

FREESTONE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Introductory Section

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Freestone County, Texas
Annual Financial Report
For The Year Ended September 30, 2017

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
FINANCIAL SECTION		
Independent Auditor's Report.....	1	
Management's Discussion and Analysis (Required Supplementary Information).....	3	
 <u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Position.....	8	A-1
Statement of Activities.....	9	A-2
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	10	A-3
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position.....	12	A-4
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	13	A-5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	15	A-6
Statement of Fiduciary Net Position - Fiduciary Funds.....	16	A-7
Notes to the Financial Statements	17	
 <u>Required Supplementary Information</u>		
Budgetary Comparison Schedules:		
General Fund.....	32	B-1
Road and Bridge Fund - Pct 1.....	33	B-2
Road and Bridge Fund - Pct 2.....	34	B-3
Road and Bridge Fund - Pct 3.....	35	B-4
Road and Bridge Fund - Pct 4.....	36	B-5
 Schedule of Changes in the County's Net Pension Liability		
And Related Ratios -Texas County District Retirement System	37	B-6
Schedule of County's Contributions - Texas County District Retirement System.....	38	B-7
Notes to Required Supplementary Information.....	39	
 <u>Combining Statements as Supplementary Information:</u>		
Combining Balance Sheet - All Nonmajor Governmental Funds.....	40	C-1
Combining Statement of Revenues, Expenditures and Changes in		
Fund Balances - All Nonmajor Governmental Funds.....	41	C-2
 Special Revenue Funds:		
Combining Balance Sheet - Nonmajor Special Revenue Funds.....	42	C-3
Combining Statement of Revenues, Expenditures and Changes		
in Fund Balances - Nonmajor Special Revenue Funds.....	45	C-4

Freestone County, Texas
Annual Financial Report
For The Year Ended September 30, 2017

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
Fiduciary Funds:		
Agency Funds:		
Combining Statement of Fiduciary Assets and Liabilities.....	48	C-5
OTHER SUPPLEMENTARY INFORMATION SECTION		
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>	49	

Financial Section

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Independent Auditor's Report

To the County Commissioners
Freestone County, Texas
118 East Commerce
Fairfield, Texas 75840

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 the Freestone 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 County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information

of Freestone County, Texas 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, schedule of the County's changes in net pension liability and related ratios and schedule of County pension contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Freestone County, Texas' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2018 on our consideration of Freestone County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Freestone County, Texas' internal control over financial reporting and compliance.

Respectfully submitted,

Davis, Heinemann + Co.

Davis, Heinemann & Company, P.C.

Huntsville, Texas
August 10, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Freestone County's annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year ended September 30, 2017. Please read it in conjunction with the County's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The County's total combined net position was \$13,851,511 at September 30, 2017.
- During the year, the County's expenses were \$949,647 less than the \$11,531,887 generated in taxes, charges for services, operating grants and other revenues for governmental activities.
- The total cost of the County's programs was \$10,582,240.
- The general fund reported a fund balance this year of \$8,874,160.

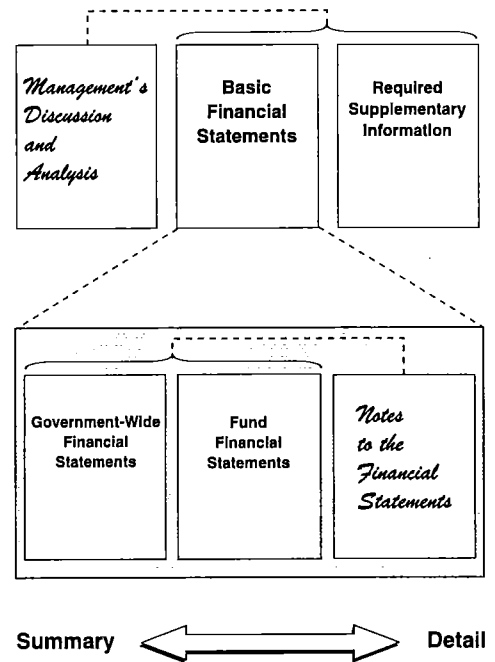
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detail. Following the statements is a section of *required supplementary information* that further explains and supports information in the financial statements. Figure A-1 shows the arrangement of the required parts of the annual report and the relationship to one another.

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



Government-wide Statements

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

The two government-wide statements report the County's net position and the change. Net position—the difference between the County's assets and liabilities—is one way to measure the County's financial health or *position*.

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

The government-wide financial statements of the County include the *Governmental activities*. Most of the County's basic services are included here, such as public service, public safety, public transportation, and general administration. Property taxes, charges for services and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detail information about the County's most significant *funds*—not the County as a whole. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and when applicable by bond covenants.
- The Commissioner's Court establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The County has the following kinds of funds:

- *Governmental funds*—Most of the County's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detail *short-term* view that helps management determine whether there are more or fewer financial resources available to finance the County's programs in the near future. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Fiduciary funds*—The County is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the County's government-wide financial statements because the County cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net position. The County's combined net position was \$13,851,511 at September 30, 2017. (See Table A-1).

Table A-1
Freestone County's Net Position
(In thousand of dollars)

	Governmental Activities		Total Change
	2017	2016	2017-2016
Current Assets:			
Cash and Cash Equivalents	\$ 2,862.9	\$ 1,484.0	\$ 1,378.9
Short Term Investments	8,000.0	7,600.0	400.0
Property Taxes Receivable	877.4	1,251.5	(374.1)
Fines and Fees Receivable	1,295.5	1,098.4	197.1
Intergovernmental Receivables	0.4	-	0.4
Other Receivables	0.1	17.5	(17.4)
Prepaid Expenses	11.3	11.9	(0.6)
Total Current Assets:	<u>13,047.6</u>	<u>11,463.3</u>	<u>1,584.3</u>
Non-Current Assets:			
Capital Assets	14,634.0	14,363.4	270.6
Less Accumulated Depreciation	<u>(10,335.9)</u>	<u>(10,004.3)</u>	<u>(331.6)</u>
Total Non-Current Assets	<u>4,298.1</u>	<u>4,359.1</u>	<u>(61.0)</u>
Total Assets	<u>17,345.7</u>	<u>15,822.4</u>	<u>1,523.3</u>
Deferred Outflow s of Resources:			
Deferred Outflow s Related to Contributions	519.1	533.8	(14.7)
Deferred Outflow s Related to Pensions	<u>1,452.8</u>	<u>1,877.8</u>	<u>(425.0)</u>
Total Deferred Outflow s of Resources	<u>1,971.9</u>	<u>2,411.6</u>	<u>(439.7)</u>
Current Liabilities:			
Accounts Payable and Accrued Liabilities	553.5	470.2	83.3
Current Portion of Long-Term Liabilities	96.4	21.5	74.9
Total Current Liabilities	<u>649.9</u>	<u>491.7</u>	<u>158.2</u>
Long-Term Liabilities:			
Capital Leases	-	10.0	(10.0)
Compensated Absences	84.9	103.6	(18.7)
Net Pension Liability	<u>4,511.9</u>	<u>4,484.8</u>	<u>27.1</u>
Total Long-Term Liabilities	<u>4,596.8</u>	<u>4,598.4</u>	<u>(1.6)</u>
Total Liabilities	<u>5,246.7</u>	<u>5,090.1</u>	<u>156.6</u>
Deferred Inflow s of Resources:			
Deferred Inflow s Related to Pensions	<u>219.4</u>	<u>242.0</u>	<u>(22.6)</u>
Total Deferred Inflow s of Resources	<u>219.4</u>	<u>242.0</u>	<u>(22.6)</u>
Net Position:			
Net Investment in Capital Assets	4,201.7	4,359.1	(157.4)
Restricted	1,685.1	713.2	971.9
Unrestricted	<u>7,964.7</u>	<u>7,829.6</u>	<u>135.1</u>
Total Net Position	<u>\$ 13,851.5</u>	<u>\$ 12,901.9</u>	<u>\$ 949.6</u>

Changes in net position.

The County's total revenues were \$11,531,887. A significant portion, seventy-one (71) percent of the County's revenue comes from property tax, twenty-three (23) percent comes from charges for services, while six (6) percent relates to operating grants, investment earnings and other income.

The total cost of all programs and services was \$10,582,240; twenty-seven (27) percent of these costs are for public safety, twenty-three (23) percent are for public transportation, sixteen (16) percent are for general administration, fifteen (15) percent are for judicial and elections, and the remaining nineteen (19) percent are for various administration and intergovernmental county costs. (See Table A-2)

Governmental Activities

Table A-2
Changes in Freestone County's Net Position
(In thousand of dollars)

	Governmental Activities		Change
	2017	2016	2017-2016
Program Revenues:			
Charges for Services	\$ 2,637.0	\$ 2,473.0	\$ 164.0
Operating Grants and Contributions	236.9	200.7	36.2
General Revenues:			
Property Taxes	8,236.6	8,561.4	(324.8)
Investment Earnings	98.1	97.8	0.3
Gain on Sale of Capital Assets	24.1	-	24.1
Other	299.1	257.2	41.9
Total Revenues	11,531.8	11,590.1	(58.3)
Program Expenses:			
General Administration	1,690.2	1,877.6	(187.4)
Financial Administration	876.0	882.5	(6.5)
Public Safety	2,894.9	3,633.7	(738.8)
Judicial and Elections	1,545.6	1,481.7	63.9
Health & Welfare	429.2	147.8	281.4
Public Transportation	2,435.4	3,609.9	(1,174.5)
Intergovernmental Expenditures	595.5	442.0	153.5
Waste Disposal	115.4	120.9	(5.5)
Total Expenses	10,582.2	12,196.1	(1,613.9)
Excess (Deficiency) Before Other Resources, Uses and Transfers	\$ 949.6	\$ (606.0)	\$ 1,555.6

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

General Fund Budgetary Highlights

Actual expenditures in the General Fund were \$1,027,493 less than final budget amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2017, the County had invested \$14,634,025 in a broad range of capital assets, including infrastructure, buildings and improvements, equipment, and vehicles. (See Table A-3)

Table A-3
Freestone County's Capital Assets
(In thousand of dollars)

	Governmental Activities		Change
	2017	2016	2017-2016
Capital Assets			
Land	\$ 98.7	98.7	\$ -
Construction in Progress	84.6	-	84.6
Roads and Bridges	1,118.7	1,073.9	44.8
Buildings and Improvements	6,296.1	6,296.1	-
Vehicles	2,131.9	2,126.6	5.3
Machinery and Equipment	4,082.0	3,946.1	135.9
Furniture and Equipment	822.0	822.0	-
Totals at Historical Cost	14,634.0	14,363.4	270.6
Total Accumulated Depreciation	(10,335.9)	(10,004.3)	(331.6)
Net Capital Assets	\$ 4,298.1	\$ 4,359.1	\$ (61.0)

Long Term Debt

As of September 30, 2017, the County had outstanding debt as shown in Table A-4. More information about the County's debt is in the notes to the financial statements.

Table A-4
Freestone County's Long-Term Debt
(In thousand of dollars)

	Governmental Activities		Change
	2017	2016	2017-2016
Debt Payable			
Capital Leases	\$ 96.4	\$ 20.0	\$ 76.4
Compensated Absences	84.9	115.1	(30.2)
Net Pension Liability	4,511.9	4,484.8	27.1
Total Long-Term Debt	\$ 4,693.2	\$ 4,619.9	\$ 73.3

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the revenues it receives. If you have questions about this report or need additional financial information, contact the County Auditor at 118 E. Commerce, Room 209, Fairfield, Texas 75840.

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Basic Financial Statements

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FREESTONE COUNTY, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2017

	Governmental Activities
ASSETS:	
Cash and Cash Equivalents	\$ 2,862,889
Investments	8,000,000
Taxes Receivable	877,399
Accounts Receivable	100
Due from Other Governments	399
Fines and Fees Receivable	1,295,533
Prepaid items	11,310
Land	98,670
Construction In Progress	84,585
Other Capital Assets, Net of Accumulated Depreciation	4,114,882
Total Assets	<u>17,345,767</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred Outflows - Pension Contributions	519,118
Deferred Outflows - Other Pension	1,452,766
Total Deferred Outflows of Resources	<u>1,971,884</u>
LIABILITIES:	
Accounts Payable	433,836
Accrued Liabilities	119,742
Noncurrent Liabilities	
Due within one year	96,446
Due in more than one year	84,884
Net Pension Liability	4,511,853
Total Liabilities	<u>5,246,761</u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred Inflows - Pension	219,379
Total Deferred Inflows of Resources	<u>219,379</u>
NET POSITION:	
Net Investment in Capital Assets	4,201,691
Restricted For:	
Special Revenue	1,685,153
Unrestricted	7,964,667
Total Net Position	<u>\$ 13,851,511</u>

The accompanying notes are an integral part of this statement.

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

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
PRIMARY GOVERNMENT:				
Governmental Activities:				
General Administration	\$ 1,690,154	\$ 433,467	\$ 76,736	\$ (1,179,951)
Financial Administration	875,995	204,330	-	(671,665)
Public Safety	2,894,948	82,912	29,806	(2,782,230)
Judicial	1,545,586	600,393	22,404	(922,789)
Health and Welfare	429,236	8,590	107,991	(312,655)
Public Transportation	2,435,414	682,711	2	(1,752,701)
Intergovernmental Expenditures	595,512	601,033	-	5,521
Waste Disposal	115,395	23,554	-	(91,841)
Total Governmental Activities	<u>10,582,240</u>	<u>2,636,990</u>	<u>236,939</u>	<u>(7,708,311)</u>
Total Primary Government	<u>\$ 10,582,240</u>	<u>\$ 2,636,990</u>	<u>\$ 236,939</u>	<u>(7,708,311)</u>
General Revenues:				
Property Taxes				8,236,588
Interest and Royalty Income				98,089
Other Income				299,141
Gain/Loss on Sale of Capital Assets				24,140
Total General Revenues				<u>8,657,958</u>
Change in Net Position				<u>949,647</u>
Net Position - Beginning				<u>12,901,864</u>
Net Position - Ending				<u>\$ 13,851,511</u>

The accompanying notes are an integral part of this statement.

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FREESTONE COUNTY, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	General Fund	Road and Bridge Fund Precinct 1	Road and Bridge Fund Precinct 2
ASSETS AND OTHER DEBITS			
Assets:			
Cash and Cash Equivalents	\$ 1,350,310	\$ 279,791	\$ 472,707
Investments	8,000,000	-	-
Taxes Receivable	655,374	55,506	55,507
Accounts Receivable	100	-	-
Due from Other Funds	500	-	-
Due from Other Governments	-	-	-
Prepaid items	11,310	-	-
Total Assets	\$ 10,017,594	\$ 335,297	\$ 528,214
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 393,869	\$ 7,101	\$ 8,126
Accrued Liabilities	94,191	3,485	3,976
Due to Other Funds	-	-	-
Total Liabilities	488,060	10,586	12,102
Deferred Inflows of Resources:			
Deferred Inflows - Property Taxes	655,374	55,506	55,507
Total Deferred Inflows of Resources	655,374	55,506	55,507
Fund Balances:			
Nonspendable	11,310	-	-
Restricted	-	269,205	460,605
Special Revenue	-	-	-
Unassigned	8,862,850	-	-
Total Fund Balance	8,874,160	269,205	460,605
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 10,017,594	\$ 335,297	\$ 528,214

Road and Bridge Fund Precinct 3	Road and Bridge Fund Precinct 4	Other Governmental Funds	Total Governmental Funds
\$ 161,250	\$ 301,392	\$ 297,439	\$ 2,862,889
-	-	-	8,000,000
55,506	55,506	-	877,399
-	-	-	100
-	-	-	500
-	-	399	399
-	-	-	11,310
<u>\$ 216,756</u>	<u>\$ 356,898</u>	<u>\$ 297,838</u>	<u>\$ 11,752,597</u>
\$ 11,498	\$ 6,723	\$ 6,519	\$ 433,836
5,603	4,473	8,014	119,742
-	-	500	500
<u>17,101</u>	<u>11,196</u>	<u>15,033</u>	<u>554,078</u>
55,506	55,506	-	877,399
<u>55,506</u>	<u>55,506</u>	-	<u>877,399</u>
-	-	-	11,310
144,149	290,196	282,805	1,446,960
-	-	-	8,862,850
<u>144,149</u>	<u>290,196</u>	<u>282,805</u>	<u>10,321,120</u>
<u>\$ 216,756</u>	<u>\$ 356,898</u>	<u>\$ 297,838</u>	<u>\$ 11,752,597</u>

FREESTONE COUNTY, TEXASRECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

Total fund balances - governmental funds balance sheet	\$ 10,321,120
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	4,298,137
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	877,399
Payables for capital leases which are not due in the current period are not reported in the funds.	(96,446)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(84,884)
Court fines receivable unavailable to pay for current period expenditures are deferred in the funds.	1,295,533
Recognition of the County's proportionate share of the net pension liability is not reported in the funds.	(4,511,853)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(219,379)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	<u>1,971,884</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 13,851,511</u>

The accompanying notes are an integral part of this statement.

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FREESTONE COUNTY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Road and Bridge Fund Precinct 1	Road and Bridge Fund Precinct 2
Revenue:			
Property Taxes	\$ 6,462,391	\$ 532,198	\$ 532,197
Intergovernmental	198,823	-	-
Charges for Services	967,878	163,557	163,065
Waste Disposal	23,554	-	-
Interest and Royalty Income	97,000	223	399
Other	736,004	36,268	-
Total Revenues	<u>8,485,650</u>	<u>732,246</u>	<u>695,661</u>
Expenditures:			
General Administration	1,441,664	-	-
Financial Administration	827,670	-	-
Public Safety	2,773,655	-	-
Judicial	1,362,213	-	-
Health and Welfare	391,273	-	-
Public Transportation	-	493,989	511,436
Intergovernmental Expenditures	594,512	-	-
Waste Disposal	107,574	-	-
Total Expenditures	<u>7,498,561</u>	<u>493,989</u>	<u>511,436</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>987,089</u>	<u>238,257</u>	<u>184,225</u>
Other Financing Sources (Uses):			
Transfers In	-	-	-
Transfers Out	(43,000)	-	-
Capital Leases	-	-	-
Sale of Capital Assets	-	4,755	-
Total Other Financing Sources (Uses)	<u>(43,000)</u>	<u>4,755</u>	<u>-</u>
Net Change in Fund Balances	<u>944,089</u>	<u>243,012</u>	<u>184,225</u>
Fund Balances - Beginning	7,930,071	26,193	276,380
Fund Balances - Ending	<u>\$ 8,874,160</u>	<u>\$ 269,205</u>	<u>\$ 460,605</u>

The accompanying notes are an integral part of this statement.

Road and Bridge Fund Precinct 3	Road and Bridge Fund Precinct 4	Other Governmental Funds	Total Governmental Funds
\$ 532,198	\$ 532,197	\$ -	\$ 8,591,181
2	46,544	12,461	257,830
163,557	145,988	166,733	1,770,778
-	-	-	23,554
162	305	-	98,089
38,604	21,273	111,130	943,279
<u>734,523</u>	<u>746,307</u>	<u>290,324</u>	<u>11,684,711</u>
-	-	169,525	1,611,189
-	-	132	827,802
-	-	4,326	2,777,981
-	-	29,375	1,391,588
-	-	24,937	416,210
611,696	800,914	60,600	2,478,635
-	-	1,000	595,512
-	-	-	107,574
<u>611,696</u>	<u>800,914</u>	<u>289,895</u>	<u>10,206,491</u>
122,827	(54,607)	429	1,478,220
-	-	43,000	43,000
-	-	-	(43,000)
35,200	140,310	-	175,510
-	19,383	-	24,138
<u>35,200</u>	<u>159,693</u>	<u>43,000</u>	<u>199,648</u>
158,027	105,086	43,429	1,677,868
(13,878)	185,110	239,376	8,643,252
<u>\$ 144,149</u>	<u>\$ 290,196</u>	<u>\$ 282,805</u>	<u>\$ 10,321,120</u>

FREESTONE COUNTY, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Net change in fund balances - total governmental funds	\$ 1,677,868
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	362,803
The depreciation of capital assets used in governmental activities is not reported in the funds.	(423,759)
The gain or loss on the sale of capital assets is not reported in the funds.	24,140
All proceeds from the sale of capital assets are reported in the funds but not in the SOA.	(24,140)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(354,593)
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	99,064
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	30,231
Revenues in the SOA for court fines not providing current financial resources are not reported in the funds.	177,631
Proceeds of leases do not provide revenue in the SOA, but are reported as current resources in the funds.	(175,510)
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	<u>(444,088)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 949,647</u>

The accompanying notes are an integral part of this statement.

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

	Agency Funds
ASSETS:	
Cash and Cash Equivalents	\$ 1,205,055
Total Assets	<u>\$ 1,205,055</u>
LIABILITIES:	
Accrued Liabilities	\$ 9,524
Due to Others	880,186
Due to Other Funds	309,213
Due to Other Governments	6,132
Total Liabilities	<u>\$ 1,205,055</u>

The accompanying notes are an integral part of this statement.

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

A. Summary of Significant Accounting Policies

The combined financial statements of Freestone County, Texas (the "County") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The County's basic financial statements include the accounts of all its operations. The County evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the County's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the County holds the corporate powers of the organization
- the County appoints a voting majority of the organization's board
- the County is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the County
- there is fiscal dependency by the organization on the County
- the exclusion of the organization would result in misleading or incomplete financial statements

The County also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the County to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the County, its component units or its constituents; and 2) The County or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the County.

Based on these criteria, the County has no component units. Additionally, the County is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

Fund Financial Statements: The fund financial statements provide information about the County's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

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

The County reports the following major governmental funds:

General Fund. This is the County's primary operating fund. It accounts for all financial resources of the County except those required to be accounted for in another fund.

In addition, the County reports the following fund types:

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support County programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty 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. 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. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the County incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the County's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed

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

and written off, but the County is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

b. Inventories and Prepaid Items

The County records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

d. Receivable and Payable Balances

The County believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

e. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to or deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

f. Interfund Activity

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

FREESTONE COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2017

activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

g. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide and proprietary Statements of Net Position) and governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expenses/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

h. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

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

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the County's County Commissioners. Committed amounts cannot be used for any other purpose unless the County Commissioners removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the County Commissioners. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the County intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the County Commissioners or by an official or body to which the County Commissioners delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the County itself.

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

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the County considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

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

i. Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

4. Change in Accounting Policies

In fiscal year 2017, the County adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- Statement No. 80, *Blending Requirements for Certain Component Units*
- Statement No. 82, *Pension Issues - An Amendment of GASB No. 67, No. 68 and No. 73*

- a. Statement No. 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

The scope of this Statement includes OPEB plans, defined benefit and defined contribution that are administered through trusts that meet the following criteria:

- 1) Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- 2) OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- 3) OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The County does not administer their OPEB plan through a trust that meets the criteria noted above. As a result, the adoption of GASB Statement No. 74 did not result in a change to the financial statements or note disclosures.

- b. GASB Statement No. 80 clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No 39, *Determining Whether Certain Organizations Are Component Units*.

The County did not have any component units which met the definition noted above. As a result, the

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

adoption of GASB Statement No. 80 did not result in a change to the financial statements or note disclosures.

- c. GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The financial statements and note disclosures have been updated for the affects of the adoption of GASB Statement No. 82.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

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

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

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

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

C. Deposits and Investments

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

Cash Deposits:

At September 30, 2017, the carrying amount of the County's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$10,007,159 and the bank balance was \$10,004,928. The County's cash deposits at September 30, 2017 and during the year ended September 30, 2017, were entirely covered by FDIC insurance or by pledged collateral held by the County's agent bank in the County's name.

The County also holds funds in TexPool, a public funds investment pool. The balance at September 30, 2017 was \$855,020, and is classified as cash equivalents on the financial statements.

Investments:

The County is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the County adhered to the requirements of the Act. Additionally, investment practices of the County were in accordance with local policies.

The Act determines the types of investments which are allowable for the County. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The County's investments at September 30, 2017 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Rate</u>	<u>Fair Value</u>
Certificate of Deposit	11/25/17	1.05% \$	400,000
Certificate of Deposit	12/14/17	1.05%	500,000
Certificate of Deposit	01/03/18	1.05%	1,000,000
Certificate of Deposit	01/17/18	1.05%	500,000
Certificate of Deposit	01/21/18	1.05%	1,000,000
Certificate of Deposit	01/21/18	1.05%	500,000
Certificate of Deposit	01/21/18	1.05%	500,000
Certificate of Deposit	01/29/18	1.05%	500,000
Certificate of Deposit	02/12/18	1.05%	500,000
Certificate of Deposit	02/12/18	1.05%	1,000,000
Certificate of Deposit	03/14/18	1.05%	600,000
Certificate of Deposit	03/14/18	1.05%	600,000
Certificate of Deposit	07/17/18	1.14%	400,000
Total Investments			<u>\$ 8,000,000</u>

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

The County categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy above.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The County's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The County presently has no recurring fair value measurements.

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the County was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

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

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the County's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the County's name.

At year end, the County was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the County was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the County was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the County was not exposed to foreign currency risk.

Investment Accounting Policy

The County's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair

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

value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The County's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

D. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 98,670	\$ -	\$ -	\$ 98,670
Construction in progress	-	84,585	-	84,585
Total capital assets not being depreciated	<u>98,670</u>	<u>84,585</u>	<u>-</u>	<u>183,255</u>
Capital assets being depreciated:				
Road & Bridges	1,073,898	44,800	-	1,118,698
Buildings and improvements	6,296,152	-	-	6,296,152
Furniture & Equipment	821,988	-	-	821,988
Machinery & Heavy Equipment	3,946,069	153,918	18,000	4,081,987
Vehicles	2,126,611	79,500	74,166	2,131,945
Total capital assets being depreciated	<u>14,264,718</u>	<u>278,218</u>	<u>92,166</u>	<u>14,450,770</u>
Less accumulated depreciation for:				
Road & Bridges	(154,670)	(27,967)	-	(182,637)
Buildings and improvements	(4,129,122)	(92,717)	-	(4,221,839)
Furniture & Equipment	(748,923)	(24,606)	-	(773,529)
Machinery & Heavy Equipment	(2,978,402)	(183,548)	(18,000)	(3,143,950)
Vehicles	(1,993,178)	(94,921)	(74,166)	(2,013,933)
Total accumulated depreciation	<u>(10,004,295)</u>	<u>(423,759)</u>	<u>(92,166)</u>	<u>(10,335,888)</u>
Total capital assets being depreciated, net	<u>4,260,423</u>	<u>(145,541)</u>	<u>-</u>	<u>4,114,882</u>
Governmental activities capital assets, net	<u>\$ 4,359,093</u>	<u>\$ (60,956)</u>	<u>\$ -</u>	<u>\$ 4,298,137</u>
Depreciation was charged to functions as follows:				
General Government	\$ 12,722			
Public Safety	49,551			
Public Transportation	252,693			
Intergovernmental	108,793			
	<u>\$ 423,759</u>			

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

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2017, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 500	Short-term loans
	Total	\$ 500	

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

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2017, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Other Governmental Funds	\$ 43,000	Supplement other funds sources
	Total	\$ 43,000	

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2017, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Capital leases	\$ 20,000	\$ 175,510	\$ 99,064	\$ 96,446	\$ 96,446
Compensated absences *	115,115	-	30,231	84,884	-
Net Pension Liability *	4,484,828	729,241	702,216	4,511,853	-
Total governmental activities	\$ 4,619,943	\$ 904,751	\$ 831,511	\$ 4,693,183	\$ 96,446

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	General Fund
Net Pension Liability	Governmental	General Fund

2. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2017, as follows:

Year Ending September 30:	
2018	\$ 99,988
Total Minimum Rentals	\$ 99,988
Rental Expenditures in 2017	\$ 99,988

The effective interest rate on capital leases is 3.670%.

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

G. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of September 30, 2017, as follows:

<u>Year Ending September 30,</u>	
2018	\$ 24,973
2019	18,863
2020	13,676
2021	11,820
2022	4,303
2023-2027	16,500
Total Minimum Rentals	<u>\$ 90,135</u>
Rental Expenditures in 2017	<u>\$ 22,022</u>

H. Pension Plan

1. Plan Description

The County participates in a nontraditional defined benefit pension plan, Texas County and District Retirement System (TCDRS), that provides pensions for all its full-time employees. The TCDRS Board of Trustees is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 738 participating employers. 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.

All eligible employees of the County are required to participate in TCDRS.

2. Benefits Provided

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

Benefit amounts are determined by the employee's contribution to the plan, with interest, and employer financed monetary credits. The level of these monetary credits is adopted by the Commissioners Court of the County 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 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.

The Plan is open to new entrants.

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

3. Employees covered by benefit terms:

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	107
Inactive employees entitled to but not yet receiving benefits	131
Active employees	<u>122</u>
Total covered employees	<u><u>360</u></u>

4. Contributions

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 County based on covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The County contributed \$687,490 using the actuarially determined rate of 16.15 percent for the calendar year 2016 and 16.03 percent for calendar year 2017.

The contribution rate payable by the employee for the calendar year 2017 was 7.0% as adopted by the Commissioners' Court. The employee contribution rate and the County contribution rate may be changed by the Commissioners' Court within the options available in the TCDRS Act.

5. Actuarial assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.00%
Payroll growth	3.50%
Real rate of return	5.00%
Long-term Investment Return	8.00%

Updated mortality assumptions were adopted in 2015. All other actuarial assumptions that determined the total pension liability as of December 31, 2016, were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2012, except where required to be different by GASB 68. In addition, mortality rates were based on the following mortality tables.

Depositing members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110% of the of the MP-2014 scale after that.
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Service retirees, beneficiaries and non-depositing members	The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females.
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Disabled retirees	RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.
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The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The numbers shown are based on January 2017 information for a 7-10 year time horizon. The valuation assumptions for long-term expected

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

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 return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
US Equities	13.50%	4.70%
Private Equities	16.00%	7.70%
Global Equities	1.50%	5.00%
International Equities - Developed Markets	10.00%	4.70%
International Equities - Emerging Markets	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%
Total	100.00%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.1%. The discount rate was determined using an alternative method to determine the sufficiency of the fiduciary net position in all future years. The alternative method reflects the funding requirements under the funding policy and the legal requirements under the TCDRS Act. TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods. The employee is legally required to make the contribution specified in the funding policy. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable. Based on the above assumptions, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected levels of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used a discount rate of 8.10%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

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

6. Plan Fiduciary Net Position

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	\$ 26,901,597	\$ 22,416,770	\$ 4,484,827
Changes for the year			
Service cost	630,023	-	630,023
Interest	2,139,569	-	2,139,569
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	(147,543)	-	(147,543)
Effect of assumptions changes or inputs	-	-	-
Refunds of contributions	(74,039)	(74,039)	-
Benefit payments	(1,549,669)	(1,549,669)	-
Contributions - employer	-	(17,995)	17,995
Contributions - employee	-	304,369	(304,369)
Net investment income	-	1,652,723	(1,652,723)
Administrative expense	-	702,216	(702,216)
Other changes	-	(46,290)	46,290
Net changes	998,341	971,315	27,026
Balance at 12/31/2016	\$ 27,899,938	\$ 23,388,085	\$ 4,511,853

Sensitivity Analysis:

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Total pension liability	\$ 30,937,410	\$ 27,899,938	\$ 25,332,059
Fiduciary net position	23,388,085	23,388,085	23,388,085
Net pension liability	\$ 7,549,325	\$ 4,511,853	\$ 1,943,974

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

For the fiscal year ended September 30, 2017, the County recognized pension expense of \$1,130,579.

At September 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 219,379
Changes in actuarial assumptions	101,168	-
Difference between projected and actual investment earnings	1,351,598	-
Contributions subsequent to the measurement date	519,118	-
Total	\$ 1,971,884	\$ 219,379

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

The \$519,118 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:		
2018	\$	389,770
2019	\$	409,619
2020	\$	406,803
2021	\$	27,195
2022	\$	-
Thereafter	\$	-

I. Health Care Coverage

During the year ended September 30, 2017, employees of the County were covered by a health insurance plan (the Plan). The County paid premiums of \$735 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the County and the third party administrator is renewable October 1, and terms of coverage and premium costs are included in the contractual provisions.

J. Commitments and Contingencies

1. Contingencies

The County participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the County has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the County, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the County at September 30, 2017.

K. Subsequent Events

The County did not have any subsequent events through August 10, 2018, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended September 30, 2017.

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Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

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FREESTONE COUNTY, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Property Taxes	\$ 6,495,000	\$ 6,495,000	\$ 6,462,391	\$ (32,609)
Intergovernmental	203,500	203,500	198,823	(4,677)
Charges for Services	828,600	828,600	967,878	139,278
Waste Disposal	20,000	20,000	23,554	3,554
Interest and Royalty Income	75,000	75,000	97,000	22,000
Other	446,000	446,000	736,004	290,004
Total Revenues	<u>8,068,100</u>	<u>8,068,100</u>	<u>8,485,650</u>	<u>417,550</u>
Expenditures:				
General Administration	2,403,563	2,230,393	1,441,664	788,729
Financial Administration	844,602	845,221	827,670	17,551
Public Safety	2,873,322	2,897,488	2,773,655	123,833
Judicial	1,306,029	1,395,138	1,362,213	32,925
Health and Welfare	433,822	448,925	391,273	57,652
Intergovernmental Expenditures	556,900	595,239	594,512	727
Waste Disposal	107,816	113,650	107,574	6,076
Total Expenditures	<u>8,526,054</u>	<u>8,526,054</u>	<u>7,498,561</u>	<u>1,027,493</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(457,954)</u>	<u>(457,954)</u>	<u>987,089</u>	<u>1,445,043</u>
Other Financing Sources (Uses):				
Transfers Out	<u>(45,000)</u>	<u>(45,000)</u>	<u>(43,000)</u>	<u>2,000</u>
Total Other Financing Sources (Uses)	<u>(45,000)</u>	<u>(45,000)</u>	<u>(43,000)</u>	<u>2,000</u>
Net Change in Fund Balances	(502,954)	(502,954)	944,089	1,447,043
Fund Balances - Beginning	7,930,071	7,930,071	7,930,071	-
Fund Balances - Ending	<u>\$ 7,427,117</u>	<u>\$ 7,427,117</u>	<u>\$ 8,874,160</u>	<u>\$ 1,447,043</u>

FREESTONE COUNTY, TEXAS
ROAD AND BRIDGE FUND - PCT 1
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT B-2

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Property Taxes	\$ 539,000	\$ 539,000	\$ 532,198	\$ (6,802)
Charges for Services	210,000	210,000	163,557	(46,443)
Interest and Royalty Income	100	100	223	123
Other	-	-	36,268	36,268
Total Revenues	<u>749,100</u>	<u>749,100</u>	<u>732,246</u>	<u>(16,854)</u>
Expenditures:				
Public Transportation	799,350	799,350	493,989	305,361
Total Expenditures	<u>799,350</u>	<u>799,350</u>	<u>493,989</u>	<u>305,361</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(50,250)</u>	<u>(50,250)</u>	<u>238,257</u>	<u>288,507</u>
Other Financing Sources (Uses):				
Sale of Capital Assets	-	-	4,755	4,755
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>4,755</u>	<u>4,755</u>
Net Change in Fund Balances	(50,250)	(50,250)	243,012	293,262
Fund Balances - Beginning	26,193	26,193	26,193	-
Fund Balances - Ending	<u>\$ (24,057)</u>	<u>\$ (24,057)</u>	<u>\$ 269,205</u>	<u>\$ 293,262</u>

FREESTONE COUNTY, TEXAS
ROAD AND BRIDGE FUND - PCT 2
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT B-3

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Property Taxes	\$ 539,000	\$ 539,000	\$ 532,197	\$ (6,803)
Charges for Services	190,000	190,000	163,065	(26,935)
Interest and Royalty Income	100	100	399	299
Total Revenues	<u>729,100</u>	<u>729,100</u>	<u>695,661</u>	<u>(33,439)</u>
Expenditures:				
Public Transportation	1,024,350	1,024,350	511,436	512,914
Total Expenditures	<u>1,024,350</u>	<u>1,024,350</u>	<u>511,436</u>	<u>512,914</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(295,250)</u>	<u>(295,250)</u>	<u>184,225</u>	<u>479,475</u>
Other Financing Sources (Uses):				
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(295,250)	(295,250)	184,225	479,475
Fund Balances - Beginning	276,380	276,380	276,380	-
Fund Balances - Ending	<u>\$ (18,870)</u>	<u>\$ (18,870)</u>	<u>\$ 460,605</u>	<u>\$ 479,475</u>

FREESTONE COUNTY, TEXAS
ROAD AND BRIDGE FUND - PCT 3
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT B-4

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Property Taxes	\$ 539,000	\$ 539,000	\$ 532,198	\$ (6,802)
Intergovernmental	-	-	2	2
Charges for Services	210,000	210,000	163,557	(46,443)
Interest and Royalty Income	100	100	162	62
Other	-	-	38,604	38,604
Total Revenues	<u>749,100</u>	<u>749,100</u>	<u>734,523</u>	<u>(14,577)</u>
Expenditures:				
Public Transportation	749,100	749,100	611,696	137,404
Total Expenditures	<u>749,100</u>	<u>749,100</u>	<u>611,696</u>	<u>137,404</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	122,827	122,827
Other Financing Sources (Uses):				
Capital Leases	-	-	35,200	35,200
Total Other Financing Sources (Uses)	-	-	<u>35,200</u>	<u>35,200</u>
Net Change in Fund Balances	-	-	158,027	158,027
Fund Balances - Beginning	(13,878)	(13,878)	(13,878)	-
Fund Balances - Ending	<u>\$ (13,878)</u>	<u>\$ (13,878)</u>	<u>\$ 144,149</u>	<u>\$ 158,027</u>

FREESTONE COUNTY, TEXAS
ROAD AND BRIDGE FUND - PCT 4
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT B-5

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Property Taxes	\$ 539,000	\$ 539,000	\$ 532,197	\$ (6,803)
Intergovernmental	32,038	32,038	46,544	14,506
Charges for Services	190,000	190,000	145,988	(44,012)
Interest and Royalty Income	100	100	305	205
Other	161,195	161,195	21,273	(139,922)
Total Revenues	<u>922,333</u>	<u>922,333</u>	<u>746,307</u>	<u>(176,026)</u>
Expenditures:				
Public Transportation	1,132,333	1,132,333	800,914	331,419
Total Expenditures	<u>1,132,333</u>	<u>1,132,333</u>	<u>800,914</u>	<u>331,419</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(210,000)</u>	<u>(210,000)</u>	<u>(54,607)</u>	<u>155,393</u>
Other Financing Sources (Uses):				
Capital Leases	-	-	140,310	140,310
Sale of Capital Assets	-	-	19,383	19,383
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>159,693</u>	<u>159,693</u>
Net Change in Fund Balances	<u>(210,000)</u>	<u>(210,000)</u>	<u>105,086</u>	<u>315,086</u>
Fund Balances - Beginning	185,110	185,110	185,110	-
Fund Balances - Ending	<u>\$ (24,890)</u>	<u>\$ (24,890)</u>	<u>\$ 290,196</u>	<u>\$ 315,086</u>

FREESTONE COUNTY, TEXAS
SCHEDULE OF CHANGES IN THE COUNTY'S
NET PENSION LIABILITY AND RELATED RATIOS
TEXAS COUNTY DISTRICT RETIREMENT SYSTEM
LAST TEN FISCAL YEARS *

	Measurement Year		
	2016	2015	2014
Total pension liability:			
Service cost	\$ 630,023	\$ 603,276	\$ 638,281
Interest	2,139,569	2,061,482	1,966,556
Changes of benefit terms	-	(51,074)	-
Differences between expected and actual experience	(147,543)	303,503	(133,457)
Changes of assumptions	-	(262,956)	-
Benefit payments, including refunds of employee contributions	(1,623,708)	(1,537,087)	(1,280,027)
Net change in total pension liability	998,341	1,117,144	1,191,353
Total pension liability - beginning	26,901,597	25,784,453	24,593,100
Total pension liability - ending (a)	<u>\$ 27,899,938</u>	<u>\$ 26,901,597</u>	<u>\$ 25,784,453</u>
Plan fiduciary net position:			
Contributions - employer	\$ 702,216	\$ 661,664	\$ 667,448
Contributions - employee	304,369	300,947	302,251
Net investment income	1,652,724	(32,069)	1,527,575
Benefit payments, including refunds of employee contributions	(1,623,708)	(1,537,087)	(1,280,027)
Administrative expense	(17,995)	(16,389)	(17,409)
Other	(46,290)	(165,481)	(17,661)
Net change in plan fiduciary net position	971,316	(788,415)	1,182,177
Plan fiduciary net position - beginning	22,416,769	23,205,184	22,023,007
Plan fiduciary net position - ending (b)	<u>\$ 23,388,085</u>	<u>\$ 22,416,769</u>	<u>\$ 23,205,184</u>
County's net pension liability - ending (a) - (b)	<u>\$ 4,511,853</u>	<u>\$ 4,484,828</u>	<u>\$ 2,579,269</u>
Plan fiduciary net position as a percentage of the total pension liability	83.83%	83.33%	90.00%
Covered-employee payroll	\$ 4,348,122	\$ 4,282,014	\$ 4,317,878
County's net pension liability as a percentage of covered-employee payroll	103.77%	104.74%	59.73%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

FREESTONE COUNTY, TEXAS
 SCHEDULE OF COUNTY CONTRIBUTIONS
 TEXAS COUNTY DISTRICT RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

	Fiscal Year		
	2017	2016	2015
Actuarially determined contribution	\$ 687,490	\$ 659,002	\$ 667,448
Contributions in relation to the actuarially determined contribution	(687,490)	(661,664)	(667,448)
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>(2,662)</u>	\$ <u>-</u>
Covered-employee payroll	\$ 4,280,967	\$ 4,282,014	\$ 4,317,878
Contributions as a percentage of covered-employee payroll	16.06%	15.39%	15.46%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

FREESTONE COUNTY, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2017

A. Budgetary Data

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to the beginning of the fiscal year, the County prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Commissioners is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must have been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the Commissioners' Court.

Once a budget is approved, it can be amended only by approval of a majority of the members of the Commissioners' Court. As required by law, 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. During the year, the budget was amended. All budget appropriations lapse at year end.

B. Pension

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contributions are reported:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	12.2 years (based on contribution rate calculated in 12/31/2016 valuation)
Asset Valuation Method	5 year smoothed market
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.00%, net of investment expenses, including inflation
Inflation	0
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions	2015: Employer contributions reflect that the current service matching rate was increased to 165% and a 30% CPI COLA was adopted. 2016: No changes in plan provisions.

Combining Statements and Budget Comparisons as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

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FREESTONE COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	<u>Special Revenue Funds</u>	<u>Total Nonmajor Governmental Funds (See Exhibit A-3)</u>
ASSETS AND OTHER DEBITS		
Assets:		
Cash and Cash Equivalents	\$ 297,439	\$ 297,439
Due from Other Governments	399	399
Total Assets	<u>\$ 297,838</u>	<u>\$ 297,838</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
Liabilities:		
Accounts Payable	\$ 6,519	\$ 6,519
Accrued Liabilities	8,014	8,014
Due to Other Funds	500	500
Total Liabilities	<u>15,033</u>	<u>15,033</u>
Fund Balances:		
Restricted		
Special Revenue	282,805	282,805
Total Fund Balance	<u>282,805</u>	<u>282,805</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 297,838</u>	<u>\$ 297,838</u>

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FREESTONE COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Special Revenue Funds	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenue:		
Intergovernmental	\$ 12,461	\$ 12,461
Charges for Services	166,733	166,733
Interest and Royalty Income	13,702	13,702
Other	97,428	97,428
Total Revenues	<u>290,324</u>	<u>290,324</u>
Expenditures:		
General Administration	169,525	169,525
Financial Administration	132	132
Public Safety	4,326	4,326
Judicial	29,375	29,375
Health and Welfare	24,937	24,937
Public Transportation	60,600	60,600
Intergovernmental Expenditures	1,000	1,000
Total Expenditures	<u>289,895</u>	<u>289,895</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>429</u>	<u>429</u>
Other Financing Sources (Uses):		
Transfers In	43,000	43,000
Total Other Financing Sources (Uses)	<u>43,000</u>	<u>43,000</u>
Net Change in Fund Balances	43,429	43,429
Fund Balances - Beginning	239,376	239,376
Fund Balances - Ending	<u>\$ 282,805</u>	<u>\$ 282,805</u>

FREESTONE COUNTY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 SEPTEMBER 30, 2017

	<u>Chapter 19 Voter Fund</u>	<u>County Attorney Fund</u>	<u>District Attorney Restitution</u>	<u>Sheriff Trust</u>
ASSETS AND OTHER DEBITS				
Assets:				
Cash and Cash Equivalents	\$ 500	\$ 65,551	\$ 1,542	\$ 32,161
Due from Other Governments	399	-	-	-
Total Assets	<u>\$ 899</u>	<u>\$ 65,551</u>	<u>\$ 1,542</u>	<u>\$ 32,161</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 399	\$ 139	\$ -	\$ 41
Accrued Liabilities	-	1,111	383	5,208
Due to Other Funds	500	-	-	-
Total Liabilities	<u>899</u>	<u>1,250</u>	<u>383</u>	<u>5,249</u>
Fund Balances:				
Restricted				
Special Revenue	-	64,301	1,159	26,912
Total Fund Balance	<u>-</u>	<u>64,301</u>	<u>1,159</u>	<u>26,912</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 899</u>	<u>\$ 65,551</u>	<u>\$ 1,542</u>	<u>\$ 32,161</u>

<u>Special Budget Fund</u>	<u>Unclaimed Money Fund</u>	<u>Records Archive Fund</u>	<u>Courthouse Security Fund</u>	<u>Records Management Fund</u>
\$ 7,204	\$ 688	\$ 135,862	\$ 27,524	\$ 7,369
-	-	-	-	-
<u>\$ 7,204</u>	<u>\$ 688</u>	<u>\$ 135,862</u>	<u>\$ 27,524</u>	<u>\$ 7,369</u>
\$ 3,866	\$ -	\$ 658	\$ 1,149	\$ -
-	-	185	1,127	-
-	-	-	-	-
<u>3,866</u>	<u>-</u>	<u>843</u>	<u>2,276</u>	<u>-</u>
3,338	688	135,019	25,248	7,369
<u>3,338</u>	<u>688</u>	<u>135,019</u>	<u>25,248</u>	<u>7,369</u>
<u>\$ 7,204</u>	<u>\$ 688</u>	<u>\$ 135,862</u>	<u>\$ 27,524</u>	<u>\$ 7,369</u>

FREESTONE COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2017

	<u>JP Technology Fund</u>	<u>Justice Court Building Security</u>	<u>Total Nonmajor Special Revenue Funds (See Exhibit C-1)</u>
ASSETS AND OTHER DEBITS			
Assets:			
Cash and Cash Equivalents	\$ 10,996	\$ 8,042	\$ 297,439
Due from Other Governments	-	-	399
Total Assets	<u>\$ 10,996</u>	<u>\$ 8,042</u>	<u>\$ 297,838</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 267	\$ -	\$ 6,519
Accrued Liabilities	-	-	8,014
Due to Other Funds	-	-	500
Total Liabilities	<u>267</u>	<u>-</u>	<u>15,033</u>
Fund Balances:			
Restricted			
Special Revenue	10,729	8,042	282,805
Total Fund Balance	<u>10,729</u>	<u>8,042</u>	<u>282,805</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 10,996</u>	<u>\$ 8,042</u>	<u>\$ 297,838</u>

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FREESTONE COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Chapter 19 Voter Fund	County Attorney Fund	District Attorney Restitution	Sheriff Trust
Revenue:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Charges for Services	-	14,885	-	-
Interest and Royalty Income	-	-	-	-
Other	1,153	25,751	245	12,714
Total Revenues	<u>1,153</u>	<u>40,636</u>	<u>245</u>	<u>12,714</u>
Expenditures:				
General Administration	1,153	-	-	-
Financial Administration	-	-	-	-
Public Safety	-	-	-	2,133
Judicial	-	11,807	215	-
Health and Welfare	-	-	-	-
Public Transportation	-	-	-	-
Intergovernmental Expenditures	-	-	-	-
Total Expenditures	<u>1,153</u>	<u>11,807</u>	<u>215</u>	<u>2,133</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>28,829</u>	<u>30</u>	<u>10,581</u>
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>-</u>	<u>28,829</u>	<u>30</u>	<u>10,581</u>
Fund Balances - Beginning	-	35,472	1,129	16,331
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 64,301</u>	<u>\$ 1,159</u>	<u>\$ 26,912</u>

Special Budget Fund	Unclaimed Money Fund	Records Archive Fund	Courthouse Security Fund	Records Management Fund
\$ 12,461	\$ -	\$ -	\$ -	\$ -
-	-	98,588	27,811	7,325
-	-	-	-	-
71,188	79	-	-	-
<u>83,649</u>	<u>79</u>	<u>98,588</u>	<u>27,811</u>	<u>7,325</u>
10,387	-	85,427	52,943	17,900
-	132	-	-	-
200	-	-	-	1,993
-	-	19	-	-
24,937	-	-	-	-
60,600	-	-	-	-
1,000	-	-	-	-
<u>97,124</u>	<u>132</u>	<u>85,446</u>	<u>52,943</u>	<u>19,893</u>
<u>(13,475)</u>	<u>(53)</u>	<u>13,142</u>	<u>(25,132)</u>	<u>(12,568)</u>
-	-	-	43,000	-
-	-	-	<u>43,000</u>	-
(13,475)	(53)	13,142	17,868	(12,568)
16,813	741	121,877	7,380	19,937
<u>\$ 3,338</u>	<u>\$ 688</u>	<u>\$ 135,019</u>	<u>\$ 25,248</u>	<u>\$ 7,369</u>

FREESTONE COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	JP Technology Fund	Justice Court Building Security	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
Revenue:			
Intergovernmental	\$ -	\$ -	\$ 12,461
Charges for Services	14,740	3,384	166,733
Interest and Royalty Income	-	-	-
Other	-	-	111,130
Total Revenues	<u>14,740</u>	<u>3,384</u>	<u>290,324</u>
Expenditures:			
General Administration	1,715	-	169,525
Financial Administration	-	-	132
Public Safety	-	-	4,326
Judicial	15,884	1,450	29,375
Health and Welfare	-	-	24,937
Public Transportation	-	-	60,600
Intergovernmental Expenditures	-	-	1,000
Total Expenditures	<u>17,599</u>	<u>1,450</u>	<u>289,895</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,859)</u>	<u>1,934</u>	<u>429</u>
Other Financing Sources (Uses):			
Transfers In	-	-	43,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>43,000</u>
Net Change in Fund Balances	<u>(2,859)</u>	<u>1,934</u>	<u>43,429</u>
Fund Balances - Beginning	13,588	6,108	239,376
Fund Balances - Ending	<u>\$ 10,729</u>	<u>\$ 8,042</u>	<u>\$ 282,805</u>

FREESTONE COUNTY, TEXAS
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
SEPTEMBER 30, 2017

	Payroll Clearing Fund	County Officials Trust and Agency Fund	Total Agency Funds (See Exhibit A-7)
ASSETS:			
Cash and Cash Equivalents	\$ 9,524	\$ 1,195,531	\$ 1,205,055
Total Assets	<u>\$ 9,524</u>	<u>\$ 1,195,531</u>	<u>\$ 1,205,055</u>
LIABILITIES:			
Accrued Liabilities	\$ 9,524	\$ -	\$ 9,524
Due to Others	-	880,186	880,186
Due to Other Funds	-	309,213	309,213
Due to Other Governments	-	6,132	6,132
Total Liabilities	<u>\$ 9,524</u>	<u>\$ 1,195,531</u>	<u>\$ 1,205,055</u>

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Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

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DAVIS, HEINEMANN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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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*

County Commissioners
Freestone County, Texas
118 East Commerce
Fairfield, Texas 75840

Members of the County Commissioners:

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 Freestone County, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise Freestone County, Texas' basic financial statements, and have issued our report thereon dated August 10, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 Freestone County, Texas' 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.

Respectfully submitted,

A handwritten signature in cursive script that reads "Davis, Heinemann + Co.".

Davis, Heinemann & Company, P.C.

Huntsville, Texas
August 10, 2018

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