PO Box 1268, Lamesa, Texas, 79331.

Respectfully submitted,

Rick Dollahan

Dawson County Auditor

**DAWSON COUNTY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

	<u>Primary Government Governmental Activities</u>
Assets	
Cash and Cash Equivalents	\$ 5,067,382
Receivables (net of allowance for uncollectibles)	421,051
Due from Agency Funds	19,504
Net Pension Asset	52,820
Capital Assets	
Land	140,778
Buildings, net	3,431,242
Machinery and Equipment, net	3,436,767
Total Assets	<u>\$ 12,569,544</u>
Deferred Outflows of Resources	<u>\$ 1,411,219</u>
Liabilities	
Accounts Payable	\$ 277,271
Long-Term Liabilities	
Due Within One Year	323,430
Due in More Than One Year	698,501
Total Liabilities	<u>\$ 1,299,202</u>
Deferred Inflows of Resources	<u>\$ 234,761</u>
Net Position	
Invested in Capital Assets, Net of Related Debt	\$ 6,089,570
Restricted for:	
Federal or State Grants	4,881
Judicial	504,209
Road & Bridge	774,540
Community Improvement	124,832
Other Purposes	503,987
Unrestricted Net Position	4,444,781
Total Net Position	<u>\$ 12,446,800</u>

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

DAWSON COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Program Revenues			Capital Grants	Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions		
Primary Government:					
Governmental Activities:					
General Government	\$ 1,375,201	\$ 368,770	\$ 20,377	\$ -	\$ (986,054)
Judicial	1,888,091	808,747	278,610	-	(800,734)
Elections	31,311	3,000	-	-	(28,311)
Financial Administration	314,403	6,150	-	-	(308,253)
Tax Administration	367,418	299,974	-	-	(67,444)
Facilities Management	791,336	74,199	-	9,608	(707,529)
Public Safety	3,712	-	-	-	(3,712)
Law Enforcement	810,302	46,609	5,000	-	(758,693)
Fire Protection	187,023	24,604	-	-	(162,419)
Corrections	1,222,580	-	-	-	(1,222,580)
Road and Bridges	1,734,996	549,362	-	-	(1,185,634)
Sanitation	65,340	-	-	-	(65,340)
Public Transportation	10,000	-	-	-	(10,000)
Health Care	119,171	85	-	-	(119,086)
Human Services	420,464	24,886	-	-	(395,578)
Parks & Recreation	83,841	4,750	752	-	(78,339)
Museums	1,000	-	-	-	(1,000)
County Extension Service	87,119	-	-	-	(87,119)
Libraries	326,636	12,512	7,560	-	(306,564)
Total Primary Government:	\$ 9,839,944	\$ 2,223,648	\$ 312,299	\$ 9,608	\$ (7,294,389)

General Revenue:

Taxes:	
Property Taxes, Levied for General Purposes	\$ 5,896,862
Sales Taxes	756,671
Tax Abatement Income	74,907
Mixed Beverage Tax	5,842
Penalty and Interest	89,739
Investment Earnings	67,869
Gain (Loss) on Disposal of Assets	46,665
Total General Revenues and Special Items	\$ 6,938,555
Change in Net Position	\$ (355,834)
Net Position - Beginning	\$ 12,802,634
Net Position - Ending	\$ 12,446,800

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

**DAWSON COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017**

	<u>General Fund</u>	<u>Preinct</u>	<u>District Court Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and Cash Equivalents	\$ 2,549,979	\$ 808,640	\$ 166,794	\$ 1,541,969	\$ 5,067,382
Taxes Receivable	494,659	83,156	-	-	577,815
Allowance for Uncollectible Taxes	(181,203)	(40,724)	-	-	(221,927)
Receivables (Net)	65,163	-	-	-	65,163
Due from Agency Funds	19,504	-	-	-	19,504
Total Assets	<u>\$ 2,948,102</u>	<u>\$ 851,072</u>	<u>\$ 166,794</u>	<u>\$ 1,541,969</u>	<u>\$ 5,507,937</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 159,273	\$ 34,100	\$ 9,531	\$ 74,367	\$ 277,271
Total Liabilities	<u>\$ 159,273</u>	<u>\$ 34,100</u>	<u>\$ 9,531</u>	<u>\$ 74,367</u>	<u>\$ 277,271</u>
Deferred Inflows of Resources	\$ 253,970	\$ 42,432	\$ -	\$ -	\$ 296,402
Fund Balances					
Restricted Fund Balance:					
Grant Restriction	\$ -	\$ -	\$ -	\$ 4,881	\$ 4,881
Judicial	-	-	157,263	346,946	504,209
Road & Bridge	-	774,540	-	-	774,540
Community Improvement	29,115	-	-	95,717	124,832
Other Restricted Fund Balance	-	-	-	503,987	503,987
Assigned Fund Balance:					
Community Improvement	-	-	-	99,947	99,947
Unassigned Fund Balance	2,505,744	-	-	416,124	2,921,868
Total Fund Balances	<u>\$ 2,534,859</u>	<u>\$ 774,540</u>	<u>\$ 157,263</u>	<u>\$ 1,467,602</u>	<u>\$ 4,934,264</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 2,948,102</u>	<u>\$ 851,072</u>	<u>\$ 166,794</u>	<u>\$ 1,541,969</u>	<u>\$ 5,507,937</u>

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

**DAWSON COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

Total Fund Balances - Governmental Funds \$ 4,934,264

Amounts reported for governmental activities in the statement of net position are different because:

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 \$11,995,179 and the accumulated depreciation was \$5,601,630. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase 5,805,118

Current year capital outlays and long-term debt principal payments are expenditures in the fund statements, but they are increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2017 capital outlays and debt principal payments is to increase (decrease) net 953,260

The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. (764,035)

Deferred Inflows of Resources related to pensions are not financial uses, and Deferred Outflows of Resources related to pensions are not financial resources, and therefore, are not reported in the funds. This is the amount by which Deferred Outflows of Resources exceeds Deferred Inflows of Resources. 1,176,458

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position. 341,735

Net Position of Governmental Activities \$ 12,446,800

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

DAWSON COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Precinct	District Court Fund	Other Funds	Total Governmental Funds
Revenues					
Taxes:					
Property Taxes	\$ 4,831,097	\$ 1,085,740	\$ -	\$ -	\$ 5,916,837
General Sales and Use Taxes	756,671	-	-	-	756,671
Mixed Beverage Tax	5,842	-	-	-	5,842
Licenses and Permits	-	475,294	-	-	475,294
Intergovernmental Revenue and Grants	43,766	-	-	418,139	461,905
Charges for Services	571,202	-	-	127,836	699,038
Fines	182,855	-	-	21,564	204,419
Forfeits	-	-	-	24,388	24,388
Investment Earnings	64,710	-	-	3,159	67,869
Rents and Royalties	3,500	-	-	-	3,500
Contributions from Private Sources	-	-	-	1,610	1,610
Other Revenue	459,952	74,068	5,508	209,750	749,278
Total Revenues	<u>\$ 6,919,595</u>	<u>\$ 1,635,102</u>	<u>\$ 5,508</u>	<u>\$ 806,446</u>	<u>\$ 9,366,651</u>
Expenditures					
General Government	\$ 728,142	\$ -	\$ -	\$ 582,509	\$ 1,310,651
Judicial	1,246,353	-	522,947	41,644	1,810,944
Elections	25,005	-	-	911	25,916
Financial Administration	297,620	-	-	-	297,620
Tax Administration	358,297	-	-	-	358,297
Facilities Management	690,969	-	-	251,196	942,165
Public Safety	-	-	-	3,712	3,712
Law Enforcement	789,682	-	-	1,584	791,266
Fire Protection	185,162	-	-	-	185,162
Corrections	1,117,792	-	-	11,721	1,129,513
Road and Bridges	88,486	1,765,034	-	-	1,853,520
Sanitation	65,340	-	-	-	65,340
Public Transportation	10,000	-	-	-	10,000
Health and Welfare:					
Health Care	111,401	-	-	-	111,401
Human Services	60,000	-	-	360,464	420,464
Culture and Recreation:					
Parks and Recreation	47,767	-	-	-	47,767
Museums	1,000	-	-	-	1,000
County Extension Service	102,177	-	-	-	102,177
Libraries	312,414	-	-	-	312,414
Total Expenditures	<u>\$ 6,237,607</u>	<u>\$ 1,765,034</u>	<u>\$ 522,947</u>	<u>\$ 1,253,741</u>	<u>\$ 9,779,329</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 681,988</u>	<u>\$ (129,932)</u>	<u>\$ (517,439)</u>	<u>\$ (447,295)</u>	<u>\$ (412,678)</u>
Other Financing Sources (Uses)					
Sale of Real or Personal Property	\$ 25,416	\$ 36,952	\$ -	\$ -	\$ 62,368
Transfers In	31,620	-	-	439,571	471,191
Transfers Out	(414,601)	-	-	(56,590)	(471,191)
Total Other Financing Sources (Uses)	<u>\$ (357,565)</u>	<u>\$ 36,952</u>	<u>\$ -</u>	<u>\$ 382,981</u>	<u>\$ 62,368</u>
Net Change In Fund Balances	\$ 324,423	\$ (92,980)	\$ (517,439)	\$ (64,314)	\$ (350,310)
Fund Balance, Beginning of Year	<u>\$ 2,210,436</u>	<u>\$ 867,520</u>	<u>\$ 674,702</u>	<u>\$ 1,531,916</u>	<u>\$ 5,284,574</u>
Fund Balance, End of Year	<u>\$ 2,534,859</u>	<u>\$ 774,540</u>	<u>\$ 157,263</u>	<u>\$ 1,467,602</u>	<u>\$ 4,934,264</u>

The notes to the Financial Statements are an integral part of this statement.

DAWSON 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, 2017

Net Change in Fund Balances - Total Governmental Funds \$ (350,310)

Amounts reported for governmental activities in the statement of activities are different because:

Current year capital outlays and long-term debt principal payments are expenditures in the fund statements, but they are increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the fiscal year September 30, 2017, capital outlays and debt principal payments is to increase (decrease) net position. 953,260

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. (764,035)

Certain expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the government funds. Certain contributions to the pension plan in the current fiscal year are not included on the Statement of Activities (258,057)

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 inflows of resources as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase 63,308

Change in Net Position of Governmental Activities \$ (355,834)

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

DAWSON COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2017

	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
Assets		
Cash and Cash Equivalents	\$ 26,238	\$ 448,850
Investments	1,556,265	-
Receivables (Net)	1,183,834	65,427
Total Assets	<u>\$ 2,766,337</u>	<u>\$ 514,277</u>
Liabilities		
Due to Others	\$ -	\$ 80,967
Intergovernmental Payable	1,068	368,147
Total Liabilities	<u>\$ 1,068</u>	<u>\$ 449,114</u>
Deferred Inflows of Resources	<u>\$ -</u>	<u>\$ 65,163</u>
Net Position		
Restricted for Community Improvement	\$ 2,765,269	\$ -
Total Net Position	<u>\$ 2,765,269</u>	<u>\$ -</u>

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

DAWSON COUNTY, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Private Purpose Trust Fund
Additions	
Investment Earnings	\$ 265,363
Rents and Royalties	390,228
Total Additions	<u>\$ 655,591</u>
Deductions	
Ad Valorem Taxes	\$ 25,231
Transfers to County Schools	325,671
Total Deductions	<u>\$ 350,902</u>
Change in Net Assets	\$ 304,689
Total Net Position, Beginning of Year	<u>\$ 2,460,580</u>
Total Net Position, End of Year	<u><u>\$ 2,765,269</u></u>

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

DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Dawson County, Texas (the "County"), was created in 1905 by the Texas Legislature. The County operates under the authority of the elected Commissioners' Court (the "Court") and provides the following services: Law Enforcement, Judicial, Health, Safety, Welfare, Culture, Road & Bridge Maintenance, and General Administrative services.

A. REPORTING ENTITY

The Commissioners' Court (the "Court") consists of four County Commissioners and the County Judge who are elected by the public. The Court has the primary accountability for fiscal matters, and is therefore, a financial reporting entity. As required by accounting principles generally accepted in the United States of America, these financial statements present Dawson County, Texas.

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 Dawson County, Texas, with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants, and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support. The County currently has no business-type activities. The *primary government* would be reported separately from certain legally separate *component units* for which the primary government is financially accountable. However, there are currently no component units.

The Statement of Activities demonstrates how other people or entities that participate in programs the County operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services, such as vehicle registrations, provided by a given function or segment of the County. The "grants and contributions" column includes amounts paid by organizations outside the County to help meet the operational or capital requirements of a given function. If revenue is not program revenue, it is general revenue used to support all of the County's functions. The County's taxes are always reported as general revenues.

Interfund activities between Governmental Funds appear as due to/due from on the Governmental Fund Balance Sheet and as other resources and other uses on the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories – governmental 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.

DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

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 fiduciary fund financial statements. 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).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest and principal on long-term debt which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The County considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are both measurable and available.

The fiduciary funds are accounted for on a flow of economic resources measurement focus and utilize the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the Fund Statement of Net Position. The net position is segregated into restricted and unrestricted net position.

D. FUND ACCOUNTING

The County reports the following major governmental funds:

The General Fund – The General Fund is the County's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. For this presentation, the General Fund and Road and Bridge Fund have been combined. These funds are operated and maintained separately by the Commissioners' Court decision, but there are not any outside requirements for the self-imposed separation, and the funds can be used for general County operations.

Other Major Governmental Funds – The Precinct Fund is the County's Special Revenue Fund designated to receive and expend the farm to market taxes and lateral road monies that are used for precinct road operations. The District Court Fund is designated to receive and expend monies related to the operation of the district court which is headquartered by Dawson County.

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017**

Other Governmental Funds:

Special Revenue Funds – The County accounts for resources restricted to, or designated for, specific purposes by the County or a grantor in special revenue funds. Most federal and some State financial assistance is accounted for in a special revenue fund and sometimes unused balances must be returned to the grantor at the close of specified project periods. Most of the County’s special revenue funds are not from grants but simply have restrictions on their use.

Fiduciary Funds:

Private Purpose Trust Funds - The County accounts for funds that both the principal and the income must be used for purposes that benefit parties other than the County. The only Private Purpose Trust Fund is the Permanent School Fund.

Agency Funds – The County accounts for resources held for others in a custodial capacity in agency funds. The County’s agency funds are the County Attorney’s funds, Sheriff’s funds, Justice of the Peace’s funds, County Clerk’s funds, Tax Assessor Collector’s funds, and District Clerk’s funds.

E. OTHER ACCOUNTING POLICIES

Cash Equivalents – The County considers investments to be cash equivalents if they have maturity of six months or less when purchased.

Consumable Materials and Supplies – Disbursements for the purchase of consumable materials and supplies are recorded as expenditures. Therefore, inventories of such items are not included in the balance sheet.

Due From (To) Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded in the affected funds in the period in which transactions are executed. See Note IV, E for additional discussion of interfund receivables, payables, and transfers.

Capital Assets – Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental activities columns in the Government-Wide Financial Statements. The County defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. 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 cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Land is not depreciated.

Buildings, furniture, and equipment of the County are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Building Improvements	15-50
Vehicles	5-10
Other Equipment	5-10

DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

Infrastructure Assets – The County has elected to use the modified approach in accounting for its street network (pavement). The modified approach allows governments to report as expenses in lieu of depreciation, infrastructure expenditures which maintain the asset but do not add to or improve the asset. Additions and improvements to the street network are capitalized. The County uses a pavement rating system to rate street condition and quantify the results of maintenance efforts. The rating system uses a measurement scale that is based on a condition index rating from zero for failed pavement to 10 for pavement in perfect condition. The condition index is used to classify roads and streets in five categories: very good (9-10), good (7-8), fair (5-6), poor (3-4), and very poor (0-2). It is the County’s desire to maintain 100% of its street system in good or very good condition. See Exhibit E-4 on pages 40 and 41 for additional information.

Long-Term Debt and Bond Issue Costs - In the Government-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Compensated Absences – The County has a policy of paying for unused vacation, compensatory and holiday time. Sick time is allowed to accumulate to a maximum of 480 hours, but the County does not pay for unused sick time. The liability for these items has been estimated at approximately \$102,714 as of September 30, 2017. They are recorded as expenditures when they are paid but are reflected in the Government-Wide Financial Statements.

Deferred Inflows of Resources – Deferred Inflows of Resources in all fund statements represents the delinquent property taxes and fines expected to be collected in some future period and the differences between expected and actual experience related to the County’s pension plan as discussed in note J. However, on the Statement of Net Assets, the deferred inflows of resources was created by the implementation of GASB 68 and represents the differences between expected and actual experience related to pension assets and liabilities.

Deferred Outflows of Resources -- Deferred Outflow of Resources is defined as the current consumption of net assets that is applicable to a future reporting. The implementation of GASB 68 created the County’s deferred outflow of resources - the employee pension contribution. This is the same as the current year’s employer pension contribution, but deferred for future consumption. As of September 30, 2017, the County reported a balance of \$1,411,219 in deferred outflow of resources.

Net Position and Fund Balance –

Government-Wide Financial Statements:

Investment in Capital Assets, Net of Related Debt – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction, or improvement of these capital assets.

Restricted Net Position – The component of net position that is restricted by a constraint placed on the use of assets that is either imposed externally or by law through constitutional provisions or enabling legislation. The Private Purpose Trust Fund restricted net position consists of the Permanent School Fund and is used for Dawson County schools.

Unrestricted Net Position – The difference between the assets and liabilities that is not reported in Net Position Invested in Capital Assets, Net of Related Debt and Net Position Restricted for the Private Purpose Trust Fund.

DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

Governmental Fund Financial Statements:

In the fund financial statements, governmental funds report fund balances as Nonspendable, Restricted, Committed, Assigned or Unassigned. These are discussed further in Note F below.

Management's Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

F. FUND BALANCE CLASSIFICATION

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The County has classified Fixed Assets as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year. Since Fixed Assets are not included in fund financial statements, the Nonspendable classification does not appear on the balance sheet.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The County has restricted resources.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the County Commissioners (the highest level of decision-making authority). These amounts cannot be used for any other purpose unless the County Commissioners remove or change the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The County does not currently have committed funds.
- **Assigned:** This classification includes amounts that are constrained by the County Commissioners' intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the County Commissioners or through the County Commissioners delegating this responsibility to another individual through the budgetary process. This classification is used in the Clean Up Cemetery Fund.
- **Unassigned:** This classification includes the residual fund balance for the General Fund except for a portion of the General Fund Fund Balance that is classified as Restricted.

The County would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017**

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total government funds on the Governmental Fund Balance Sheet and the net position for governmental activities as reported in the Government-Wide Statement of Net Position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

Capital Assets at the Beginning of the Year	Historic Cost	Accumulated Depreciation	Net Value at the Beginning of the Year	Adjustments to Changes in Net Position
Land	\$ 91,208	\$ -	\$ 91,208	
Buildings	6,278,924	2,742,142	3,536,782	
Furniture and Equipment	6,206,880	3,307,846	2,899,034	
Change in Net Position				<u>\$ 6,527,024</u>
 			Payable at the Beginning of the Year	
Long-Term Liabilities at the Beginning of the Year			\$ 95,227	
Compensation Payable			626,679	
Capital Leases Payable				<u>\$ (721,906)</u>
Change in Net Position				
Net Adjustment to Net Position				<u>\$ 5,805,118</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES.

Exhibits C-2 and C-4 provide a reconciliation between the net changes in fund balance as shown on the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the changes in net position of governmental activities as reported on the Government-Wide Statement of Activities. One element of the reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net position.

DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

The details of this adjustment are as follows:

	Amount	Adjustments to Net Position	Adjustments to Changes in Net Position
<u>Current Year Capital Activity</u>			
Land	\$ 49,570		
Buildings and Improvements	75,643		
Furniture and Equipment	1,136,289		
Basis in Assets Retired	(15,704)		
Total Capital Outlay	<u>\$ 1,245,798</u>	\$ 1,245,798	\$ 1,245,798
<u>Debt Principal Activity</u>			
Capital Lease Payments	\$ 350,406		
Capital Lease Proceeds	(642,944)		
Total Principal Payments	<u>\$ (292,538)</u>	<u>(292,538)</u>	<u>(292,538)</u>
Total Adjustment to Net Position		<u>\$ 953,260</u>	<u>\$ 953,260</u>

Another element of the reconciliation on Exhibit C-2 and C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	Amount	Adjustments to Net Position	Adjustments to Changes in Net Position
<u>GASB 68 Pension Adjustments</u>			
Certain contributions to the pension plan in the current fiscal year are not included on the statement of activities	\$ (258,057)		\$ (258,057)
Deferred Inflows of Resources, Balance at End of Year	(234,761)	\$ (234,761)	
Deferred Outflows of Resources, Balance at End of Year	1,411,219	1,411,219	
Total		<u>\$ 1,176,458</u>	<u>\$ (258,057)</u>
<u>Adjustments to Revenue</u>			
Uncollected Taxes (assumed collectible) from Current Year Levy	\$ 69,764	\$ 69,764	\$ 69,764
Uncollected Taxes (assumed collectible) from Prior Year	161,475	161,475	
Uncollected Fees of Office from Prior Year	64,132	64,132	
Uncollected Fees of Office, Current Year Increase	1,031	1,031	1,031
Adjustments for Pensions			
Net Pension Asset(Liability), Balance End of Year	52,820	52,820	
Reclassify Certain Expenditures:			
Decrease in Compensated Absences	(7,487)	(7,487)	(7,487)
Total		<u>\$ 341,735</u>	<u>\$ 63,308</u>

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017**

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Commissioners' Court adopts an "appropriated budget" for the General Fund and Special Revenue Funds. The budgets are prepared on the modified accrual basis to comply with the Constitution of the State of Texas. The adopted and final amended budgeted revenues and expenditures for the General Fund, the Precinct Fund, and the District Court Fund are presented in Exhibit E-1 through E-3.

The following procedures are used in establishing the budgetary data reflected in the Required Supplemental Information Budgetary Comparisons:

1. In July, the County Judge, with assistance of the County Auditor, prepares a budget for the succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is filed with the County Clerk and is open to public inspection. The Commissioners' Court is required to hold at least one public hearing on the budget no less than 15 days subsequent to the filing by the County Judge.
3. Prior to October 1, the Commissioners' Court legally enacts the budget through passage of a resolution. Once a budget is approved, it can only be amended at object, department, and fund level by approval of a majority of the members of the Commissioners' Court. The law requires that such amendments are made before the fact, are reflected in the official minutes of the Commissioners' Court, and are not made after fiscal year end. The County had several budget amendments during the year.
4. Each Budget is controlled at the revenue and expenditure function/object level in accordance with Texas statutory guidance. The County Auditor audits and approves legal expenditures. The Commissioners' Court audits and settles claims against the County but can spend money only in accordance with the adopted budget. The Treasurer disburses money after ordered by the Court if the expenditure is in accordance with Texas statutes. All budget appropriations lapse at year end.

IV. OTHER NOTES ON FUNDS AND ACCOUNTS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing 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 pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017**

requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act.

Policies Governing Deposits and Investments

In compliance with the Public Fund Investment Act, the County has adopted a deposit and investment policy. That policy is updated as necessary and addresses the following risk:

Custodial Credit Risk – Cash and investment deposits: This is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The County’s policy regarding types of deposits allowed and collateral requirements states that all deposits must be insured by FDIC or secured in another manner provided by law. All deposits of the County are held at First United Bank of Lamesa. At September 30, 2017, the total amount on deposit was \$6,834,977. Collateral for deposits consists of numerous security bonds, held in the name of First United Bank and marked as pledged to Dawson County, with a market value of \$9,420,244 as of September 30, 2017, however, only \$6,834,977 of the collateral is applicable due to the amount actually on deposit. Securities collateralizing deposits include bonds of independent school districts, other than those in Dawson County, Fannie Mae securities, and water and sewer bonds of other governments. Investments are selected by the bank and it is the bank’s responsibility to select investments of adequate ratings.

Cash deposits held at financial institutions can be categorized according to three levels of risk. These levels of risk are:

- | | |
|------------|---|
| Category 1 | Deposits that are insured or collateralized with securities held by the entity or by its agent in the entity’s name. |
| Category 2 | Deposits that are collateralized with securities held by the pledging financial institution’s trust department or agent in the entity’s name. |
| Category 3 | Deposits that are not collateralized. |

Based on the three levels of risk, all of the County’s cash deposits are classified as category 2. The County’s deposits were covered by depository insurance or pledged securities held by the pledging financial institution’s trust department or agent at all times during the year.

The County’s investments consisted completely of certificates of deposit and interest bearing checking accounts at First United Bank, Lamesa, Texas. Though all the certificates were written with one-month maturities, the rates provided by the depository were consistent to jumbo certificates of one year duration.

B. PROPERTY TAXES

In accordance with State law, the Dawson County Central Appraisal District makes all appraisals for tax purposes. Assessed values are based upon 100 percent of appraised market value and are reviewed every three years. Taxpayers have the right to challenge the assessed value.

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business property located in the County in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which

DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

The tax rate for the fiscal year ended September 30, 2017, (2016 tax levy) was \$0.685850 per \$100 assessed value for County General Fund operations and \$0.154150 for farm-market lateral maintenance and operations for a total rate of \$0.840000. The County is subject to a tax rate rollback if the total amount of property taxes imposed in any year, as defined by statute, exceeds the total amount of property taxes imposed in the preceding year by 8 percent.

C. DELINQUENT TAXES RECEIVABLE

Allowances for uncollectible tax receivables are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the County is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. OTHER ACCOUNTS RECEIVABLE

County accounts receivable at September 30, 2017, were:

County Clerk fines	\$	53,934
District Clerk fines		213,082
Justice of the Peace fines		167,404
		434,420
Allowance for doubtful collection		(369,257)
Net receivables	\$	65,163

E. INTERFUND BALANCES AND TRANSFERS

Interfund balances at September 30, 2017, consisted of the following individual fund balances:

	Due from Other Funds	Due to Other Funds
General Fund:		
Agency Fund	\$ 19,517	
Total General Fund	\$ 19,517	
Agency Fund		\$ 19,517
Total		\$ 19,517

The interfund transfers reflected on the Statements of Revenues and Expenditures were for routine purposes. Transfers were eliminated on the Statement of Activities.

DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

F. CAPITAL ASSET ACTIVITY

Capital assets have been combined into an accumulating account over an extended period. Since 1993, the costs have been maintained in sufficient detail to calculate depreciation, but the costs before 1993 were commingled into totals. Estimates have been used to establish prior year recordings and costs.

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

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirement	
Governmental Activities:				
Land	\$ 91,208	\$ 49,570	\$ -	\$ 140,778
Buildings and Improvements	6,278,924	75,643	-	6,354,567
Machinery and Equipment	6,206,880	1,136,289	634,612	6,708,557
Totals at Historical Cost	<u>\$ 12,577,012</u>	<u>\$ 1,261,502</u>	<u>\$ 634,612</u>	<u>\$ 13,203,902</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	2,742,142	181,183	-	2,923,325
Machinery and Equipment	3,307,846	582,852	618,908	3,271,790
Total Accumulated Depreciation	<u>\$ 6,049,988</u>	<u>\$ 764,035</u>	<u>\$ 618,908</u>	<u>\$ 6,195,115</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,527,024</u>	<u>\$ 497,467</u>	<u>\$ 15,704</u>	<u>\$ 7,008,787</u>

Capital assets purchased through capital leases are included in the above amounts. This includes ending balances in Equipment of \$2,100,381 and Accumulated Depreciation on Equipment of \$419,660.

Depreciation expense was charged to governmental functions as follows:

General Government	67,096
Justice System	58,325
Elections	5,395
Facilities Management	5,835
Law Enforcement	47,933
Fire Protection	1,861
Corrections	59,942
Roads and Bridges	446,843
Health Care	7,770
Parks and Recreation	36,074
County Extension Service	23,376
Libraries	3,585
Total Depreciation Expense	<u>\$ 764,035</u>

DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

G. LONG-TERM LIABILITIES

A summary of changes in general long-term debt for the year ended September 30, 2017, is as follows:

Description	Interest Rate Payable	Interest Current Year	Payable Amounts Outstanding 10/01/16	Issued	Retired	Payable Amounts Outstanding 9/30/17	Due Within One Year
Compensated Absences							
Various Funds	None	None	\$ 95,227	\$ 7,487	\$ -	\$ 102,714	\$ 102,714
Capital Lease							
Precinct	3.20%	1,905	63,255	-	63,255	-	-
Capital Lease							
Precinct	2.70%	2,782	121,568	-	40,608	80,960	41,718
Capital Lease							
Precinct	3.20%	2,144	89,099	-	89,099	-	-
Capital Lease							
Precinct	2.70%	1,999	94,106	-	94,106	-	-
Capital Lease							
Precinct	2.70%	4,196	172,781	-	38,099	134,682	39,141
Capital Lease							
Precinct	3.70%	1,961	-	215,321	9,848	205,473	40,313
Capital Lease							
Precinct	3.70%	-	-	217,312	-	217,312	40,325
Capital Lease							
Precinct	3.70%	-	-	210,311	-	210,311	39,014
Capital Lease							
General Fund	None	-	85,870	-	15,391	70,479	20,205
Total		\$ 14,987	\$ 721,906	\$ 650,431	\$ 350,406	\$ 1,021,931	\$ 323,430

Interest charged to expense in the Precinct Fund for the current fiscal year was \$14,987.

H. DEBT SERVICE REQUIREMENTS – CAPITAL LEASES

The County has entered into lease agreements as lessee to finance the acquisition of five road graders. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is a schedule of the capital lease commitments as of September 30, 2017.

	Present Value of Minimum Lease Payments	Interest	Total Minimum Lease Payments
Caterpillar – 140 M2 Grader – Super Precinct	\$ 210,311	\$ 20,376	\$ 230,687
Caterpillar – 140 M2 Grader – Super Precinct	80,961	2,204	83,165
Caterpillar – 140 M2 Grader – Super Precinct	205,474	18,900	224,374
Caterpillar – 140 M2 Grader – Super Precinct	217,312	21,048	238,360
Caterpillar – 140 M2 Grader – Super Precinct	134,682	6,303	140,985
Phone System – General Fund	70,478	-	70,478
Total	\$ 919,218	\$ 68,831	\$ 988,049

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017**

These total minimum lease payments are payable as follows:

<u>Year Ending September 30,</u>	Principal	Interest	Total
2018	\$ 220,716	\$ 26,235	\$ 246,951
2019	223,814	19,522	243,336
2020	190,343	13,219	203,562
2021	157,561	7,464	165,025
2022	126,784	2,391	129,175
Total Capital Lease Payments	<u>\$ 919,218</u>	<u>\$ 68,831</u>	<u>\$ 988,049</u>

I. COMMITMENTS UNDER NONCAPITALIZED LEASES

The future minimum rental commitments under operating (non-capitalized) lease agreements were for several copiers. The minimum future rental payments as of September 30, 2017, were as follows:

<u>Year Ending September 30,</u>	
2018	\$ 16,403
2019	13,694
2020	9,747
2021	8,646
2022	4,099
Total Minimum Rental	<u>\$ 52,589</u>
Rental Expenditures in Fiscal Year 2017	\$ 11,936

J. EMPLOYEE RETIREMENT BENEFITS

The County provides two separate retirement benefit plans. One plan is the defined benefit plan that is provided through the Texas County and District Retirement System. The County also offers a deferred compensation plan to its employees.

Texas County and District Retirement System Plan

Plan Description

The County provides retirement, disability, and death benefits for all of its full-time employees through a non-traditional 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 677 non-traditional defined benefit pension plans. 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.

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 10 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 10 years of service, but must leave their accumulated contributions in the plan to

DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefits Provided

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 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 contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Contribution Policy

The County has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the District based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. Pursuant to state law, employers participating in the system must pay 100% of their actuarially determined required contributions on an annual basis.

The County continued using an elected rate of 5.69% for the months of the accounting year in 2016, and 5.5% for the months of the accounting year in 2017.

The contribution rate payable by the employee members for the calendar years 2017 and 2016 is 7%, as adopted by the governing body of the County. The employee contribution rate and the District's contribution rate may be changed by the governing body of the County within the options available in the TCDRS Act.

Net Pension Liability

The District's 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.

Actuarial Assumptions: The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017**

Valuation Date	12/31/2016
Actuarial Cost Method	Entry Age
Asset Valuation Method	
Smoothing Period	5 years
Recognition method	Non-asymptotic
Corridor	None
Funding Valuation	
TCDRS System-wide economic assumptions	
Real Rate of Return	5.00%
Inflation	3.00%
Long Term Investment Return	8.00%
District specific economic assumptions	
Growth in Membership	0.00%
Payroll Growth	0.00%
Discount Rate	8.10%
Long-term expected rate of return	8.00%

Annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.0% and a merit, promotion, and longevity component that on average approximates 4.9% per year for a career employee.

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 or the funding valuation.

Mortality rates for depositing members were based on the RP-2000 Active Employee Mortality Table with the projection scale AA, with a two-year set-forward for males and a four year set-back for females.

Mortality rates for service retirees, beneficiaries and non-depositing members were based on the RP-200 Combined Mortality Table with the projection scale AA, with a one year set-forward for males and no age adjustment for females.

Mortality rates for disabled retirees were based on the RP-2000 Combined Mortality Table with the projection scale AA with no age adjustment for males and a two-year set-forward for females.

The actuarial assumptions used in the December 31, 2016, valuation were based on the results of an actuarial experience study for the period January 1, 2009 to December 31, 2012, except where required to be different by GASB 68.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The 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. The target allocation and best estimates of arithmetic real rates of returns for each major asset class are summarized in the following table:

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017**

Asset Class	Target Allocation	Long-Term Expected Rate of Return
US Equities	13.50%	4.70%
Private Equity	16.00%	7.70%
Global Equities	1.50%	5.00%
International Equities-Developed	10.00%	4.70%
International Equities-Emerging	7.00%	5.70%
Investment-Grade Bonds	3.00%	0.60%
High-Yield Bonds	3.00%	3.70%
Opportunistic Credit	2.00%	3.83%
Direct Lending	10.00%	8.15%
Distressed Debt	3.00%	6.70%
REIT Equities	2.00%	3.85%
Master Limited Partnerships	3.00%	5.60%
Private Real Estate Partnerships	6.00%	7.20%
Hedge Funds	20.00%	3.85%

Discount Rate: The discount rate used to measure the total pension liability was 8.10 percent. 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.

DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

Changes in Net Pension Liability

	Increase(Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability(Asset)
	(a)	(b)	(a)-(b)
Balances as of December 31, 2015	\$19,005,343	\$18,978,733	\$26,610
Changes for the year:			
Service Cost	552,869		552,869
Interest on total pension liability	1,535,283		1,535,283
Effect of plan changes	-		-
Effect of economic/demographic gains or losses	(97,994)		(97,994)
Effect of assumptions changes or inputs	-		-
Refund of Contributions	(83,095)	(83,095)	-
Benefit Payments	(574,266)	(574,266)	-
Administrative Expenses		(15,339)	15,339
Member Contributions		305,945	(305,945)
Net Investment Income		1,410,052	(1,410,052)
Employer Contributions		248,689	(248,689)
Other	-	120,242	(120,242)
Balances as of December 31, 2016	\$20,338,140	\$20,390,961	(\$52,820)

Sensitivity of the net pension liability to changes in the discount rate: The following represents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1(one) percentage point lower (7.10%), or one percentage point higher (9.10%), than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total Pension Liability	\$22,825,286	\$20,338,141	\$18,246,979
Fiduciary Net Position	20,390,961	20,390,961	20,390,961
Net Pension Liability	\$2,434,325	(\$52,820)	(\$2,143,982)

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017**

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

For the year ended September 30, 2017, the County recognized pension expense of \$221,404. At September 30, 2017, the County reported deferred inflows and outflows of resources related to pensions from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$234,761	-
Changes of assumptions	-	132,861
Net difference between projected and actual earnings	-	1,124,426
Contributions made subsequent to measurement date	-	153,932
	<u>\$234,761</u>	<u>\$1,411,219</u>

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

Year ended September 30:	
2017	\$339,520
2018	339,520
2019	318,023
2020	25,462
2021	-
Thereafter	-

Deferred Compensation Plan

The County offers a deferred compensation plan for employees who elect to participate. Participants may defer up to 25% of gross income not to exceed \$7,500 per year. Withdrawals are permitted because of death, emergency as defined by the Internal Revenue Service, termination of employment or retirement. The County does not contribute to the plan, and all assets in the plan belong to the employees.

K. CAFETERIA PLAN

The County entered into a Pre-Tax Premium Plan which qualifies as a "cafeteria plan." The insurance premiums that qualify for the plan are medical, life, and accidental death and dismemberment. The individuals who are eligible to participate are all employees who are covered or who are eligible to be covered under the County's group health plan.

**DAWSON COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017**

L. HEALTH CARE COVERAGE

The County provides group health insurance coverage to all full time employees. Employees may elect to cover dependents at their own expense. County employee premiums are paid with County funds.

Coverage includes a \$600 annual deductible or \$1,800 for the family. Medical expenses exceeding the deductible are paid at 90% in plan and 70% out of plan. The maximum out of pocket cost to the employee is \$2,400 per person or \$7,200 per family.

M. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2017, the County purchased commercial insurance to cover these risks. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

N. JOINT VENTURE ARRANGEMENTS

The County is involved in the following joint ventures with the City of Lamesa:

The County has a 50% financial interest in the municipal airport. The County provides \$5,000 annually for working capital. No significant accumulations of financial resources or deficits are in this joint venture. There was no deficit at September 30, 2017, for the County to absorb.

The County has a 50% financial interest in the city swimming pool. The County is billed annually by the City for its share of the loss. Financial records reflecting the operations are available at the City of Lamesa offices. The loss absorbed by the County at September 30, 2017, was \$24,469.

O. SUBSEQUENT EVENTS

There are no subsequent events to report. Subsequent events were evaluated through February 9, 2018, which is the date the financial statements were available to be issued.

DAWSON COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
BUDGETED ON THE GAAP BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes				
Property Taxes	\$ 4,804,450	\$ 4,804,450	\$ 4,831,097	\$ 26,647
General Sales and Use Taxes	650,000	650,000	756,671	106,671
Mixed Beverage Tax	2,100	2,100	5,842	3,742
Intergovernmental Revenue and Grants	67,598	67,598	43,766	(23,832)
Charges for Services	575,870	575,870	571,202	(4,668)
Fines	227,530	222,095	182,855	(39,240)
Investment Earnings	5,160	5,160	64,710	59,550
Rents and Royalties	3,005	3,005	3,500	495
Other Revenue	89,745	89,745	459,952	370,207
Total Revenues	<u>\$ 6,425,458</u>	<u>\$ 6,420,023</u>	<u>\$ 6,919,595</u>	<u>\$ 499,572</u>
Expenditures				
Current:				
General Government	\$ 623,062	\$ 708,214	\$ 728,142	\$ (19,928)
Judicial	1,259,672	1,283,430	1,246,353	37,077
Elections	29,885	29,885	25,005	4,880
Financial Administration	328,773	328,773	297,620	31,153
Tax Administration	333,494	379,156	358,297	20,859
Facilities Management	691,054	717,481	690,969	26,512
Public Safety:				
Law Enforcement	741,659	817,167	789,682	27,485
Fire Protection	200,995	198,867	185,162	13,705
Corrections	1,352,664	1,352,664	1,117,792	234,872
Public Works:				
Road and Bridges	93,479	93,479	88,486	4,993
Sanitation	67,400	67,400	65,340	2,060
Public Transportation	10,005	10,005	10,000	5
Health and Welfare:				
Health Care	112,796	119,176	111,401	7,775
Human Services	65,968	65,968	60,000	5,968
Culture and Recreation				
Parks & Recreation	50,294	50,294	47,767	2,527
Museums	1,000	1,000	1,000	-
County Extension Service	133,188	133,188	102,177	31,011
Libraries	331,040	331,040	312,414	18,626
Total Expenditures	<u>\$ 6,426,428</u>	<u>\$ 6,687,187</u>	<u>\$ 6,237,607</u>	<u>\$ 449,580</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (970)</u>	<u>\$ (267,164)</u>	<u>\$ 681,988</u>	<u>\$ 949,152</u>
Other Financing Sources (Uses)				
Sale of Real and Personal Property	\$ -	\$ -	\$ 25,416	\$ 25,416
Transfers In	10	31,573	31,620	47
Transfers Out	(15)	(411,752)	(414,601)	(2,849)
Transfers to Other Governments	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ (5)</u>	<u>\$ (380,179)</u>	<u>\$ (357,565)</u>	<u>\$ 22,614</u>
Change in Fund Balance	<u>\$ (975)</u>	<u>\$ (647,343)</u>	<u>\$ 324,423</u>	<u>\$ 971,766</u>
Fund Balance, Beginning of Year			<u>\$ 2,210,436</u>	
Fund Balance, End of Year			<u>\$ 2,534,859</u>	

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

DAWSON COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - PRECINCT
BUDGETED ON THE GAAP BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Taxes				
Property Taxes	\$ 1,103,148	\$ 1,103,148	\$ 1,085,740	\$ (17,408)
Licenses and Permits	536,400	536,400	475,294	(61,106)
Other Revenue	26,400	26,400	74,068	47,668
Total Revenues	<u>\$ 1,665,948</u>	<u>\$ 1,665,948</u>	<u>\$ 1,635,102</u>	<u>\$ (30,846)</u>
Expenditures				
Current:				
Public Works:				
Road and Bridges	\$ 1,665,958	\$ 1,769,078	\$ 1,765,034	\$ 4,044
Total Expenditures	<u>\$ 1,665,958</u>	<u>\$ 1,769,078</u>	<u>\$ 1,765,034</u>	<u>\$ 4,044</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (10)	\$ (103,130)	\$ (129,932)	\$ (26,802)
Other Financing Sources (Uses)				
Sale of Real and Personal Property	\$ 5	\$ 5	\$ 36,952	\$ 36,947
Transfers In	5	5	-	(5)
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ 10</u>	<u>\$ 10</u>	<u>\$ 36,952</u>	<u>\$ 36,942</u>
Change In Fund Balance	<u>\$ -</u>	<u>\$ (103,120)</u>	<u>\$ (92,980)</u>	<u>\$ 10,140</u>
Fund Balance, Beginning of Year			<u>\$ 867,520</u>	
Fund Balance, End of Year			<u>\$ 774,540</u>	

The notes to the Financial Statements are an Integral part of this statement.

DAWSON COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DISTRICT COURT FUND
BUDGETED ON THE GAAP BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes				
Intergovernmental Revenues and Grants	\$ 55	\$ 55	\$ -	\$ (55)
Other Revenue	10	10	5,508	5,498
Total Revenues	<u>\$ 65</u>	<u>\$ 65</u>	<u>\$ 5,508</u>	<u>\$ 5,443</u>
Expenditures				
Current:				
Judicial	\$ 524,778	\$ 524,796	\$ 522,947	\$ 1,849
Total Expenditures	<u>\$ 524,778</u>	<u>\$ 524,796</u>	<u>\$ 522,947</u>	<u>\$ 1,849</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (524,713)	\$ (524,731)	\$ (517,439)	\$ 7,292
Other Financing Sources (Uses)				
Sale of Real and Personal Property	\$ -	\$ -	\$ -	\$ -
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Change in Fund Balance	<u>\$ (524,713)</u>	<u>\$ (524,731)</u>	\$ (517,439)	<u>\$ 7,292</u>
Fund Balance, Beginning of Year			<u>\$ 674,702</u>	
Fund Balance, End of Year			<u>\$ 157,263</u>	

The notes to the Financial Statements are an integral part of this statement.

DAWSON COUNTY, TEXAS
INFORMATION ABOUT INFRASTRUCTURE ASSETS
REPORTED USING THE MODIFIED APPROACH
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT E-4

As allowed by GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, the County has adopted an alternative method for reporting costs associated with certain infrastructure assets. Under this alternative method, referred to as the “modified approach,” infrastructure assets are not depreciated, and maintenance and preservation costs are expensed. The County capitalizes costs related to new construction, major replacements, and improvements that increase the capacity and/or efficiency of infrastructure assets reported under the modified approach.

In order to use the modified approach, the County is required to:

Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.

Perform and document replicable condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale.

Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the County.

Document that the infrastructure assets are being preserved approximately at or above the condition level established by the County.

Roads

The County applies the modified approach only to the 62.65 miles of paved roads that are owned by the County and maintained by the County’s Precinct. The goal of the County in conjunction with adopting the modified approach is to develop and provide a cost effective pavement maintenance and rehabilitation program that preserves the County’s investment in its road network and enhances public transportation and safety.

Measurement Scale

The condition of road pavement is measured using the County Pavement Measurement System. This system uses a measurement scale that considers the condition of the highways and roads as denoted by a Pavement Condition Index (PCI), ranging from 0 to 10. The PCI is used to classify roads into categories as follows:

Category	PCI Rating Range	Description
Very Good	9 – 10	New or nearly new pavement which provides a very smooth ride and is mainly free of distress. (No maintenance work needed.)
Good	7 – 8	Pavement which provides an adequate ride and exhibits few, if any, visible signs of distress. (Minor maintenance may be needed.)
Fair	5 – 6	Surface defects such as cracking, rutting, and raveling are affecting the ride. (Major maintenance is likely needed.)

DAWSON COUNTY, TEXAS
INFORMATION ABOUT INFRASTRUCTURE ASSETS
REPORTED USING THE MODIFIED APPROACH
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT E-4

Measurement Scale (Continued)

Poor	3 – 4	These roadways have deteriorated to such an extent that they are in need of resurfacing and the ride is noticeably rough. (Structural improvements, in addition to major maintenance, are likely needed.)
Very Poor	0 – 2	Pavement in this category is severely deteriorated and the ride quality is unacceptable. (Complete road reconstruction is likely needed.)

Established Condition Level

It is the County’s desire to maintain at least 100% of its roads at or above the “good” condition level, and none at a “very poor” condition. Condition assessments are performed at least every three years with the most recent occurring in 2014.

Assessed Conditions

The following table reports the percentage of pavement meeting the “very good” and “good” condition ratings, as well as those falling into the “fair” category, as assessed in 2014. There were no roads in the “Poor” or “Very Poor” category. The assessment takes into account if any of the three graded categories, Ride, Surface, and Structure, fell into the respective category. For instance, if the Ride graded a 6, but the Surface and Structure were both 8, the road is still considered to be in the “Fair” category.

Category	2014
Very Good / Good	73%
Fair	27%

The County has performed maintenance and repairs to approximately 80% of the County’s paved roads over the past three years and plans to finish maintenance and repair for the remaining 20% of the County roads over the next year. At that time, all roads will be in the “Good” or “Very Good” categories.

Expenditures to improve County infrastructure assets are as follows for the fiscal years ended:

September 30, 2012	\$ 340,712
September 30, 2013	\$ 129,195
September 30, 2014	\$ 408,819
September 30, 2015	\$ -
September 30, 2016	\$ -
September 30, 2017	\$ -

DAWSON COUNTY, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

	Year Ended December 31,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total Pension Liability										
Service cost	\$ 552,869	\$ 496,229	\$ 484,715	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Interest on total pension liability	1,535,283	1,435,047	1,343,391	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Effect of plan changes	-	(68,605)	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Effect of assumption changes or inputs	-	221,435	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Effect of economic/demographic (gains) or losses	(97,994)	(172,630)	(144,220)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments/refunds of contributions	(657,360)	(597,467)	(666,989)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net change in total pension liability	1,332,798	1,314,009	1,016,897	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total pension liability, beginning	19,005,343	17,691,334	16,674,438	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total pension liability, ending (a)	<u>\$ 20,338,141</u>	<u>\$ 19,005,343</u>	<u>\$ 17,691,335</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Fiduciary Net Position										
Employer contributions	\$ 248,689	\$ 1,757,925	\$ 1,961,194	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Member contributions	305,945	302,987	290,172	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Investment income net of investment expenses	1,410,052	(43,475)	1,035,828	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments/refunds of contributions	(657,360)	(597,467)	(666,989)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Administrative expenses	(15,339)	(13,198)	(12,553)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other	120,242	26,695	(63,295)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net change in fiduciary position	\$ 1,412,229	\$ 1,433,467	\$ 2,544,357	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fiduciary net position, beginning	18,978,733	17,545,264	15,000,908	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fiduciary net position, ending (b)	<u>\$ 20,390,962</u>	<u>\$ 18,978,731</u>	<u>\$ 17,545,265</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Net pension liability/(asset), ending = (a)-(b)	<u>\$ (52,821)</u>	<u>\$ 26,612</u>	<u>\$ 146,070</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Fiduciary net position as % of total pension liability	100.26%	99.86%	99.17%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Pensionable covered payroll	\$ 4,370,637	\$ 4,328,392	\$ 4,009,149	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net pension liability as a % of covered payroll	-1.21%	0.61%	3.64%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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

DAWSON COUNTY, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS

Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2007	330,682	330,682	-	3,204,285	10.3%
2008	377,352	377,352	-	3,449,286	10.9%
2009	443,535	443,535	-	3,520,120	12.6%
2010	424,129	424,129	-	3,665,764	11.6%
2011	431,524	431,524	-	3,697,744	11.7%
2012	452,010	452,010	-	3,711,091	12.2%
2013	490,166	490,166	-	3,965,752	12.4%
2014	523,194	1,961,194	(1,438,000)	4,009,149	48.9%
2015	421,585	1,757,925	(1,336,340)	4,328,392	40.6%
2016	248,689	248,689	-	4,370,637	5.7%

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

Steve Gary, C.P.A., PC
James Bowers, C.P.A., PC
Eric Miller, C.P.A., PC
Melvin Eaker, C.P.A., PC
Lindi Stapp, C.P.A., PC



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

To the Honorable Judge O'Brien and the Commissioner's Court
Dawson County, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dawson County, Texas (the "County"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated February 9, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Gary, Bowers & Miller

Lubbock, Texas
February 9, 2018