

HARDEMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2020

F. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2020 was as follows:

Governmental Activities:	Balance 10/1/19	Increases	Decreases	Reclassifications	Balance 9/30/20
Capital assets not being depreciated:					
Land	\$ 57,356	\$ 2,000	\$ -	\$ -	\$ 59,356
Capital assets being depreciated:					
Buildings and improvements	6,535,605	109,162	-	-	6,644,767
Equipment	2,193,665	291,251	14,575	135,700	2,606,041
Equipment under capital lease	2,648,569	2,400,752	2,048,800	(135,700)	2,864,821
Infrastructure	30,850	-	-	-	30,850
Total capital assets being depreciated	<u>11,408,689</u>	<u>2,801,165</u>	<u>2,063,375</u>	<u>-</u>	<u>12,146,479</u>
Less accumulated depreciation for:					
Buildings and improvements	1,297,715	169,944	-	-	1,467,659
Equipment	1,133,901	201,828	3,583	-	1,332,146
Equipment under capital lease	507,515	249,577	480,342	-	276,750
Infrastructure	7,068	771	-	-	7,839
Total accumulated depreciation	<u>2,946,199</u>	<u>622,120</u>	<u>483,925</u>	<u>-</u>	<u>3,084,394</u>
Total capital assets being depreciated, net	<u>8,462,490</u>	<u>2,179,045</u>	<u>1,579,450</u>	<u>-</u>	<u>9,062,085</u>
Governmental activities capital assets, net	<u>\$ 8,519,846</u>	<u>\$ 2,181,045</u>	<u>\$ 1,579,450</u>	<u>\$ -</u>	<u>\$ 9,121,441</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Ambulance	\$ 26,617
Emergency management	25,955
Fire	2,820
Justice of the Peace	1,497
Road and bridge	332,826
Sheriff	61,805
Nondepartmental	<u>170,600</u>
Total governmental depreciation	<u>\$622,120</u>

G. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Balances due to and from other funds at September 30, 2020 were as follows:

HARDEMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2020

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Agency Fund	\$ 48,657	Short-term loan
Other Governmental Funds	General Fund	55,000	Short-term loan
Other Governmental Funds	Agency Fund	88	Short-term loan
Agency Fund	General Fund	1,263	Short-term loan
Agency Fund	Agency Fund	<u>22,811</u>	Short-term loan
	Total	<u>\$127,819</u>	

All of the above amounts are expected to be repaid within one year.

Interfund transfers during the year ended September 30, 2020 were as follows:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Road and Bridge Fund	\$691,817	Supplement other resources
General Fund	Other Governmental Funds	<u>121,775</u>	Supplement other resources
	Total	<u>\$813,592</u>	

H. LONG-TERM OBLIGATIONS

The County issued capital lease obligations to provide funds for the acquisition and construction of major capital facilities and equipment. These issues are direct obligations and pledge the full faith and credit of the County.

Changes in long-term obligations for the year ended September 30, 2020 were as follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>10/1/19</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/20</u>	<u>Due Within</u> <u>One Year</u>
Capital lease obligations	\$2,303,615	\$2,629,380	\$2,043,997	\$2,888,998	\$249,222
Compensated absences	<u>46,456</u>	<u>44,833</u>	<u>46,064</u>	<u>45,225</u>	<u>45,225</u>
Totals	<u>\$2,350,071</u>	<u>\$2,674,213</u>	<u>\$2,090,061</u>	<u>\$2,934,223</u>	<u>\$294,447</u>

Compensated absences are generally liquidated by the General and Road and Bridge Funds.

Capital Lease Obligations

Capital lease obligations at September 30, 2020 are as follows:

HARDEMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2020

<u>Purpose</u>	<u>Original Amount</u>	<u>Date of Lease</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Balance 9/30/20</u>
2018 Mack Truck	\$116,017	11/15/18	11/15/23	3.65%	\$ 108,215
2018 Mack Truck	116,017	11/15/18	11/15/23	3.65%	108,215
2018 Mack Truck	116,017	11/15/18	11/15/23	3.65%	108,215
2018 Mack Truck	116,017	11/15/18	11/15/23	3.65%	108,215
2020 JD 672GP Motor grader	297,897	3/31/20	3/31/25	3.35%	297,897
2020 JD 672GP Motor grader	312,962	3/31/20	3/31/25	3.35%	312,962
2020 JD 672GP Motor grader	297,809	3/31/20	3/31/25	3.35%	297,809
2020 JD 672GP Motor grader	313,640	3/31/20	3/31/25	3.35%	313,640
2020 JD 672GP Motor grader	312,608	3/31/20	3/31/25	3.35%	312,608
2020 JD 672GP Motor grader	313,250	3/31/20	3/31/25	3.35%	313,250
2020 JD 672GP Motor grader	301,566	3/31/20	3/31/25	3.35%	301,566
2020 JD 672GP Motor grader	306,406	3/31/20	3/31/25	3.35%	306,406
Total Capital Lease Obligations					<u>\$2,888,998</u>

Annual debt service requirements to maturity are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 249,222	\$ 98,080	\$ 347,302
2022	257,704	89,598	347,302
2023	266,474	80,828	347,302
2024	521,683	71,759	593,442
2025	<u>1,593,915</u>	<u>53,396</u>	<u>1,647,311</u>
Totals	<u>\$2,888,998</u>	<u>\$393,661</u>	<u>\$3,282,659</u>

I. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various nature. The County participates in the Texas Association of Counties Intergovernmental Risk Pool (Pool) which provides protection for risks of loss. Premiums are paid to the Pool which retains the risk of loss beyond the County's policy deductibles. Any losses reported but unsettled or incurred and not reported, are believed to be insignificant to the County's basic financial statements. For the last three years, there have been no significant reductions of insurance coverage or insurance settlements in excess of insurance coverage.

HARDEMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2020

J. CONTINGENT LIABILITIES AND COMMITMENTS

Grant Awards

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.

Litigation

The County periodically is a defendant in various lawsuits. At September 30, 2020, the County is not aware of any pending litigation.

Trust Funds

The District Clerk has invested trust funds at various financial institutions in accordance with court orders. The County has a fiduciary responsibility over these funds until their final disposition.

Operating Leases

The County has various operating leases for computer equipment. The leases are cancelable and are not material to the County's financial statements.

K. DEFINED BENEFIT PENSION PLAN

1. Plan Description

The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional, defined benefit pension plan in the statewide TCDRS. The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 782 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis that is publicly available at www.tcdrs.org.

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 at ages 60 and above with 8 or more years of service or with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated 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.

2. Benefits Provided

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and the County-financed monetary credits. The level of these monetary credits is adopted by the governing body 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 County's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the

HARDEMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2020

employee's accumulated contributions and the County-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Employees Covered by Benefit Terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	45
Inactive employees entitled to but not yet receiving benefits	24
Active employees	63

3. 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 the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The County contributed using the actuarially determined rate of 7% for the months of the accounting year in 2019, and 7% for the months of the accounting year in 2020.

The contribution rate payable by the employee members for calendar year 2020 is the rate of 7% as adopted by the Commissioners' Court of the County. The employee contribution rate and the County contribution rate may be changed by the Commissioners' Court of the County within the options available in the TCDRS Act.

4. Net Pension Asset

The County's Net Pension Asset (NPA) was measured as of December 31, 2019, and the Total Pension Liability used to calculate the NPA was determined by an actuarial valuation.

Actuarial Assumptions

The actuarial assumptions that determined the total pension liability as of December 31, 2019 were based on the results of an actuarial experience study for the period January 1, 2013 through December 31, 2016, except where required to be different by GASB 68.

Real rate of return	5.25% per year
Inflation	2.75% per year
Long-term investment return	8.00% per year, net of pension plan investment expenses
Growth in membership	0.00% per year
Payroll growth	1.50% per year

Salary increases were based on a service-related table. The mortality rates for active members were based on 90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after that. The mortality rate for service retirees, beneficiaries, and non-depositing members was based on 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014. The mortality rates for disabled retirees were based on 130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

HARDEMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2020

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown below are based on April 2020 information for a 10-year time horizon.

The valuation assumption for long-term expected return is re-assessed a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2017.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Benchmark</u>	<u>Target Allocation ⁽¹⁾</u>	<u>Geometric Real Rate of Return (Expected minus Inflation) ⁽²⁾</u>
US Equities	Dow Jones U.S. Total Stock Market Index	14.50%	5.20%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	20.00%	8.20%
Global Equities	MSCI World (net) Index	2.50%	5.50%
International Equities – Developed Markets	MSCI World Ex USA (net) Index	7.00%	5.20%
International Equities – Emerging Markets	MSCI Emerging Markets (net) Index	7.00%	5.70%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	-0.20%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	3.14%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.16%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽⁴⁾	4.00%	6.90%
REIT Equities	67% FTSE NAREIT All Equity REITs Index + 33% S&P Global REIT (net) Index	3.00%	4.50%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	8.40%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁵⁾	6.00%	5.50%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	8.00%	2.30%

(1) Target asset allocation adopted at the June 2020 TCDRS Board Meeting.

(2) Geometric real rates of return equal the expected return minus the assumed inflation of 1.80%, per Cliffwater's 2020 capital market assumptions

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

(4) Includes vintage years 2005 – present of Quarter Pooled Horizon IRRs.

(5) Includes vintage years 2007 – present of Quarter Pooled Horizon IRRs.

HARDEMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2020

Discount Rate

The projected fiduciary net position was determined to be sufficient compared to projected benefit payments. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be sufficient to pay projected benefit payments in all future years. Therefore, the discount rate for purposes of calculating the total pension liability and net pension liability (asset) of the employer is equal to the long-term assumed rate of return on investments (8.10%).

Changes in Net Pension Liability / (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) - (b)
Balances as of December 31, 2018	\$7,522,536	\$7,410,164	\$112,372
Changes for the year:			
Service cost	207,688	-	207,688
Interest on total pension liability ⁽¹⁾	602,645	-	602,645
Effect of plan changes ⁽²⁾	-	-	-
Effect of economic/demographic gains or losses	59,317	-	59,317
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(58,680)	(58,680)	-
Benefit payments	(533,177)	(533,177)	-
Administrative expense	-	(6,318)	6,318
Member contributions	-	135,967	(135,967)
Net investment income	-	1,217,222	(1,217,222)
Employer contributions	-	135,967	(135,967)
Other changes ⁽³⁾	-	(9,799)	9,799
Balances as of December 31, 2019	<u>\$7,800,330</u>	<u>\$8,291,346</u>	<u>(\$491,017)</u>

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

⁽²⁾ No plan changes valued.

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

Sensitivity Analysis

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