June 3, 2021

To the Board of Directors of
Scurry County Appraisal District
Snyder, Texas

We have audited the financial statements of Scurry County Appraisal District (the District) as of and for the year ended December 31, 2020, and have issued our report thereon dated June 3, 2021. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our letter dated November 24, 2020, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding material weaknesses noted during our audit in a separate letter to you dated June 3, 2021.

**Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

**Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

## Qualitative Aspects of the Entity's Significant Accounting Practices

*Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is described in Note 4 to the financial statements. There have been no initial selection of accounting principles and no changes in significant accounting policies or their application during 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

*Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of its net pension liability is based on reports received from the Texas County and District Retirement System (TCDRS). The net pension liability reported by TCDRS is based on actuarial valuations that utilize various assumptions including the remaining amortization period, discount rate, expected rates of investment return, salary increases, payroll growth rates and mortality rates. The financial statements of the TCDRS plan were audited and received an unmodified opinion. We evaluated the audited financial statements, census data submitted by the District to TCDRS and the District's controls over the census submission process that were used to develop the estimate of its net pension liability to determine that the estimates are reasonable in relation to the financial statements taken as a whole.

We evaluated the key factors and assumptions used to develop the significant accounting estimate and determined that they are reasonble in relation to the basic financial statements taken as a whole.

*Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the District's financial statements relate to the net pension liability and fund balance commitment.

## Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

**Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. There were no uncorrected misstatements identified as a result of our audit procedures.

The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management: 1) proposed entry to adjust accumulated depreciation for $25,889; 2) proposed entry to adjust deferred revenue for $24,869; 3) proposed entry to rollforward beginning fund balance for $6,705; 4) to record the effect of current year depreciation for $9,714; and 5) to accrue additional expenditures in 2020 for $13,184.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

**Representations Requested from Management**

We have requested certain written representations from management which are included in the management representation letter dated June 3, 2021.

**Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

This report is intended solely for the information and use of the Board of Directors and management of Scurry County Appraisal District and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Abilene, Texas

To the Board of Directors
Scurry County Appraisal District
Snyder, Texas

In planning and performing our audit of the basic financial statements of Scurry County Appraisal District (District) as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 over financial reporting, 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

We consider the following deficiencies in the District's internal control to be material weaknesses:

**Internal Control over the Preparation of Financial Statements**

As is common in governmental entities, the District currently does not prepare GAAP-basis financial statements. That is, the District does not prepare financial statements, complete with footnote disclosures, in accordance with generally accepted accounting principles (GAAP), such as those contained in the annual audit report. Furthermore, the District has not established internal controls over the preparation or review of financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Although this circumstance is not unusual for an organization of your size, the preparation of financial statements as part of the audit engagement may result in financial statements not being available for management purposes as timely as it would be if prepared by District personnel.

To put this into perspective, most governmental entities' financial resources and software are designed for reporting their finances on a budgetary basis, which can differ significantly from GAAP basis. Preparing financial statements on a GAAP basis can require an extensive knowledge of ever-changing professional standards (pronouncements issued by the Governmental Accounting Standards Board). Many users of the District's internally-generated financial statements (such as Board members and District management) request or need information on a budgetary basis to make short-term budgeting decisions.

To present the financial statements in accordance with generally accepted accounting principles, we also propose various journal entries to convert the modified accrual basis financial statements to the government-wide financial statements which is presented on the full accrual basis of accounting as required by GAAP.

**Material Audit Adjustments**

During the course of our engagement, we proposed several material audit adjustments to the District's recorded account balances, which if not recorded, would have resulted in a material misstatement of the District's financial statements. The need for these adjustments indicates that the District's interim financial information is not materially correct, which may affect management decisions made during the course of the year. The preparation of adjusting and reclassification journal entries identified during the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as if prepared by management personnel.

The purpose of this communication, which is an integral part of our audit, is to describe for management, the Board of Directors, and others within the District the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Eide Bailly LLP

Abilene, Texas
June 3, 2021

Financial Statements

December 31, 2020

# Scurry County Appraisal District

**Independent Auditor's Report**

To the Board of Directors of
Scurry County Appraisal District
Snyder, Texas

**Report on the Financial Statements**
We have audited the accompanying financial statements of the governmental activities and the major fund of the Scurry County Appraisal District as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

**Opinions**
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Scurry County Appraisal District as of December 31, 2020, and the respective changes in financial position and the respective budgetary comparison for the general fund 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 and pension information on pages 3-8 and 30-32 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.

Eide Bailly LLP

Abilene, Texas
June 3, 2021

In this section of the financial statements, we, the administration of the Scurry County Appraisal District (the District), discuss and analyze the District's financial performance. The report provides an overview of the District's financial activities for the fiscal year ended December 31, 2020. Please read it in conjunction with the District's financial statements and notes, which follow this section.

**FINANCIAL HIGHLIGHTS**

**Government-Wide**

- The District's net position on a government-wide basis totaled $145,180 at December 31, 2020, a decrease of $55,600 or (27.7)% over December 31, 2019. 3.7% of this balance is invested in capital assets.

**General Fund**

- At the end of the current fiscal year, total fund balance for the General Fund was $161,324, of which $81,524 is committed for future contingencies. $79,800 is available to meet the District's ongoing obligations.

The District recorded a fiscal year end operating surplus of $55,644 which will be recommended to be designated to Contingency funds for Legal Services. Interest earned totaled $2,115.

There were reductions in Contingency Funds during the 2020 year of $2,550 for Computer equipment, $77,555 for Attorneys-Lawsuits, and $23,147 for Pictometry. There were also transfers of $5,000 from Retirement Prepaid, $25,408 from Mapping Software, and $6,119 from Retiring Employee Vacation Liability. The transfers totaled $36,527 to Pictometry to complete payment for the 2019 flight.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

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

The Statement of Net Position presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Net position is equivalent to the equity section of a private-sector balance sheet.

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation).

The government-wide financial statements of the District are principally funded by monies provided from local funding sources (governmental activities). The District does not have any business-type activities.

The government-wide financial statements can be found on pages 9 through 12 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The District utilizes only governmental funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of those funds and the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the general fund with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between the governmental fund and governmental activities. The budgetary comparison schedule can be found on page 13 of this report.

The District has one governmental fund, which is considered a major fund.

The District adopts an annual budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 9 through 12 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 through 29 of this report.

**Required supplementary information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that is required by Governmental Accounting Standards Board to be a part of the District's basic financial statements. Required supplementary information can be found on pages 30-32 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

A small portion of the District's net position reflects its investment in capital assets (e.g., land, buildings, vehicles, furniture, and equipment). The District uses these capital assets to provide services to the member entities we serve; consequently, these assets are not available for future spending.

Additionally, a portion of the District's net position represents unrestricted financial resources available for future operations.

**Summary of Statement of Net Position**

| | Governmental Activities | |
|---|---|---|
| | 2020 | 2019 |
| Cash and cash equivalents | $ 394,361 | $ 480,492 |
| Capital assets, net | 5,400 | 15,114 |
| Total assets | 399,761 | 495,606 |
| Deferred outflows of resources | 104,323 | 110,639 |
| Current liabilities | 233,037 | 245,804 |
| Noncurrent liabilities | 65,239 | 95,480 |
| Total liabilities | 298,276 | 341,284 |
| Deferred inflows of resources | 60,628 | 64,181 |
| Net position | | |
| Investment in capital assets | 5,400 | 15,114 |
| Unrestricted | 139,780 | 185,666 |
| Total net position | $ 145,180 | $ 200,780 |

## GOVERNMENTAL ACTIVITIES

Revenues for the Scurry County Appraisal District's governmental activities were $1,551,432 while total expenses were $1,607,032. The change in net position was a decrease of $55,600. The change in net position from last year is due largely to increased program services expense, offset by increased assessment revenues.

**Changes in Net Position**
For the Fiscal Year Ended December 31,

| | Governmental Activities | |
|---|---|---|
| | 2020 | 2019 |
| Revenues | | |
| Assessments | $ 1,546,758 | $ 1,152,136 |
| Interest income | 2,115 | 9,588 |
| Other income | 2,559 | 4,332 |
| Total revenues | 1,551,432 | 1,166,056 |
| Expenses | | |
| General government | 1,589,776 | 1,209,358 |
| Noncapitalized capital outlay | 7,542 | 928 |
| Depreciation | 9,714 | 16,175 |
| Total expenses | 1,607,032 | 1,226,461 |
| Change in net position | (55,600) | (60,405) |
| Net position, beginning | 200,780 | 261,185 |
| Net position, ending | $ 145,180 | $ 200,780 |

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

As previously noted, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District's governmental fund is discussed below:

**Governmental fund.** The focus of the District's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The general fund is the chief operating fund of the District. At the end of the fiscal year, the District's general fund (as presented in the balance sheet on page 8) reported an ending fund balance of $161,324.

**General fund budgetary highlights.** The Board of Directors amended the budget several times during the year.

The actual charges to appropriations were $50,970 below the final budget amounts (see page 13). The underage was in personnel services, travel, and equipment rental and maintenance. Resources available for appropriation were $4,674 above the final budgeted amount.

## CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital assets. The Scurry County Appraisal District's investment in capital assets for its governmental activities as of December 31, 2020, amounts to $5,400 (net of accumulated depreciation). This represents a decrease of $9,714 from the prior fiscal year. This investment in capital assets includes buildings and improvements and furniture and equipment. Additional information on the District's capital assets can be found in Note 6 (p. 19) in the notes to the financial statements.

**Capital Assets Schedule (net of depreciation)**

| | Governmental Activities | |
|---|---|---|
| | 2020 | 2019 |
| Land | $ 5,400 | $ 5,400 |
| Building and improvements | 216,900 | 216,900 |
| Furniture and equipment | 188,411 | 188,411 |
| Total capital assets | 410,711 | 410,711 |
| Less accumulated depreciation | 405,311 | 395,597 |
| Total capital assets, net | $ 5,400 | $ 15,114 |

Long-term obligation. At the end of the current fiscal year, the District had a long-term obligation for its net pension liability and compensated absences in the amounts of $33,681 and $31,558, respectively. Additional information on the District's long-term obligations can be found in Notes 6 and 10 (page 19 and 21-27) in the notes to the financial statements.

**Economic Factors and Next Year's Budget**

Each year in the budgeting process, historical comparisons of budgets, expenditures, and entity refunds are considered in determining the proposed budget. The District officials consider many factors when setting the future year's budget. The District strives to maintain the budget in a prudent manner. Three major factors affected the 2020 District Budget and will also potentially affect the 2021 District Budget.

The downturn in the oil and gas industry in the past year may continue to negatively affect the local economy. The taxing units experienced a decrease in property values for the 2020 year and anticipated to also have decrease in values for the 2021 appraisal year due to the decrease in mineral value.

The second factor is the litigation with Kinder Morgan concerning the SACROC valuation. The taxing units initiated a lawsuit in 2018 concerning the SACROC valuation naming the appraisal district and Kinder Morgan in the petition asserting the property is under-valued. Kinder Morgan filed a taxpayer lawsuit in 2019 and 2020 appraisal years asserting the property is over-valued. The litigations costs have required amending the budget to include additional taxing unit payments to fund the litigation. The third factor is the global Covid-19 Pandemic that required additional computer equipment to allow for remote work from home, zoom meetings, and remote training. The pandemic caused additional expense for sanitizing the office and the public was not allowed in the building for a month initially until security measures were put in place to limit lobby traffic and personal contact. The safety measures and sanitation costs continue at this time.

The 87th Texas Legislative Session is currently in session. In past sessions, new mandates have created the need for additional resources. The 2021 Budget will include additional funds for printing and postage due to legislative actions such as a postcard with a tax estimate website to be sent to all owners. The board and management will monitor the current session and remain committed to improving the operations and service to the entities and taxpayers.

The District is currently in good standing with updated equipment and knowledgeable personnel. All appraisal district operations continue to be evaluated to provide excellent service, efficiency, and accuracy within the scope of our work responsibilities.

The District will continue to educate the public concerning the purpose and legal requirements of the appraisal district. Another primary goal is insuring the future viability of the District, not only financially, but through continued education for qualified personnel. It is a priority of the state legislators that all appraisal district employees meet the mandated training and certification requirements.

The District's board and management will work together to establish, implement, and monitor the performance of the District to meet short and long term strategic goals.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Scurry County Appraisal District's finances and accountability. If you have any questions concerning this report, or if you need any additional information, please contact the Scurry County Appraisal District, Jackie Martin, Chief Appraiser, 2612 College Ave., Snyder, Texas 79549.

| | General Fund | Adjustments (Note A) | Statement of Net Position |
|---|---|---|---|
| Assets | | | |
| Cash and cash equivalents | $ 394,361 | $ - | $ 394,361 |
| Capital assets, net | - | 5,400 | 5,400 |
| Total assets | 394,361 | 5,400 | 399,761 |
| Deferred outflows of resources | | | |
| Deferred outflows - pension | - | 104,323 | 104,323 |
| Total assets and deferred outflows of resources | $ 394,361 | 109,723 | 504,084 |
| Liabilities | | | |
| Accounts payable | $ 13,184 | | 13,184 |
| Accrued liabilities | 11,231 | - | 11,231 |
| Unearned revenue | 208,622 | - | 208,622 |
| Noncurrent liabilities | | | |
| Due in more than one year | - | 65,239 | 65,239 |
| Total liabilities | 233,037 | 65,239 | 298,276 |
| Deferred inflows of resources | | | |
| Deferred inflows - pension | - | 60,628 | 60,628 |
| Fund balance/net position | | | |
| Fund balances | | | |
| Committed for contingency | 81,524 | (81,524) | - |
| Unassigned | 79,800 | (79,800) | - |
| Total fund balances | 161,324 | (161,324) | - |
| Total liabilities, deferred inflows of resources, and fund balances | $ 394,361 | (96,085) | 358,904 |
| Net position | | | |
| Investment in capital assets | | 5,400 | 5,400 |
| Unrestricted | | 139,780 | 139,780 |
| Total net position | | $ 145,180 | $ 145,180 |

| | | |
|---|---|---|
| **Total Fund Balances - Governmental Fund Balance Sheet** | $ | 161,324 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the end of the year, the cost of these assets was $410,711 and the accumulated depreciation was $405,311. The net effect of including capital assets (net of depreciation) in the governmental activities is an increase to net position. | | 5,400 |
| Accrued liabilities for compensated absences for personal leave are not due and payable in the current period and therefore have not been included in the fund financial statements. The net effect of including the accrual for compensated absences in the governmental activities is a decrease to net position. | | (31,558) |
| The District recognized a net pension liability in the amount of $33,681, deferred outflow of resources of $104,323, and a deferred inflow of resources of $60,628. The net effect is to increase net position. | | 10,014 |
| **Total Net Position - Statement of Net Position** | $ | 145,180 |

| | General Fund | Adjustments (Note B) | Statement of Activities |
|---|---|---|---|
| Revenues | | | |
| Appraisal assessments | $ 1,546,758 | $ - | $ 1,546,758 |
| Interest income | 2,115 | - | 2,115 |
| Other income | 2,559 | - | 2,559 |
| Total revenues | 1,551,432 | - | 1,551,432 |
| Expenditures / expenses | | | |
| Current | | | |
| Personnel services | 788,277 | (27,478) | 760,799 |
| Occupancy | 22,340 | - | 22,340 |
| Telephone | 11,809 | - | 11,809 |
| Equipment rental and maintenance | 10,746 | - | 10,746 |
| Staff development | 7,796 | - | 7,796 |
| Publications and postage | 21,066 | - | 21,066 |
| Dues | 1,422 | - | 1,422 |
| Travel | 42,231 | - | 42,231 |
| Professional fees | 474,628 | - | 474,628 |
| Programs and services | 206,447 | - | 206,447 |
| Miscellaneous | 30,492 | - | 30,492 |
| Capital outlay | 7,542 | - | 7,542 |
| Depreciation | - | 9,714 | 9,714 |
| Total expenditures / expenses | 1,624,796 | (17,764) | 1,607,032 |
| Change in fund balance/net position | (73,364) | 17,764 | (55,600) |
| Fund balance/net position | | | |
| Beginning of year | 234,688 | (33,908) | 200,780 |
| End of year | $ 161,324 | $ (16,144) | $ 145,180 |

| | | |
|---|---|---|
| **Net Change in Fund Balance - Governmental Fund** | $ | (73,364) |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Increases to liabilities for compensated absences for personal leave are not shown in the fund financial statements. The net effect of the current year's increase in the liabilities is to decrease net position. | | (9,858) |
| Depreciation is not recognized as an expenditure in the governmental fund since it does not require the use of current financial resources. The effect of recording current year depreciation is to decrease net position. | | (9,714) |
| Certain expenditures for the pension that are recorded to the fund financial statements must be recorded as deferred outflows of resources. Contributions made after the measurement date caused the change in net position to increase in the amount of $78,607. The District's share of the unrecognized deferred inflows and outflows for TCDRS as of the measurement date must be amortized and the District's pension expense must be recognized. These cause the changes in net position to decrease in the amount of $41,271. The net effect is an increase in net position. | | 37,336 |
| **Change in Net Position - Statement of Activities** | $ | (55,600) |

| | Original Budget | Final Budget | Actual | Variance from Final Budget |
|---|---|---|---|---|
| Revenues | | | | |
| Appraisal assessments | $ 1,197,814 | $ 1,546,758 | $ 1,546,758 | $ - |
| Interest income | - | - | 2,115 | 2,115 |
| Other income | - | - | 2,559 | 2,559 |
| Total revenues | 1,197,814 | 1,546,758 | 1,551,432 | 4,674 |
| Expenditures | | | | |
| Personnel services | 819,412 | 819,614 | 788,277 | 31,337 |
| Occupancy | 18,460 | 23,660 | 22,340 | 1,320 |
| Telephone | 12,260 | 12,260 | 11,809 | 451 |
| Equipment rental and maintenance | 24,000 | 16,160 | 10,746 | 5,414 |
| Staff development | 4,900 | 7,800 | 7,796 | 4 |
| Publications and postage | 20,500 | 21,860 | 21,066 | 794 |
| Dues | 3,600 | 1,450 | 1,422 | 28 |
| Travel | 49,330 | 51,080 | 42,231 | 8,849 |
| Professional fees | 19,252 | 474,505 | 474,628 | (123) |
| Programs and services | 184,100 | 207,247 | 206,447 | 800 |
| Miscellaneous | 37,000 | 32,580 | 30,492 | 2,088 |
| Capital outlay | 5,000 | 7,550 | 7,542 | 8 |
| Total expenditures | 1,197,814 | 1,675,766 | 1,624,796 | 50,970 |
| Change in fund balance | - | (129,008) | (73,364) | 55,644 |
| Fund balance | | | | |
| Beginning of year | 234,688 | 234,688 | 234,688 | - |
| End of Year | $ 234,688 | $ 105,680 | $ 161,324 | $ 55,644 |

## Note 1 - Reporting Entity

Scurry County Appraisal District (the District) was organized, created and established pursuant to rules established by the Texas Property Tax Code (the Code) Section 6.01. The Code established an appraisal district in each county of the State of Texas. The District is responsible for appraising property in the District for ad valorem tax purposes of each taxing unit that imposes ad valorem taxes on property in the District.

The District is a political subdivision of the State of Texas and is considered a primary government. The financial statements of the District consist only of the funds of the District. The District has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

## Note 2 - Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the activities of the primary government.

## Note 3 - Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Interest income is considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the District receives cash.

The District reports the following governmental fund:

The General Fund is the District’s primary operating fund. It accounts for all financial resources of the general government.

## Note 4 - Assets, Liabilities and Net Position or Equity

**Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in certificates of deposit, fully collateralized repurchase agreements, public funds investment pools, obligations of the United States or its agencies, direct obligations of the State of Texas or its agencies, prime domestic bankers acceptances, commercial paper, SEC registered no-load money market mutual funds, other obligations which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, and obligations of states, agencies, counties, cities and other political subdivisions having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent.

The Board of Directors of the District authorizes the District to invest with certain stipulations, in fully collateralized time deposits, certificates of deposit, money market accounts, interest-bearing checking accounts or "NOW" accounts, and United States Treasury securities. Accordingly, at December 31, 2020, the District had $393,031 invested in a checking account. During the year ended December 31, 2020, the District did not own any types of securities other than those permitted by statute.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the statement of net position. The District defines capital assets as assets with an initial, individual cost of $5,000 or an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at acquisition value. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

| Assets | Years |
|---|---|
| Building | 39 |
| Furniture and equipment | 5 - 10 |

**Long-Term Obligations**

In the government-wide financial statements, long-term obligations such as the net pension liability are liabilities in the statement of net position.

**Compensated Absences**

In addition to other benefits provided, the District compensates eligible employees for vacation and earned time. Vacation time is accrued biweekly based upon the term of employment. This vacation time can be carried over to subsequent years with a maximum accrual of 240 hours, except for some employees mentioned specifically in the policy.

In emergency cases, the Chief Appraiser may approve accumulation of more than the maximum allowed hours. Earned time is approved on a case by case basis by the Chief Appraiser.

Compensated absences are reported as expenditures and a fund liability of the general fund only if they have matured, for example as a result of employee resignations and retirements. Compensated absences are accrued as a long-term liability in the statement of net position when incurred.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources and liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Deferred Outflows**

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District has deferred outflows of resources related to its pension plan.

**Deferred Inflows**

In addition to liabilities, the statement of net position will 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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has deferred inflows of resources related to its pension plan.

**Pensions**

The fiduciary net position of the District's plan with Texas County & District Retirement System (TCDRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TCDRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Appraisal Assessments**

The District is primarily supported by assessments from the taxing entities in the District. These assessments are calculated using each entity's percentage of the District's operating budget based on each entity's total appraised levy within the District.

## Note 5 - Stewardship, Compliance and Accountability

**Budgetary Information**

A budget is adopted for the general fund on a basis consistent with generally accepted accounting principles. The operating budget was formally adopted by the Board of Directors ("the Board") at a public meeting prior to the start of the fiscal year. The formally adopted budget may legally be amended by the Board in accordance with Rule 30 of the Texas Administrative Code, Section 293.97(b). The budget was properly amended during the year. Appropriations lapse at year end. Budgetary control is maintained at the department level.

## Note 6 - Detailed Notes on All Funds

**Deposits and Investments**

Custodial Credit Risk for Deposits: State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. The District's deposits at December 31, 2020 were fully secured by federal deposit insurance coverage and by securities pledged to the District and held by an agent of the District in the District's name. As such, the District has no custodial credit risk for deposits.

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

The District is not exposed to custodial credit risk of investments, interest rate risk, or concentration risk as the District currently only invests in fully collateralized bank deposits. To match anticipated cash flow requirements, the maximum weighted average maturity of the checking and savings account may not exceed three months and the contingency fund portion of the investment portfolio may not exceed six months. In no case will the average maturity of the portfolio exceed six months. The maximum final stated maturity of any investment shall not exceed two years.

The District categorizes its fair value measurements within 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. The District does not have any investments subject to recurring fair value measurements at December 31, 2020.

**Interest rate risk**

The District’s policy does not address interest rate risk. At year end the District was not exposed to interest rate risk.

**Credit risk - investments**

State law limits investments in local government investment pools to those rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. The District’s policy does not specifically address credit risk of investments.

**Concentration of credit risk**

It is the policy of the District to diversify its investment portfolio.  Invested funds shall be diversified to minimize risk or loss resulting from overconcentration of assets in a specific maturity, specific issuer, or specific class of securities.

**Capital Assets**

Capital asset activity for the year ended December 31, 2020 was as follows:

| | Balance January 1, 2020 | Additions | Retirements | Balance December 31, 2020 |
|---|---|---|---|---|
| Governmental Activities | | | | |
| Capital assets, not being depreciated | | | | |
| Land | $ 5,400 | $ - | $ - | $ 5,400 |
| Total capital assets, not being depreciated | 5,400 | - | - | 5,400 |
| Capital assets, being depreciated | | | | |
| Building improvements | 216,900 | - | - | 216,900 |
| Furniture and equipment | 188,411 | - | - | 188,411 |
| Total capital assets, being depreciated | 405,311 | - | - | 405,311 |
| Accumulated depreciation | | | | |
| Building improvements | (215,358) | (1,542) | - | (216,900) |
| Furniture and equipment | (180,239) | (8,172) | - | (188,411) |
| Total accumulated depreciation | (395,597) | (9,714) | - | (405,311) |
| Governmental activities Capital assets, net | $ 15,114 | $ (9,714) | $ - | $ 5,400 |

The District recognized depreciation expense of $9,714 in the statement of activities.

**Long-Term Obligations**

The changes in long-term obligations for the year ended December 31, 2020, are as follows:

| | Balance January 1, 2020 | Additions | Retirements | Balance December 31, 2020 | Due Within One Year |
|---|---|---|---|---|---|
| Accrued personal leave | $ 21,700 | $ 9,858 | $ - | $ 31,558 | $ - |
| Total long-term obligations | $ 21,700 | $ 9,858 | $ - | $ 31,558 | $ - |

## Note 7 - Unearned Revenue

The District assesses appraisal fees for the first quarter of the following year, prior to year-end. At December 31, 2020, the District had recorded unearned revenue of $208,622 for appraisal assessments received for 2021.

## Note 8 - Fund Balance

The fund financial statements present fund balances classified in a hierarchy based on the strength of the constraints governing how these balances can be spent. These classifications are listed below in descending order of restrictiveness:

Nonspendable fund balance includes fund balances that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. At December 31, 2020, the District had no nonspendable fund balances.

Restricted fund balance includes the amount that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. At December 31, 2020, the District had no restricted fund balances.

Committed fund balance is established and modified by a resolution from the District's Board, the District's highest level of decision-making authority, and can be used only for the specific purposes determined by the Board's resolution. At December 31, 2020, the District had $81,524 committed for the purpose of future contingencies.

Assigned fund balance is intended to be used by the District for specific purposes but does not meet the criteria to be classified as restricted or committed. At December 31, 2020, the District had no assigned fund balances.

Unassigned fund balance is the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications.

The District uses restricted amounts first when both restricted and unrestricted fund balance are available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

## Note 9 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District's risk management program encompasses obtaining workers compensation and property and liability insurance through Texas Municipal league (TML) Intergovernmental Risk Pool, a public entity risk pool for the benefit of governmental units located within the state. TML Intergovernmental Employee Benefits Pool ("Pool") is considered a self-sustaining risk pool that provides coverage for its members. The District's contributions to the Pool are limited to the amount of premiums as calculated at the beginning of each fund year. Premiums reflect the claims experience to date of the District. The Pool's liability is limited to the coverage that the District elects as stated in the Pool's Declarations of Coverage for that fund year. The District has not had any significant reduction in insurance coverage and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years.

## Note 10 - Pension Plan

The District has three existing retirement plans: 1) a Money Purchase Pension Plan, started in 1981 and frozen to contributions on July 1, 2016, 2) TCDRS, started in 2014 and currently active, and 3) a 457 deferred compensation plan, started on July 1, 2016 and currently active.

The District's employees participated in a Money Purchase Pension Plan and Trust (for Governmental Organizations) administered originally by Security Benefits (effective June 1, 1981) and was transferred to Mass Mutual on June 30, 2015. All District employees were eligible to participate in the plan upon employment. Prior to February 1, 2014, this was the District's sole retirement plan.

As noted above, effective February 1, 2014, the District joined the Texas County and District Retirement System (TCDRS.) Ten employees participate in the plan. The District contributes a required rate each year that will fluctuate annually as per actuary computations over a 10-year span.

The Money Purchase Pension Plan and Trust was frozen on July 1, 2016 as per advice by legal counsel because Texas state law does not allow a Money Purchase Pension Plan to exist within an organization that is enrolled in TCDRS. At this time, the account is active for earnings and changing of investing options, but no money can be contributed into the plan. After freezing contributions to the Money Purchase Pension Plan and Trust, the District enrolled in a 457 Deferred Compensation Plan which began July 1, 2016. The District contribution is 2.5% of the participant's gross income annually. Annual contributions by employees are 2.5% of gross earnings or any chosen rate that does not exceed the government rule of contributions for 457 plans.

For the deferred compensation plan, total District and employee contributions during the year ended December 31, 2020, amounted to $28,796. Of the $28,796, employees contributed $14,398 and the District contributed $14,398. The payroll for employees covered by the Plan for the year ended December 31, 2020 was $571,264.

**Texas County and District Retirement System (TCDRS)**

**Plan Description**

The District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the state-wide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the state-wide agent multiple-employer public employee retirement system consisting of 800 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at Barton Oaks Plaza IV, Suite 500, 901 South Mopac Expressway, Austin, TX 78746, or at https://www.tcdrs.org.

**Benefits Provided**

The plan provisions are adopted by the governing body of the District, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 or more years of service or with 30 years of service regardless of age or when the sum of their age and years of service equals 80 or more. Members are vested after 10 years 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 their employer.

Benefit amounts are determined by the sum of the employee’s deposits to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer’s commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee’s accumulated deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.  There are no automatic post-employment benefit changes, including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the District’s Board within certain guidelines.

**Membership**

District membership in the TCDRS plan at December 31, 2019 consisted of the following:

| | |
|---|---|
| Inactive Employees' Accounts | |
| Receiving benefits | 4 |
| Entitled to but not yet receiving benefits | 3 |
| Total | 7 |
| Active Employees' Accounts | 10 |
| Total | 10 |

**Contributions**

The District has elected the annually determined contribution rate (Variable-Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the District based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the District is actuarially determined annually. The employee contribution rate and the employer contribution rate may be changed by the governing body of the District within the options available in the TCDRS Act.

| | Contribution Rates | |
|---|---|---|
| | 2020 | 2019 |
| Member | 7.0% | 7.0% |
| Employer | 13.76% | 12.75% |
| Employer Contributions | $ 78,607 | $ 68,881 |
| Member Contributions | 39,990 | 37,817 |

**Actuarial Assumptions**

The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|---|
| Valuation Date | December 31, 2019 |
| Actuarial Cost Method | Entry age normal |
| Amortization Method | Level percentage of payroll, closed |
| Remaining Amortization Period | 15.5 years |
| Asset Valuation Method | 5 year smoothed market |
| Discount Rate | 8.10% |
| Long-term expected Investment Rate of Return* | 8.10% |
| Salary Increases* | 4.9%, average |
| Payroll Growth Rate | 0% |
| *Includes Inflation of 2.75% | |

The plan does not have an automatic cost-of-living adjustment and one is not considered to be substantively automatic under GASB No. 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculation or in the funding valuation. Each year, the plan may elect an ad-hoc COLA for its retirees.

Mortality rates for depositing members were based on 90% of the RP-2014 Active Employee Mortality Table for males and females as appropriate, with adjustments, projected with 110% of the MP-2014 Ultimate Scale after 2014. Service retirees, beneficiaries, and non-depositing members were 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 as appropriate, with adjustments, projected with 110% of the MP-2014 Ultimate Scale after 2014. Disabled retirees were based on 130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the MP-2014 Disabled Annuitant Mortality Table for females as appropriate, with adjustments, projected with 110% of the MP-2014 Ultimate Scale after 2014.

The actuarial assumptions were developed from an actuarial experience investigation of TCDRS over the years 2013 - 2016. Assumptions were recommended by Milliman, Inc., adopted by the TCDRS Board of Trustees in 2017 and first used in the December 31, 2017 actuarial valuation.

There were no changes in methods or actuarial assumptions reflected in the December 31, 2019 actuarial valuation.

Refer to the most recent CAFR issued by TCDRS for a complete discussion of all assumptions.

**Discount Rate**

The discount rate used to measure the total pension liability was 8.10%. There was no change in the discount rate since the previous year.

In order to determine the discount rate to be used, the actuary used an alternative method to determine the sufficiency of the fiduciary net position in all future years. This alternative method reflects the funding requirements under the funding policy and the legal requirements under the TCDRS Act:

1. TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.

2. Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.

3. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.

4. Any increased cost due to the adoption of a cost-of-living adjustment is required to be funded over a period of 15 years, if applicable.

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

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses. Therefore, the actuary has used a discount rate of 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.0%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

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

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is based on a 30-year time horizon; the most recent analysis was performed in 2017 based on the period January 1, 2013 – December 31, 2016. Best estimates of geometric real rates of return for each major asset class included in the target asset allocation are summarized below:

| Asset Class | Benchmark | Target Allocation[1] | Geometric Real Rate of Return (Expected minus Inflation)[2] |
|---|---|---|---|
| US Equities | Dow Jones U.S. Total Stock Market Index | 14.50% | 5.20% |
| 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/LST A Leveraged Loan Index | 11.00% | 7.16% |
| Distressed Debt | Cambridge Associates Distressed Securities Index [4] | 4.00% | 6.90% |
| REIT Equities | 67% FTSE NAREIT 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] Incudes vintage years 2007 - present of quarter Pooled Horizons IRRs.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2020, the District reported a net pension liability of $33,681 for its share of the TCDRS's net pension liability measured at December 31, 2019. For the fiscal year ended December 31, 2020, the District recognized pension expense of $41,271.

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

Changes in the net pension liability for the measurement year ended December 31, 2019 are as follows:

| | Increase (Decrease) | | |
|---|---|---|---|
| Changes in Net Pension Liability (Asset) | Total Pension Liability (a) | Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
| Balances at December 31, 2018 | $ 660,833 | $ 587,053 | $ 73,780 |
| Changes for the year | | | |
| Service cost | 81,443 | - | 81,443 |
| Interest on total pension liability [1] | 59,060 | - | 59,060 |
| Effect of plan changes [2] | - | - | - |
| Effect of economic/demographic gains or losses | 24,680 | - | 24,680 |
| Effect of assumptions changes or inputs | - | - | - |
| Refund of contributions | - | - | - |
| Benefit payments | (26,815) | (26,815) | - |
| Administrative expenses | - | (583) | 583 |
| Member contributions | - | 37,817 | (37,817) |
| Net investment income | - | 96,325 | (96,325) |
| Employer contributions | - | 68,881 | (68,881) |
| Other [3] | - | 2,842 | (2,842) |
| Balances as of December 31, 2019 | $ 799,201 | $ 765,520 | $ 33,681 |

[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.

**Discount Rate Sensitivity Analysis**

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

| | 1% Decrease (7.10%) | Current Discount Rate (8.10%) | 1% Increase (9.10%) |
|---|---|---|---|
| Total pension liability | $ 894,703 | $ 799,201 | $ 717,955 |
| Fiduciary net position | 765,520 | 765,520 | 765,520 |
| Net pension liability (asset) | $ 129,183 | $ 33,681 | $ (47,565) |

At December 31, 2020 the District reported its share of the TCDRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Inflows of Resources | Deferred Outflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 48,966 | $ 20,617 |
| Changes in actuarial assumptions | - | 5,099 |
| Net difference between projected and actual investment earnings | 11,662 | - |
| Contributions paid to TCDRS subsequent to the measurement date | - | 78,607 |
| Total | $ 60,628 | $ 104,323 |

$78,607 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 in the District's fiscal year ending December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in the District's fiscal years as follows:

| Year Ended December 31 | Pension Expense |
|---|---|
| 2021 | $ (11,351) |
| 2022 | (12,458) |
| 2023 | (8,763) |
| 2024 | (7,583) |
| 2025 | 4,676 |
| Thereafter | 567 |
| | $ (34,912) |

## Note 11 - Postemployment Benefits Other Than Pensions

Plan Description: The District participates in a cost-sharing multiple-employer defined-benefit group-term life insurance plan operated by the Texas County & District Retirement System (TCDRS). This plan is referred to as the Group Term Life Fund (GTLF). This optional plan provides group term life insurance coverage to current eligible employees and, if elected by employers, to retired employees. The coverage provided to retired employees is a postemployment benefit other than pension benefits (OPEB). Retired employees are insured for $5,000.

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

Funding Policy: Each participating employer contributes to the GTLF at a contractually required rate. An annual actuarial valuation is performed, and the contractual rate is determined using the unit credit method for providing one-year term life insurance. The District's contributions to the GTLF for the years ended December 31, 2020, 2019 and 2018 were $2,057, $2,166, and $2,029, respectively, which equaled the contractually required contributions each year.

## Note 12 - Health and Life Insurance

During the year ended December 31, 2020, employees of the District were covered by a health insurance plan. The District contributed $865 per month per employee to the plan for the months of January through December. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to a licensed insurer. The plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The District provides $30,000 of life insurance coverage for each of their employees.

## Note 13 - Contingencies

In the normal course of operations, the District is named as a defendant in various lawsuits regarding appraised values. The District's exposure is limited to attorney fees for the parties contesting their appraised taxable value.

## Note 14 - Operating Leases

Commitments under operating (non-capitalized) lease agreements for equipment provide for minimum future rental payments as of December 31, 2020 as follows:

| | Lease Payments |
|---|---|
| 2021 | $ 5,352 |
| 2022 | 4,914 |
| 2023 | 1,200 |
| Total minimum rentals | $ 11,466 |
| Rental expenditures in 2020 | $ 7,005 |

## Note 15 - Commitments

The District has contracted with a company for 2021 to provide the District with valuations of oil, gas, and certain other industrial properties for $109,000.

Required Supplementary Information
December 31, 2020

# Scurry County Appraisal District

| | Year Ended December 31, 2014 | Year Ended December 31, 2015 | Year Ended December 31, 2016 | Year Ended December 31, 2017 | Year Ended December 31, 2018 | Year Ended December 31, 2019 |
|---|---|---|---|---|---|---|
| **Total Pension Liability** | | | | | | |
| Service cost | $ 209,839 | $ 86,558 | $ 117,376 | $ 112,921 | $ 109,984 | $ 81,443 |
| Interest on total pension liability | 8,333 | 20,992 | 23,095 | 38,883 | 51,139 | 59,060 |
| Effect of plan changes | - | (7,083) | - | - | - | - |
| Effect of assumption changes or inputs | - | 3,715 | - | 5,556 | - | - |
| Effect of economic/demographic (gains) or losses | 200 | (94,971) | (932) | (501) | (18,928) | 24,680 |
| Change of assumptions | - | - | - | - | - | - |
| Benefit payments/refunds of contributions | - | - | - | - | (5,343) | (26,815) |
| Net change in total pension liability | 218,372 | 9,211 | 139,539 | 156,859 | 136,852 | 138,368 |
| Total pension liability, beginning | - | 218,372 | 227,583 | 367,122 | 523,981 | 660,833 |
| Total pension liability, ending (a) | $ 218,372 | $ 227,583 | $ 367,122 | $ 523,981 | $ 660,833 | $ 799,201 |
| **Fiduciary Net Position** | | | | | | |
| Contributions - Employer | $ 58,537 | $ 68,855 | $ 71,010 | $ 72,156 | $ 71,169 | $ 68,881 |
| Contributions - Member | 32,215 | 38,500 | 38,529 | 38,947 | 37,233 | 37,817 |
| Net investment income | 358 | (3,294) | 14,918 | 49,585 | (7,965) | 96,325 |
| Benefit payments/refunds of contributions | - | - | - | - | (5,343) | (26,815) |
| Administrative expenses | (36) | (107) | (162) | (325) | (472) | (583) |
| Other | (4) | (13) | 8,158 | 1,485 | 3,119 | 2,842 |
| Net change in fiduciary net position | 91,070 | 103,941 | 132,453 | 161,848 | 97,741 | 178,467 |
| Fiduciary net position, beginning | - | 91,070 | 195,011 | 327,464 | 489,312 | 587,053 |
| Fiduciary net position, ending (b) | $ 91,070 | $ 195,011 | $ 327,464 | $ 489,312 | $ 587,053 | $ 765,520 |
| Net pension liability (asset), ending = (a) - (b) | $ 127,302 | $ 32,572 | $ 39,658 | $ 34,669 | $ 73,780 | $ 33,681 |
| Fiduciary net position as a percentage of total pension liability | 41.70% | 85.69% | 89.20% | 93.38% | 88.84% | 95.79% |
| Pensionable covered payroll | $ 502,047 | $ 550,000 | $ 550,420 | $ 556,383 | $ 531,899 | $ 540,241 |
| Net pension liability as a percentage of covered payroll | 25.36% | 5.92% | 7.21% | 6.23% | 13.87% | 6.23% |

| Year Ending December 31, | Actuarially Determined Contribution | Actual Employer Contribution | Contribution Deficiency (Excess) | Pensionable Covered Payroll | Actual Contribution as a Percentage of Covered Payroll |
|---|---|---|---|---|---|
| 2011 | $ - | $ - | $ - | $ - | - |
| 2012 | - | - | - | - | - |
| 2013 | - | - | - | - | - |
| 2014 | 53,431 | 58,537 | (5,106) | 460,210 | 12.72% |
| 2015 | 63,855 | 68,855 | (5,000) | 550,000 | 12.52% |
| 2016 | 63,848 | 71,010 | (7,162) | 550,420 | 12.90% |
| 2017 | 67,156 | 72,156 | (5,000) | 556,383 | 12.97% |
| 2018 | 65,689 | 71,168 | (5,479) | 531,899 | 13.38% |
| 2019 | 68,881 | 68,881 | - | 540,241 | 12.75% |
| 2020 | 78,607 | 78,607 | - | 571,272 | 13.76% |

**Note A: Net Pension Liability – Texas County & District Retirement System**

**Assumptions**

The following methods and assumptions were used to determine contribution rates:

| | |
|---|---|
| Valuation date | Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported. |
| Actuarial cost method | Normal entry age |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 15.5 years (based on contribution rate calculated in 12/31/2019 valuation) |
| Asset valuation method | 5-year smoothed market |
| Inflation | 2.75% |
| Salary increases | Varies by age and service, 4.9% average, including inflation |
| Investment rate of return | 8.00%, net of administrative and investment expenses, including inflation |
| 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 | 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. |
| Changes in plan provisions | No changes in plan provisions were reflected in the schedule. |