Report on the

Houston County Commission

Houston County, Alabama

October 1, 2016 through September 30, 2017

Filed: November 30, 2018

Department of Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner

19-041

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Rachel Laurie Riddle
Chief Examiner

Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

Under the authority of the *Code of Alabama 1975*, Section 41-5A-19, as added by Act Number 2018-129, we submit this report on the results of the audit of the Houston County Commission, Houston County, Alabama, for the period October 1, 2016 through September 30, 2017.

Sworn to and subscribed before me this
the 15 day of November, 20 18.

Kerry Bedsole
Notary Public

Sworn to and subscribed before me this
the 15 day of November, 20 18.

Virginia G. Green
Notary Public

VIRGINIA G. GREEN
Notary Public, AL State at Large
My Comm. Expires Mar. 10, 2022

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Respectfully submitted,

Glenda B. Baxter
Glenda B. Baxter
Examiner of Public Accounts

Jason J. Norsworthy
Examiner of Public Accounts

19-041

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Department of

Examiners of Public Accounts

SUMMARY

Houston County Commission
October 1, 2016 through September 30, 2017

The Houston County Commission (the "Commission") is governed by a five-member body elected by the citizens of Houston County. The members and administrative personnel in charge of governance of the Commission are listed on Exhibit 14. The Commission is the governmental agency that provides general administration, public safety, construction and maintenance of county roads and bridges, sanitation services, health and welfare services and educational services to the citizens of Houston County.

This report presents the results of an audit, the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Commission complied with applicable laws and regulations. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States as well as the requirements of the Department of Examiners of Public Accounts under the authority of the ***Code of Alabama 1975***, Section 41-5A-12, as added by Act Number 2018-129.

An unmodified opinion was issued on the financial statements, which means that the Commission's financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2017.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable state and local laws and regulations.

Commission members and administrative personnel, as reflected on Exhibit 14, were invited to discuss the results of this report at an exit conference. Individuals in attendance were: Mark Culver, Chairman; William J. Dempsey, Chief Administrative Officer; and Commissioners: Curtis Harvey, Doug Sinquefield, Jackie Battles, and Brandon Shoupe. Also in attendance were representatives from the Department of Examiners of Public Accounts: Cherie Raffle, Audit Manager; Glenda B. Baxter and Jason Norsworthy, Examiners of Public Accounts.

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Independent Auditor's Report

Independent Auditor's Report

Members of the Houston County Commission and Chief Administrative Officer
Dothan, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Houston County Commission, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Houston County Commission's basic financial statements as listed in the table of contents as Exhibits 1 through 8.

Management's Responsibility for the Financial Statements

The management of the Houston County Commission 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 did not audit the financial statements of the Houston County Water Authority, which is a discretely presented component unit and 100 percent of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Houston County Water Authority, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of Changes in the Net Pension Liability, the Schedule of the Employer's Contributions, the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, and the Schedule of Funding Progress (Exhibits 9 through 13), 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

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

Rachel Laurie Riddle

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

November 9, 2018

Management's Discussion and Analysis (Required Supplementary Information)

Management’s Discussion and Analysis

The Houston County Commission’s discussion and analysis is a narrative overview that is designed to assist the reader in reviewing significant financial issues and activities of the County. The reader should also be able to identify the changes in the County’s financial position and analyze the ability of the County to meet future challenges.

The Management’s Discussion and Analysis (MD&A) focuses on the activities of the Houston County Commission for the fiscal year ended September 30, 2017. Please consider the information contained in this MD&A in conjunction with the County’s financial statements for the same period. The MD&A report is required under Governmental Accounting Standards Board’s (GASB) Statement Number 34, and includes comparisons of government-wide data to prior years.

Financial Highlights

- Houston County’s assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended September 30, 2017 by $10,002,643.
- The County’s total net position decreased by $1,273,454 or 11.29%. A detailed explanation of this decrease can be seen on page four (4) of this Management Discussion and Analysis.
- At of the end of the current fiscal year Houston County’s governmental funds reported combined ending fund balances of $11,131,345, a decrease of $461,159 or 3.98% from the prior year.
- Governmental Fund Revenues for the current fiscal year were $40,877,925 and were below current Expenditures of $43,172,624 by $2,294,699. Revenues from Other Financing Sources (Uses) of $1,833,540 helped offset part of the shortfall in Revenues vs. Expenditures.
- Total general long term debt for Houston County decreased by $917,370 or 1.98% from the previous fiscal year. Total long term debt is now $45,447,641.

Overview of the Financial Statements

This Management’s Discussion and Analysis is intended to serve as an introduction to the County’s basic financial statements. The County’s basic financial statements are made up of the following components:

- Government-wide financial statements
- Fund financial statements
- Fiduciary funds statements
- Notes to the financial statements

This report also contains additional information that is relevant to the County’s financial position.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with an overview of the County's finances in a manner similar to those used by the private-sector businesses. The Statement of Net Position includes all of the County's assets, deferred outflows of resources, liabilities and deferred inflows of resources. Current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The *Statement of Net Position* presents information on all of the County's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as *net position*. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long term debt. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. To properly evaluate the overall health of the County you may need to consider other non-financial factors such as changes in the County's property tax base and the condition of the County's infrastructure, buildings and other facilities.

The *Statement of Activities* presents information focused on both gross and net costs and shows how the County's net position changed during the current fiscal year. This statement is intended to summarize and simplify the reader's analysis of cost of various governmental services and/or subsidy to various business-type activities. The governmental activities include most of the County's basic services including general government, public safety, highways and roads, sanitation, health and welfare, cultural and recreational, and education. The funding of these activities comes primarily from property taxes, sales taxes, gasoline taxes, and other miscellaneous revenues and charges for services.

Fund Financial Statements

Traditional users of governmental financial statements will find the fund financial statements more familiar. Fund financial statements provide more detailed information about the County's funds, focusing on its major funds rather than the County as a whole. 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. Houston County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental and fiduciary are the two categories of fund types used to keep track of specific sources of funding and spending on particular County programs. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *government funds* with similar information presented for *governmental activities* in the government-wide financial statements. In doing so readers may better understand the long-term impact of the County's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to aide in this comparison between *governmental funds* and *governmental activities*. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Most of the County's basic services are included in *governmental funds.* Unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows, outflows and balances of spendable resources*. The governmental fund statements provide a detailed short-term view of the County's operations and the basic services it provides. Governmental funds statements assist the reader in determining the short-term financial resources available to finance future programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in Exhibits 4 and 6 to reconcile the differences between them.

Houston County maintains many funds that are *governmental funds.* Separate information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the gasoline fund. These funds are deemed to be major funds. Data from the remaining funds are combined into a single aggregated presentation.

Fiduciary Funds Statements

Fiduciary funds are funds in which the County is the trustee, or fiduciary, for assets that belong to others, such as the Law Library Fund. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purpose and by those to whom the assets belong. All the County's fiduciary activities are reported in a separate Statement of Fiduciary Net Position (Exhibit 7) and a Statement of Changes in Fiduciary Net Position (Exhibit 8). The activities of these funds are excluded from the government-wide financial statements because their assets are not available for use by the County to finance its operations.

Notes to the Financial Statements

Notes to the Financial Statements, The notes provided in this report offer additional essential information to achieve a full understanding of the data provided in the government-wide and fund financial statements. The notes follow the exhibits contained in this report.

Required Supplementary Information

Required Supplementary Information is expressed in exhibits 11 and 12 which are Budget to Actual comparisons of the governmental major funds of the County. Houston County adopts an annual appropriated budget for its General and Gasoline Tax funds. The comparison exhibits are presented to demonstrate compliance with the general budget.

Government-wide Financial Analysis

The County governmental net position decreased by $1,273,454 during the current fiscal year. Management monitors net position because the variance is a useful indicator of the County's financial position. Houston County's total assets and deferred outflows or resources exceeded total liabilities and deferred inflows of resources by $10,002,643 as of the fiscal year ending September 30, 2017.

The following table reflects the condensed Statement of Net Position compared to the prior year.

Statement of Net Position
As of September 30, 2017

	Governmental Activities	
	2017	**2016**
Current & Other Assets	$26,774,438	$27,234,345
Capital Assets	41,462,620	43,432,255
Total Assets	68,237,058	70,666,600
Deferred Outflows of Resources	3,051,181	2,820,222
Current & Other Liabilities	1,855,917	6,669,800
Long-term Liabilities	45,447,641	41,828,605
Total Liabilities	47,303,558	48,498,405
Deferred Inflows of Resources	13,982,038	13,712,320
Net Position:		
Net Investment in Capital Assets	22,173,152	20,511,908
Unrestricted	(14,111,640)	(10,846,552)
Restricted	1,941,131	1,610,741
Total Net Position	$10,002,643	$11,276,097

The largest portion of Houston County's net position (221.67%) is in its capital assets (e.g., land, buildings, machinery, and equipment), less any related outstanding debt used to acquire those assets. These assets are not available for future spending. The County uses these capital assets to provide services to citizens. While the County's capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to pay for or liquidate these liabilities.

Statement of Activities

The following schedule compares the revenues and expenses for the current year. Government activities decreased the County's net position by $1,273,454.

Changes in Net Position
As of September 30, 2017

	Governmental Activities 2017	Governmental Activities 2016
REVENUES		
Program Revenues:		
Charges for Services	$9,087,612	$8,959,914
Operating Grants and Contributions	5,571,505	7,375,178
Capital Grants and Contributions	464,543	477,279
General Revenues:		
Property Taxes	16,548,966	15,991,643
General Sales Tax	6,671,573	6,183,508
Miscellaneous Taxes	1,515,377	1,490,565
Donated Capital Assets	79,300	366,899
Interest Revenue	83,899	66,576
Miscellaneous	934,449	686,567
Gain (Loss) on Disposition of Capital Assets	52,063	213,266
Total Revenues	$41,009,287	$41,811,395
EXPENSES		
Program Activities:		
General Government	$10,607,164	$8,810,177
Public Safety	16,187,486	15,261,499
Highways & Roads	10,789,655	10,547,353
Sanitation	1,881,577	1,879,616
Health	732,254	734,234
Welfare	489,221	494,182
Culture & Recreation	383,965	457,559
Education	599,000	602,600
Interest and Fiscal Charges	612,419	691,232
Total Expenses	$42,282,741	$39,478,452
Increase/(Decrease) in Net Position	(1,273,454)	$2,332,943

The County's total revenues at $41,009,287 were down 1.92% vs. the prior year. Property taxes accounted for 40.35% of the total revenue of the County. Taxes as a whole represented 60.32% of the total revenue collected by the County for fiscal year ended September 30, 2017.

Expenses for all services of the County were $42,282,741 which represented an increase of 7.1% over prior year. 25.09% of expenses went for general government, 38.28% for public safety, 25.52% for highways and roads and 1.45% was spent on servicing the debt of the County.

Net Cost of Services

The net cost of services is a comparison of the total cost for government functions and programs and the net cost remaining after reducing the total cost by the revenue generated from the specific function or program. For the current year total cost of services were $42,282,741, an increase of 7.1% vs. prior year, and the combined charges for services plus operating and capital grants received were $15,123,660 leaving a net cost to the County of $27,159,081. The Net Cost represented an increase from prior year of $4,493,000 or 19.82%.

Charges for services amounted to $9,087,612, an increase of 1.43% over prior year, and grants and contributions totaled $6,036,048, a decrease of 23.13% from prior year. The charges for services are payments made by those who received the services while grants and contributions are monies that were received from other governments and organizations that subsidized the functions or programs.

Function / Programs	Total Cost of Services		Net Cost of Services
General Government	$10,607,164		($6,181,076)
Public Safety	16,187,486		(13,162,562)
Highways and Roads	10,789,655		(5,481,441)
Sanitation	1,881,577		396,101
Health	732,254		(669,074)
Welfare	489,221		(483,412)
Culture and Recreation	383,965		(366,197)
Education	599,000		(599,000)
Interest and Fiscal Charges	612,419		(612,420)
Total Governmental Activities	**$42,282,741**		**($27,159,081)**

Financial Analysis of Fund Balances

The financial performance of the County as a whole is reflected in its governmental funds. The total governmental funds balances at the end of the fiscal year decreased from $11,592,504 to $11,131,345. As noted in the Budgetary Highlights shown below, this decrease of $461,159 or 3.98% comes primarily from the decrease in the General Fund.

The following table provides a summary of the changes in fund balances of the County's major funds as well as the combined Other Governmental Funds.

Fund	Beginning Fund Balance	Net Increase or (Decrease)	Ending Fund Balance
General Fund	$10,644,236	(499,448)	$10,144,788
Gasoline Fund			
Other Governmental Funds	948,268	38,289	986,557
Totals	**$11,592,504**	**(461,159)**	**$11,131,345**

Highlights – Major Funds

- **General Fund** (including Budgetary Highlights)

As reflected in Exhibit 5, the ending General Fund balance was $10,144,788. This is compared to the final budget amount of $4,119,340. Budgeted expenditures were $27,105,210 vs. actual General Fund Expenditures of $26,731,423. 49.39% of general fund spending went toward Public Safety and 32.37% toward General Government expenditures. Total revenues were $32,404,936 vs. budgeted revenue of $20,657,926. 72% of total revenues come from taxes and 18.16% from charges for services.

- **Gasoline Tax Fund**

Exhibit 5 reflects the Gasoline Tax fund balance at the end of the year with a zero balance. The majority of revenues came from intergovernmental sources 68.65% and miscellaneous revenues 25.31%. Total Gasoline fund expenditures were $8,623,442 with 85.47% being spent on highways and roads and 14.53% being spent on capital outlay and debt service.

Capital Asset and Debt Administration

Depreciation of assets other than land and construction in progress projects is recorded on an annual basis on the straight line method of depreciation.

The following table shows a reconciliation of capital assets for the year ended September 30, 2017.

Capital Assets

Total Capital Assets at October 1, 2016	$87,622,533
Infrastructure retroactive adjustments	0
Reclassification adjustments	0
Additions/Reclassifications	1,822,575
Retirements/Reclassifications	(1,334,750)
Total Capital Assets at September 30, 2017	**$88,110,358**

The following table shows total assets before and after depreciation.

Governmental Activities	Value 9/30/17 before Depreciation	Value 09/30/17 After Depreciation
Land plus infrastructure in progress	$3,870,702	$3,870,702
Infrastructure	23,988,305	16,689,740
Buildings and Improvements	38,632,705	14,984,092
Equipment and Furniture	3,840,317	307,039
Automobile and Construction Equipment	13,703,609	3,745,333
Equipment Under Capital Leases	4,074,720	1,865,714
Total Capital Assets	**$88,110,358**	**$41,462,620**

Debt Outstanding

At the end of September 2016, the County's general obligation warrants were $20,345,000. The September 2017 general obligation warrants decreased $2,955,000, to a revised balance of $17,390,000.

Capital lease debt decreased from $3,254,479 in 2015-2016 FY to $1,889,803 by the end of the 2016-2017 FY – a total decrease of $1,364,677. This decrease is the result of retiring prior year lease debt of $1,364,677.

The liability for compensated absences as of the end of the 2016-2017 FY was $1,037,715. This is an increase of $12,514 from the prior year.

The total of all general long term debt for the County as of September 30, 2017 was $45,447,641, down by $917,370 from the prior year ending balance of $46,365,011. This was a decrease of 1.98%.

Based on the County's legal limits of debt at 5% of the net assessed value of property as of October 1, 2017, Houston County's net assessed property value was $1,519,501,780. The maximum 5% debt limit was $75,975,089. With our total debt as of the end of the current fiscal year being $45,447,641, we were at 59.82% of our legal debt limit. This reflects no decrease from the prior year margin.

See the notes to the financial statements for a full breakdown of outstanding long term debt.

Economic Factors

During the 2016-2017 budget year, the county derived 58.82% of revenues from taxes. There are two key factors related to the growth of tax revenue. First, the City of Dothan is a major business hub for our tri-state area (Georgia, Florida and Alabama). Houston County has historically had the highest per capita out-shopping (shoppers from outside Houston County) index in the State of Alabama. The 2005 out-shopper analysis conducted by Jacksonville University revealed that Houston County's index of 1.76 was the highest in the state with the next closest county being 1.34. This index indicates that Houston County is pulling in 1.76 purchasing dollars for each average dollar spent per capita in the state. Many people outside of Houston County are spending their dollars here and are paying sales taxes with their purchases. Houston County has historically experienced a solid growth in the revenue generated from sales tax collections. Sales tax collections for the fiscal year ending September 30, 2017 increased 7.89% compared to the prior year. However, this is attributed to the global economic circumstances. Construction of new retail businesses in Houston County continues to be positive with new expansions occurring each year. The second economic factor that is critical to the continued growth of revenue from taxes is the change in population and the construction related to that change. Houston County's 2010 census was 101,547, a growth of 11.53% vs. the 2000 population of approximately 88,000. With the addition of new retail stores in Houston County and continued population growth in the area, the economic growth and stability for the county appears positive in the foreseeable future.

Financial Information Contact

The County's financial statements are designed to provide our citizens, taxpayers, customers, creditors and readers with a general overview of the County's finances and to demonstrate the County's accountability. If you have questions about the report or need additional financial information, contact the Chief Administrative Officer at 462 North Oates Street, Dothan Al 36303. The office is located on the 6th floor of the County Administration building.

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Basic Financial Statements

Statement of Net Position
September 30, 2017

	Governmental Activities	Component Unit
Assets		
Current Assets		
Cash	$ 11,149,251.73	$ 498,584.00
Receivables (Note 4)	1,526,668.03	66,328.00
Ad Valorem Taxes Receivable	13,982,038.18	
Prepaid Items	112,461.26	
Total Current Assets	26,770,419.20	564,912.00
Noncurrent Assets		
Restricted Cash - Bond Reserves		33,489.00
Restricted Cash With Fiscal Agent	4,019.32	
Capital Assets (Note 5):		
Nondepreciable	3,870,702.06	
Depreciable, Net	37,591,917.89	5,535,416.00
Total Noncurrent Assets	41,466,639.27	5,568,905.00
Total Assets	68,237,058.47	6,133,817.00
Deferred Outflows of Resources		
Loss on Refunding of Debt	613,331.73	
Employer Pension Contributions	987,446.64	
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	1,450,403.00	111,507.00
Total Deferred Outflows of Resources	3,051,181.37	111,507.00
Liabilities		
Current Liabilities		
Payables (Note 9)	891,856.41	26,636.00
Unearned Revenue	39,256.84	
Accrued Expenses		15,009.00
Accrued Wages Payable	725,922.63	
Customer Deposits		22,315.00
Accrued Interest Payable	198,881.61	55,948.00
Current Portion of Long-Term Debt:		
Warrants Payable	3,020,000.00	
Add: Unamortized Premium	11,812.93	
Capital Leases Payable	1,180,273.32	
Note Payable	327,208.91	
Compensated Absences	103,771.47	
Total Current Liabilities	$ 6,498,984.12	$ 119,908.00

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

	Governmental Activities	Component Unit
Noncurrent Liabilities		
Noncurrent Portion of Long-Term Debt:		
Warrants Payable	$ 14,370,000.00	$
Add: Unamortized Premium	16,735.01	
Bonds Payable		6,073,022.00
Capital Leases Payable	709,529.52	
Notes Payable	1,238,476.51	
Compensated Absences	933,943.23	
Other Post Employment Benefit Obligation	9,195,783.20	
Net Pension Liability	14,340,107.00	208,562.00
Total Noncurrent Liabilities	40,804,574.47	6,281,584.00
Total Liabilities	47,303,558.59	6,401,492.00
Deferred Inflows of Resources		
Unavailable Revenue - Property Taxes	13,982,038.18	
Proportionate Share of Collective Deferred Inflows		
Related to Net Pension Liability		74,891.00
Total Deferred Inflows of Resources	13,982,038.18	74,891.00
Net Position		
Net Investment in Capital Assets	22,173,152.41	(537,607.00)
Restricted for:		
Sanitation	754,155.23	
Capital Projects	50.77	
Debt Service		33,489.00
Other Purposes	1,186,924.82	
Unrestricted	(14,111,640.16)	273,059.00
Total Net Position	$ 10,002,643.07	$ (231,059.00)

Statement of Activities
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General Government	$ 10,607,163.65	$ 3,682,255.39	$ 279,288.54
Public Safety	16,187,485.80	2,091,279.72	933,643.88
Highways and Roads	10,789,654.71	955,450.04	4,352,763.47
Sanitation	1,881,576.91	2,277,678.81	
Health	732,254.42	63,180.00	
Welfare	489,220.66		5,809.20
Culture and Recreation	383,965.48	17,768.15	
Education	599,000.00		
Interest and Fiscal Charges	612,419.62		
Total Governmental Activities	42,282,741.25	9,087,612.11	5,571,505.09
Component Unit Activities:			
Water Sales	1,007,723.00	902,519.00	
Total Component Unit Activities	1,007,723.00	902,519.00	
Total	$ 43,290,464.25	$ 9,990,131.11	$ 5,571,505.09
	General Revenues:		
	Taxes:		
	Property Taxes for General Purposes		
	Property Taxes for Specific Purposes		
	General Sales Tax		
	Miscellaneous Taxes		
	Gain on Sale of Capital Assets		
	Donated Capital Assets		
	Interest Revenue		
	Miscellaneous		
	Total General Revenues		
	Change in Net Position		
	Net Position - Beginning of Year		
	Net Position - End of Year		

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

	Net (Expenses) Revenues and Changes in Net Position	
Capital Grants and Contributions	Total Governmental Activities	Component Unit Activities
$ 464,543.67	$ (6,181,076.05)	$
	(13,162,562.20)	
	(5,481,441.20)	
	396,101.90	
	(669,074.42)	
	(483,411.46)	
	(366,197.33)	
	(599,000.00)	
	(612,419.62)	
464,543.67	(27,159,080.38)	
		(105,204.00)
		(105,204.00)
$ 464,543.67	(27,159,080.38)	(105,204.00)
	15,288,250.07	
	1,260,715.58	
	6,671,572.65	
	1,515,377.13	
	52,062.72	
	79,300.00	
	83,898.78	1,722.00
	934,449.58	
	25,885,626.51	1,722.00
	(1,273,453.87)	(103,482.00)
	11,276,096.94	(127,577.00)
	$ 10,002,643.07	$ (231,059.00)

Balance Sheet
Governmental Funds
September 30, 2017

	General Fund	Gasoline Tax Fund
Assets		
Cash	$ 10,030,497.21	$ 283,048.39
Cash With Fiscal Agent		
Receivables (Note 4)	1,079,990.18	196,054.37
Ad Valorem Taxes Receivable	13,406,357.02	
Prepaid Items	93,291.24	14,794.03
Total Assets	24,610,135.65	493,896.79
Liabilities, Deferred Inflows of Resources and Fund Balances		
Liabilities		
Payables (Note 9)	560,170.71	303,504.75
Accrued Interest Payable		
Unearned Revenue		
Accrued Wages Payable	498,820.12	190,392.04
Total Liabilities	1,058,990.83	493,896.79
Deferred Inflows of Resources		
Unavailable Revenue - Property Taxes	13,406,357.02	
Total Deferred Inflows of Resources	13,406,357.02	
Fund Balances		
Nonspendable:		
Prepaid Items	93,291.24	14,794.03
Restricted for:		
Public Safety	1,124,874.70	
Sanitation	754,155.23	
Capital Projects	50.77	
Office of Sheriff	12,437.21	
Office of Revenue Commissioner	28,277.19	
Office of Judge of Probate	9,388.31	
Unassigned	8,122,313.15	(14,794.03)
Total Fund Balances	10,144,787.80	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 24,610,135.65	$ 493,896.79

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

	Other Governmental Funds		Total Governmental Funds
$	835,706.13	$	11,149,251.73
	4,019.32		4,019.32
	250,623.48		1,526,668.03
	575,681.16		13,982,038.18
	4,375.99		112,461.26
	1,670,406.08		26,774,438.52
	28,180.95		891,856.41
	4,019.32		4,019.32
	39,256.84		39,256.84
	36,710.47		725,922.63
	108,167.58		1,661,055.20
	575,681.16		13,982,038.18
	575,681.16		13,982,038.18
	4,375.99		112,461.26
	95,405.99		1,220,280.69
			754,155.23
			50.77
	467,679.61		480,116.82
	123,308.43		151,585.62
	296,790.31		306,178.62
	(1,002.99)		8,106,516.13
	986,557.34		11,131,345.14
$	1,670,406.08	$	26,774,438.52

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Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
September 30, 2017

Total Fund Balances - Governmental Funds (Exhibit 3)			$ 11,131,345.14
Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. These assets consist of:			
Capital Assets, Net (Note 5)			41,462,619.95
The loss on refunding of debt is reported as deferred outflows of resources and is not available to pay for current period expenditures and, therefore, is deferred on the Statement of Net Position.			613,331.73
Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. These liabilities at year-end consist of:			
	Amounts Due or Payable Within One Year	Amounts Due or Payable After One Year	
Warrants Payable	$ 3,020,000.00	$ 14,370,000.00	
Add: Unamortized Premium	11,812.93	16,735.01	
Capital Leases Payable	1,180,273.32	709,529.52	
Note Payable	327,208.91	1,238,476.51	
Accrued Interest Payable	194,862.29		
Compensated Absences	103,771.47	933,943.23	
Net Pension Liability		14,340,107.00	
Other Postemployment Benefit Obligation		9,195,783.20	
Total Long-Term Liabilities	$ 4,837,928.92	$ 40,804,574.47	(45,642,503.39)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds:			
Deferred Outflows of Resources - Employer Pension Contributions		$ 987,446.64	
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability		1,450,403.00	
			2,437,849.64
Total Net Position - Governmental Activities (Exhibit 1)			$ 10,002,643.07

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

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2017

	General Fund	Gasoline Tax Fund
Revenues		
Taxes	$ 23,332,627.77	$ 121,945.56
Licenses and Permits	180,879.06	93,055.54
Intergovernmental	2,108,019.18	2,446,378.94
Charges for Services	5,884,254.69	
Miscellaneous	899,155.32	901,951.13
Total Revenues	32,404,936.02	3,563,331.17
Expenditures		
Current:		
General Government	8,653,071.81	
Public Safety	13,203,512.89	
Highways and Roads		7,370,731.98
Sanitation	1,393,998.71	
Health	732,254.42	
Welfare	489,220.66	
Culture and Recreation	382,359.48	
Education	599,000.00	
Capital Outlay	266,313.71	702,304.07
Debt Service:		
Principal Retirement	958,084.51	540,906.62
Interest and Fiscal Charges	53,606.82	9,499.32
Total Expenditures	26,731,423.01	8,623,441.99
Excess (Deficiency) of Revenues Over Expenditures	5,673,513.01	(5,060,110.82)
Other Financing Sources (Uses)		
Transfers In	464,543.67	4,937,195.48
Sale of Capital Assets	10,625.14	122,915.34
Proceeds From Issuance of Debt	1,700,000.00	
Transfers Out	(8,348,130.21)	
Total Other Financing Sources (Uses)	(6,172,961.40)	5,060,110.82
Net Change in Fund Balances	(499,448.39)	
Fund Balances - Beginning of Year	10,644,236.19	
Fund Balances - End of Year	$ 10,144,787.80	$

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

Other Governmental Funds	Total Governmental Funds
$ 591,810.16	$ 24,046,383.49
	273,934.60
2,689,226.06	7,243,624.18
1,570,483.79	7,454,738.48
58,137.46	1,859,243.91
4,909,657.47	40,877,924.66
624,517.95	9,277,589.76
1,932,466.36	15,135,979.25
1,823,923.19	9,194,655.17
5,809.20	1,399,807.91
	732,254.42
	489,220.66
	382,359.48
	599,000.00
20,105.50	988,723.28
2,955,000.00	4,453,991.13
455,936.83	519,042.97
7,817,759.03	43,172,624.03
(2,908,101.56)	(2,294,699.37)
3,633,726.45	9,035,465.60
	133,540.48
	1,700,000.00
(687,335.39)	(9,035,465.60)
2,946,391.06	1,833,540.48
38,289.50	(461,158.89)
948,267.84	11,592,504.03
$ 986,557.34	$ 11,131,345.14

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2017

Net Change in Fund Balances - Total Governmental Funds (Exhibit 5)		$	(461,158.89)
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:			
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay differed from depreciation expense in the current period:			
Capital Outlay Expenditures	$ 988,723.28		
Depreciation Expense	(2,952,161.00)		
Net Adjustment			(1,963,437.72)
In the Statement of Activities, only the gains and losses on the sale of capital assets are reported whereas, in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the capital assets sold.			(81,477.76)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.			4,453,991.13
In the Statement of Activities only the gain on the sale of capital assets is recognized whereas, in the governmental funds, the proceeds from the sale increased financial resources. Thus, the changes in net position differs from the change in fund balance by the cost of the capital assets sold, net of accumulated depreciation.			79,300.00
Some of the capital assets acquired this year were financed with a note payable. The amount financed by the note payable is reported in the governmental funds as a source of financing. On the other hand, the note payable is not revenue in the Statement of Activities, but rather constitutes long-term liabilities in the Statement of Net Position.			(1,700,000.00)
Premiums associated with debt issuance are reported in the governmental funds in the year of issuance; however, they are reported in the Statement of Activities over the life of the warrants.			94,765.21

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

Some items reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These items consist of:

Amortization of Deferred Loss on Refunding	$ (193,133.53)	
Net Increase in Compensated Absences	(12,514.00)	
Net Decrease in Accrued Interest Payable	4,991.67	
Pension Expense	(512,377.34)	
Net Increase in Net OPEB Obligation	(982,402.64)	
Net Adjustment		(1,695,435.84)
Change in Net Position of Governmental Activities (Exhibit 2)		$ (1,273,453.87)

Statement of Fiduciary Net Position
September 30, 2017

		Private-Purpose Trust Funds		Agency Funds
Assets				
Cash	$	2,731,204.89	$	669,025.25
Due from External Parties		56,514.16		
Total Assets		2,787,719.05		669,025.25
Liabilities				
Due to External Parties		118,754.97		669,025.25
Accrued Wages Payable		977.20		
Total Liabilities		119,732.17	$	669,025.25
Net Position				
Held in Trust for Individuals, Organizations and Other Governments		2,667,986.88		
Total Net Position	$	2,667,986.88		

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

Statement of Changes in Fiduciary Net Position
For the Year Ended September 30, 2017

	Private-Purpose Trust Funds
Additions	
Intergovernmental	$ 554,000.00
Charges for Services	747,894.12
Miscellaneous	558,803.85
Total Additions	1,860,697.97
Deductions	
General Administrative Expenses	2,518,543.34
Total Deductions	2,518,543.34
Changes in Net Position	(657,845.37)
Net Position - Beginning of Year	3,325,832.25
Net Position - End of Year	$ 2,667,986.88

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

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Houston County Commission (the "Commission") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The Commission is a general purpose local government governed by separately elected commissioners. Generally accepted accounting principles (GAAP) require that the financial statements present the Commission (the primary government) and its component units. Component units are legally separate entities for which a primary government is financially accountable or other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on the application of the above criteria, the Houston County Water Authority (the "Authority") has been included in the accompanying financial statements as a discretely presented component unit. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate. The Authority was established to create a clean water supply and increase fire protection for the residents of Houston County. Its primary source of revenue is from sales of water to its customers. The Commission entered into an agreement with the Authority, providing that the Commission would be obligated to pay certain debt service payments in the event that the Authority did not have funds available to pay the debt.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the Commission. These statements include the financial activities of the primary government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Commission's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Commission does not allocate indirect expenses to the various functions. Program revenues include (a) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the Commission's funds, including fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds in the Other Governmental Funds' column.

The Commission reports the following major governmental funds:

- ***General Fund*** – The General Fund is the primary operating fund of the Commission. It is used to account for all financial resources except those required to be accounted for in another fund. The Commission primarily received revenues from collections of property taxes, county sales tax, and other revenues collected by the State of Alabama and shared with the Commission. Also accounted for in the General Fund are property taxes, motor vehicle taxes, and county casual sales tax for the Public Building, Roads, and Bridges Fund. A portion of these funds is transferred to debt service funds for debt payments.

- ***Gasoline Tax Fund*** – This fund is used to account for the Commission's share of the statewide 7-cent gasoline tax, motor vehicle license and registration fees-base amount, mineral severance tax, and Walden gasoline tax. Revenues are earmarked for building and maintaining county roads.

The Commission reports the following governmental fund types in the Other Governmental Funds' column:

Governmental Fund Types

- ***Special Revenue Funds*** – These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

- ***Debt Service Funds*** – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest and for the accumulation of resources for principal and interest payments maturing in future years.

- ***Capital Projects Funds*** – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

The Commission reports the following fiduciary fund types:

Fiduciary Fund Types

- ***Private-Purpose Trust Funds*** – These funds are used to report all trust agreements under which principal and income benefit individuals, private organizations, or other governments.

- ***Agency Funds*** – These funds are used to report assets held by the Commission in a purely custodial capacity. The Commission collects these assets and transfers them to the proper individual, private organizations, or other government.

C. 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, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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 Commission considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. General long-term debt issued and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Commission's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balances

1. Deposits and Investments

Cash includes cash on hand and demand deposits. State statutes authorize the County Commission to invest in obligations of the U. S. Treasury and securities of federal agencies and certificates of deposit. Amounts invested with fiscal agent are reported at fair value.

2. Receivables

Sales tax receivables are based on the amounts collected within 60 days after year-end. Sales tax receivables consist of taxes that have been paid by consumers in September. This tax is normally remitted to the Commission within the next 60 days.

Millage rates for property taxes are levied by the County Commission. Property is assessed for taxation as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is deferred and recognized in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations. Property tax revenue deferred is reported as a deferred inflow of resources.

Receivables in the General Fund also include sanitation receivables which are amounts due from customers at September 30th. Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects, amounts due from the State for gasoline taxes, court fees, money from municipalities for feeding of prisoners, and other miscellaneous items.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Certain resources set aside for the repayment of general obligation warrants that are included in cash on the balance sheet are considered restricted assets because they are maintained separately and their use is limited by applicable warrant covenants.

5. Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Major outlays of capital assets and improvements are capitalized as projects are constructed.

Depreciation on all assets is provided on the straight-line basis over the assets estimated useful life. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	Capitalization Threshold	Estimated Useful Life
Buildings	$ 5,000	40 Years
Equipment and Furniture	$ 5,000	5 – 10 Years
Roads	$250,000	20 Years
Bridges	$ 50,000	40 Years
Automobiles	$ 5,000	5 Years
Construction Equipment	$ 5,000	10 – 20 Years
Equipment Under Capital Lease	$ 5,000	5 – 10 Years

The majority of governmental activities infrastructure assets are roads and bridges. The Association of County Engineers has determined that due to the climate and materials used in road construction, the base of the roads in the county will not deteriorate and therefore should not be depreciated. The remaining part of the roads, the surface, will deteriorate and will be depreciated. The entire costs of bridges in the county will be depreciated.

6. Deferred Outflows of Resources

Deferred outflows of resources are reported in the Statement of Net Position. Deferred outflows of resources are defined as a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond/Warrant premiums and discounts are deferred and amortized over the life of the debt. Bonds/Warrants payable are reported net of the applicable bond/warrant premium or discount. Bond/Warrant issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

8. Compensated Absences

The Commission has a standard leave policy for its full-time employees as to sick and annual leave.

Annual Leave

After the first six months through the tenth year, each employee is credited 3.08 hours of annual leave for each of the twenty-six bi-weekly pay periods, ten (10) days per year of continuous employment. Upon the completion of the tenth year through the twentieth year, each employee is credited 4.62 hours of annual leave for each bi-weekly pay period, fifteen (15) days per year of continuous employment. Upon completion of the twentieth year and thereafter, each employee is credited 6.16 hours of annual leave for each bi-weekly pay period, twenty (20) days per year of continuous employment. Unused annual leave credits may be accumulated and carried over into successive years by employees up to a maximum of 240 hours. Upon separation or retirement, employees are paid for up to the maximum limit for accrued annual leave.

Sick Leave

Sick leave benefits with pay are provided for permanent full-time employees in the amount of twelve (12) workdays per fiscal year. All non-probationary, permanent full-time employees earn sick leave at a rate of 3.69 hours for each of the twenty-six bi-weekly pay periods of continuous employment. Unused sick leave credits may be accumulated and carried over into successive years by employees up to a maximum of 960 hours. All unused sick leave is forfeited upon separation and is not compensated to the employee, however, those employees who were hired into classified or unclassified positions before March 1, 1987, and who upon retirement have an accrued balance of sixty (60) days will be paid for one-half of that accrued balance, or thirty (30) days' pay, at the time of retirement.

Compensatory Leave

Compensatory leave is provided to permanent full-time employees in accordance with the Fair Labor Standards Act. Employees may accumulate up to eighty (80) hours maximum and are paid for compensatory leave in excess of the maximum hours stipulated. Compensatory leave is calculated at one and one-half times the regular hours.

The Commission uses the vesting method to accrue its sick leave liability. Under this method an accrual for the sick leave liability is based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments upon retirement.

9. Deferred Inflows of Resources

Deferred inflows of resources are reported in the government-wide and governmental funds financial statements. Deferred inflows of resources are defined as an acquisition of net position/fund balances by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position/fund balances, similar to liabilities.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the Employees' Retirement System of Alabama (the "Plan") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the Plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

11. Net Position/Fund Balances

Net position is reported on the government-wide financial statements and is required to be classified for accounting and reporting purposes into the following net position categories:

- ***Net Investment in Capital Assets*** – Capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources attributable to acquisition, construction and improvement of those assets should also be included in this component. Any significant unspent related debt proceeds or deferred inflows of resources attributable to the unspent amount at year-end related to capital assets are not included in this calculation. Debt proceeds or deferred inflows of resources at the end of the reporting period should be included in the same net position amount (restricted, unrestricted) as the unspent amount.

- ***Restricted*** – Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

- ***Unrestricted*** – The net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position. Unrestricted net position is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Commission.

Fund balance measures the net financial resources available to finance expenditures of future periods. Under GASB Statement 54, fund balance is composed of the following:

- Nonspendable (Prepaid Items, etc.)
- Restricted (Gas Taxes, Grant Revenues, etc.)
- Committed (Jail Construction, Landfill Tipping Fees, Major Road Projects, etc.)
- Assigned (Law Enforcement, Minor Road Projects, etc.)
- Unassigned

Certain fund balance amounts are restricted in accordance with State and Federal laws and are generally held in Special Revenue Funds.

Fund balance of the County may be committed for a specific purpose by formal action of the Houston County Commission. Amendments or modifications of the committed fund balance must also be approved by formal action of the Houston County Commission.

Fund balance may also be assigned. When it is appropriate for fund balance to be assigned, the Commission delegates authority to the Commission Chairman or County Administrator.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Note 2 – Stewardship, Compliance and Accountability

Budgets

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund. The Gasoline Tax Fund budgets certain interfund reimbursements as transfers rather than reductions of expenditures (GAAP). All other governmental funds adopt budgets on the modified accrual basis of accounting with the exception of capital projects funds, which adopt project-length budgets. All appropriations lapse at fiscal year-end.

The present statutory basis for county budgeting operations is the County Financial Control Act of 1935, as amended by Act Number 2007-488, Acts of Alabama. According to the terms of the law, at some meeting in September of each year, but in any event not later than October 1, the Commission must estimate the anticipated revenues, estimated expenditures and appropriations for the respective amounts that are to be used for each of such purposes. The appropriations must not exceed the total revenues available for appropriation plus any balances on hand. Expenditures may not legally exceed appropriations.

Budgets may be adjusted during the fiscal year when approved by the County Commission. Any changes must be within the revenues and reserves estimated to be available.

Note 3 – Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Commission will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Commission's deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the ***Code of Alabama 1975***, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

Note 4 – Receivables

On September 30, 2017, receivables for the Commission's individual major funds and other governmental funds in the aggregate are as follows:

Governmental Funds	General Fund	Gasoline Tax Fund	Other Governmental Funds	Total
Receivables:				
Accounts Receivable	$ 257,958.27	$ 2,361.44	$ 2,817.00	$ 263,136.71
Sales Tax	500,302.45			500,302.45
Intergovernmental	321,729.46	193,692.93	247,806.48	763,228.87
Total Receivables	$1,079,990.18	$196,054.37	$250,623.48	$1,526,668.03

Note 5 – Capital Assets

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

	Balance 10/01/2016	Additions/ Reclassifications (*)	Retirements/ Reclassifications (*)	Balance 09/30/2017
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	$ 3,860,452.06	$ 10,800.00	$ (550.00)	$ 3,870,702.06
Total Capital Assets, Not Being Depreciated	3,860,452.06	10,800.00	(550.00)	3,870,702.06
Capital Assets Being Depreciated:				
Infrastructure	23,988,305.23			23,988,305.23
Buildings and Improvements	38,623,282.53	9,422.00		38,632,704.53
Equipment and Furniture	3,841,043.88	71,637.00	(72,363.65)	3,840,317.23
Automobiles and Construction Equipment	12,480,178.01	1,730,716.28	(507,284.89)	13,703,609.40
Equipment Under Capital Lease	4,829,271.42		(754,552.00)	4,074,719.42
Total Capital Assets Being Depreciated	83,762,081.07	1,811,775.28	(1,334,200.54)	84,239,655.81
Less Accumulated Depreciation for:				
Infrastructure	(6,849,242.00)	(449,323.00)		(7,298,565.00)
Buildings and Improvements	(22,835,620.50)	(812,993.00)		(23,648,613.50)
Equipment and Furniture	(3,478,415.93)	(101,538.00)	46,675.65	(3,533,278.28)
Automobiles and Construction Equipment	(9,468,516.27)	(941,805.00)	452,045.13	(9,958,276.14)
Equipment Under Capital Lease	(1,562,503.00)	(778,551.00)	132,049.00	(2,209,005.00)
Total Accumulated Depreciation	(44,194,297.70)	(3,084,210.00)	630,769.78	(46,647,737.92)
Total Capital Assets Being Depreciated, Net	39,567,783.37	(1,272,434.72)	(703,430.76)	37,591,917.89
Governmental Activities Capital Assets, Net	$ 43,428,235.43	$(1,261,634.72)	$ (703,980.76)	$ 41,462,619.95

(*) Included are reclassifications of $754,552.00 and associated depreciation of $132,049.00 from Equipment Under Capital Lease to Automobile and Construction Equipment. Also included are donated assets totaling $79,300.00.

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

	Current Year Depreciation Expense
Governmental Activities:	
General Government	$ 477,215.00
Public Safety	724,039.00
Highways and Roads	1,267,532.00
Sanitation	481,769.00
Culture and Recreation	1,606.00
Total Depreciation Expense – Governmental Activities	$2,952,161.00

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

	Balance 10/01/2016	Additions	Retirements	Balance 09/30/2017
Fiduciary Fund Activities:				
Capital Assets Being Depreciated:				
Equipment and Furniture	$ 40,342.70	$	$	$ 40,342.70
Total Capital Assets Being Depreciated	40,342.70			40,342.70
Less Accumulated Depreciation for:				
Equipment and Furniture	(40,342.70)			(40,342.70)
Total Accumulated Depreciation	(40,342.70)			(40,342.70)
Fiduciary Fund Activities Capital Assets, Net	$	$	$	$

Note 6 – Defined Benefit Pension Plan

A. General Information about the Pension Plan

Plan Description

The Employees' Retirement System of Alabama (ERS), an agency multiple-employer plan, was established October 1, 1945 under the provisions of Act Number 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The ***Code of Alabama 1975***, Section 36-27-2, grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

The ERS Board of Control consists of 13 trustees as follows:
1) The Governor, ex-officio.
2) The State Treasurer, ex-officio.
3) The State Personnel Director, ex-officio.
4) The State Director of Finance, ex-officio.
5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex-officio trustee is the head.
6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
   a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
   b. Two vested active state employees.
   c. Two vested active employees of an employer participating in ERS pursuant to the ***Code of Alabama 1975***, Section 36-27-6.

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act Number 2012-377, Acts of Alabama, established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member's age, service credit, employment status and eligibility for retirement.

The ERS serves approximately 875 local participating employers. These participating employers include 294 cities, 65 counties, and 516 other public entities. The ERS membership includes approximately 85,874 participants. As of September 30, 2016, membership consisted of:

Retirees and beneficiaries currently receiving benefits	23,007
Terminated employees entitled to but not yet receiving benefits	1,155
Terminated employees not entitled to a benefit	6,654
Active Members	55,058
Total	85,874

Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members. However, the Commission did elect to increase contribution rates for their members.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2017, Houston County Commission's active employee contribution rate was 7.30% of covered payroll, and the Commission's average contribution rate to fund the normal and accrued liability costs was 7.00% of covered payroll.

The Houston County Commission's contractually required contribution rate for the year ended September 30, 2017, was 7.35% of pensionable pay for Tier 1 employees, and 6.11% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Commission were $987,446.64 for the year ended September 30, 2017.

B. Net Pension Liability

The Houston County Commission's net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2015, rolled forward to September 30, 2016, using standard roll-forward techniques as shown in the following table:

	Expected	Actual – 2015 Valuation Assumptions	Actual – 2016 Valuation Assumptions
Total Pension Liability as of September 30, 2015 (a)	$40,472,739	$40,566,707	$41,807,393
Discount Rate	8.00%	8.00%	7.75%
Entry Age Normal Cost for October 1, 2015 - September 30, 2016 (b)	1,202,164	1,202,164	1,165,716
Transfers Among Employers (d)		8,085	8,085
Actual Benefit Payments and Refunds for October 1, 2015 - September 30, 2016 (c)	(2,790,459)	(2,790,459)	(2,790,459)
Total Pension Liability as of September 30, 2016 = [(a) x (1+(b))] + (c) + (d) + [(e) x (1 + 0.5*(b))]	$42,010,645	$42,120,215	$43,322,678
Difference Between Expected and Actual Experience (Gain)/Loss		$ 109,570	
Less Liability Transferred for Recognition		8,085	
Experience (Gain)/Loss		$ 101,485	
Difference Between Actual (2015 Assumptions) and Actual (2016 Assumptions): Assumption Change (Gain)/Loss			$ 1,202,463

Actuarial Assumptions

The total pension liability as of September 30, 2016, was determined based on the annual actuarial funding valuation report prepared as of September 30, 2015. The key actuarial assumptions are summarized below:

Inflation	2.75%
Salary Increases	3.25%-5.00%
Investment Rate of Return (*)	7.75%

(*) Net of pension plan investment expense

Mortality rates for ERS were based on the sex distinct RP-2000 Combined Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females at ages on and after age 78. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% for all ages for females.

The actuarial assumptions used in the September 30, 2015, valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	17.00%	4.40%
U. S. Large Stocks	32.00%	8.00%
U. S. Mid Stocks	9.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash	3.00%	1.50%
Total	100.00%	

(*) Includes assumed rate of inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was the long-term rate of return, 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan’s fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

C. Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at September 30, 2015	$40,472,739	$27,069,102	$13,403,637
Changes for the Year:			
Service Cost	1,202,164		1,202,164
Interest	3,126,201		3,126,201
Changes of Assumptions	1,202,463		1,202,463
Differences Between Expected and Actual Experience	101,485		101,485
Contributions – Employer		964,532	(964,532)
Contributions – Employee		1,015,419	(1,015,419)
Net Investment Income		2,715,892	(2,715,892)
Benefit Payments, including Refunds of Employee Contributions	(2,790,459)	(2,790,459)	
Transfers among Employers	8,085	(8,085)	
Net Changes	2,849,939	1,913,469	936,470
Balances at September 30, 2016	$43,322,678	$28,982,571	$14,340,107

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the Houston County Commission's net pension liability calculated using the discount rate of 7.75%, as well as what the Houston County Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
Houston County Commission's net pension liability	$19,648,981	$14,340,107	$9,884,059

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement Number 68 Report for the ERS prepared as of September 30, 2016. The auditor's report dated September 18, 2017, on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

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

For the year ended September 30, 2017, the Houston County Commission recognized pension expense of $1,450,803.00. At September 30, 2017, the Houston County Commission reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 182,217.00	$
Changes of assumptions	1,022,991.00	
Net difference between projected and actual earnings on plan investments	245,195.00	
Employer contributions subsequent to the measurement date	987,446.64	
Total	$2,437,849.64	$

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

Year Ending:	
September 30, 2018	$271,288
2019	$271,288
2020	$468,339
2021	$ 99,916
2022	$203,338
Thereafter	$136,234

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

The Houston County Commission contributes to the Local Government Health Insurance Program, an agent multiple-employer defined benefit postemployment healthcare plan administered by the State Insurance Board. The plan provides medical and drug insurance benefits to eligible retirees and their spouses. The ***Code of Alabama 1975***, Section 11-91-1 through 11-91-8, gives authority to the Commission to establish and amend benefit provisions. The plan does not issue a stand-alone financial report.

B. Funding Policy

The Commission's contributions were on a pay-as-you-go basis as of September 30, 2017. The Commission does not anticipate setting up a trust fund within the next two years to fund its postemployment medical insurance plan given the annual cost of the plan to the Commission.

The Commission and retirees are required to contribute monthly as follows for medical and drug insurance:

	Commission	Retiree
Individual Coverage – Non-Medicare Eligible	$657.78	$258.46
Individual Coverage – Medicare Eligible	$317.45	$124.55
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	$802.81	$883.03
Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	$762.89	$605.75
Family Coverage – Medicare Eligible Retired Member and Dependent Non-Medicare Eligible	$598.46	$480.02
Family – Both Over 65	$490.13	$404.27

For fiscal year 2017, the Commission contributed $419,707.36 to cover approximately seventy-four participants for medical and drug coverage. Retirees contributed $226,959.59 for medical and drug coverage.

C. Annual OPEB Cost

For fiscal year 2017, the Commission's annual other postemployment benefit (OPEB) cost (expense) for medical insurance was $1,410,576.00. The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/2017	$1,410,576	29.75%	$9,195,783.20
09/30/2016	$1,316,082	28.11%	$8,213,380.56
09/30/2015	$1,316,082	22.69%	$7,267,309.26

D. Funded Status and Funding Progress

The funding status of the plan as of September 30, 2017, the latest actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	$16,742,594
Actuarial Value of Plan Assets	$0
Unfunded Actuarial Accrued Liability (UAAL)	$16,742,594
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll (Active Plan Members)	$12,446,053
UAAL as a Percentage of Covered Payroll	134.52%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funding status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that will show whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used was the projected unit credit method. The actuarial assumptions included a four percent investment return assumption (or discount rate) and an annual healthcare cost trend rate of five percent. It was assumed that seventy percent of future retirees under 65 years of age would elect medical, drug, and dental coverage; fifty percent of future retirees over 65 years of age would elect medical, drug, and dental coverage; twenty percent of future retirees with at least ten years of service and vested until age 60 would elect medical, drug, and dental coverage; and twenty percent would elect spouse medical, drug, and dental coverage. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open period. The unfunded actuarial accrued liability (UAAL) is being amortized over thirty years.

Note 8 – Contingent Liabilities

The Houston County Commission, the City of Dothan, and Dale County agreed to guarantee a bond issue for the Dothan-Houston County Airport Authority. In the event the Airport Authority defaults on the bond payment, the Commission will be responsible for 37.5 percent of the principal and interest on the bond due and payable in the fiscal year and 37.5 percent of such expenses, and any amount required to be paid by the City of Dothan and Dale County pursuant to its agreement with trustee, should the City of Dothan or Dale County fail to make such payments when requested by the trustee. This guarantee is renewable on a yearly basis. The amount owed on the bond issue at September 30, 2017, is $1,350,000.00.

Note 9 – Payables

On September 30, 2017, payables for the Commission's individual major funds and other governmental funds in the aggregate are as follows:

	General Fund	Gasoline Tax Fund	Other Governmental Funds	Total
Payables:				
Accounts	$427,225.54	$257,488.94	$27,590.78	$712,305.26
Intergovernmental	132,945.17	46,015.81	590.17	179,551.15
Total	$560,170.71	$303,504.75	$28,180.95	$891,856.41

Note 10 – Lease Obligations

Capital Leases

The Commission is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled $4,074,719.42 for governmental activities at September 30, 2017. If the Commission completes the lease payments according to the schedules below, which is the stated intent of the Commission, ownership of the leased equipment will pass to the Commission. The lease purchase contracts give the Commission the right to cancel the lease with 30 days' written notice and payment of a pro rata share of the current year's lease payments. Until that time, the leased equipment will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30.

Fiscal Year Ending	Governmental Activities
September 30, 2018	$1,205,535.19
2019	619,008.65
2020	95,955.64
Total Minimum Lease Payments	1,920,499.48
Less: Amount Representing Interest	(30,696.64)
Present Value of Net Minimum Lease Payments	$1,889,802.84

Note 11 – Long-Term Debt

In February 2008, General Obligation Warrants, Series 2008-A, were issued to provide funds for the acquisition and construction of capital improvements for the County's water system, public libraries, emergency management facilities, and public roads and bridges. The Warrants constitute general obligations of the Commission for the payment of which the full faith, credit, and taxing power of the Commission were irrevocably pledged. The warrants were paid off during the audit period.

In May 2013, the Commission issued General Obligation Refunding Series 2013-A Warrants in the amount of $10,500,000.00. The purpose of these warrants was to partially refund the General Obligation Refunding Series 2004 Warrants.

On March 18, 2014, the Commission issued General Obligation Warrants, Series 2014-A in the amount of $7,855,000.00. The purposes of issuing the Series 2014-A GO Warrants were: to reimburse or match funds for a grant to finance road and bridge improvements; and to finance the acquisition and construction of certain energy conservation improvements to public buildings and facilities.

In February 2015, the Commission issued General Obligation Refunding Warrants, Series 2015 in the amount of $4,090,000.00. The purpose of these warrants was to refund a portion of the General Obligation Warrants, Series 2008-A, and pay the costs of issuing the Series 2015 Warrants.

In October 2016, the Commission entered into a financial agreement to purchase $700,000.00 of radios for emergency responders and $1,000,000.00 for the construction of a communications tower and communication equipment upgrade. On April 1, 2017, this debt became a long-term obligation of the Commission.

The following is a summary of long-term debt transactions for the Commission for the year ended September 30, 2017:

	Debt Outstanding 10/01/2016	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2017	Amounts Due Within One Year
Governmental Activities:					
Warrants Payable:					
2008-A General Obligation Warrants	$ 700,000.00	$	$ (700,000.00)	$	$
2013-A General Obligation Refunding Warrants Payable	7,830,000.00		(2,185,000.00)	5,645,000.00	2,220,000.00
2014-A General Obligation Warrants	7,855,000.00			7,855,000.00	
2015 General Obligation Refunding Warrants Payable	3,960,000.00		(70,000.00)	3,890,000.00	800,000.00
Add: Unamortized Premium	123,313.15		(94,765.21)	28,547.94	11,812.93
Total Warrants Payable	20,468,313.15		(3,049,765.21)	17,418,547.94	3,031,812.93
Other Liabilities:					
Compensated Absences	1,025,200.70	12,514.00		1,037,714.70	103,771.47
Net OPEB Obligation	8,213,380.56	982,402.64		9,195,783.20	
Net Pension Liability	13,403,637.00	936,470.00		14,340,107.00	
Capital Lease Contracts Payable	3,254,479.39		(1,364,676.55)	1,889,802.84	1,180,273.32
Note Payable		1,700,000.00	(134,314.58)	1,565,685.42	327,208.91
Total Other Liabilities	25,896,697.65	3,631,386.64	(1,498,991.13)	28,029,093.16	1,611,253.70
Governmental Activities Long-Term Liabilities	$46,365,010.80	$3,631,386.64	$(4,548,756.34)	$45,447,641.10	$4,643,066.63

Payments on the warrants payable are made by the debt service funds with funds transferred from the General Fund. The capital lease liability will be liquidated by the General Fund (79%) and Gasoline Tax Fund (21%).

The compensated absences liability attributable to the governmental activities will be liquidated by the General Fund (74%), Gasoline Tax Fund (21%), and Non-Major Funds (5%).

The following is a schedule of debt service requirements to maturity:

	Governmental Activities						
	General Obligation Warrants		Capital Lease Contracts Payable		Note Payable		Total Principal and Interest Requirements
Fiscal Year Ending	Principal	Interest	Principal	Interest	Principal	Interest	
September 30, 2018	$ 3,020,000.00	$ 383,685.00	$1,180,273.32	$25,261.87	$ 327,208.91	$33,395.77	$ 4,969,824.87
2019	2,545,000.00	336,860.00	613,753.00	5,255.65	335,317.50	25,287.18	3,861,473.33
2020	1,450,000.00	303,433.75	95,776.52	179.12	343,193.32	17,411.36	2,209,994.07
2021	760,000.00	286,957.50			351,245.51	9,359.17	1,407,562.18
2022	785,000.00	272,462.50			208,720.18	1,632.58	1,267,815.26
2023-2027	4,170,000.00	1,091,580.00					5,261,580.00
2028-2032	3,320,000.00	559,480.00					3,879,480.00
2033-2034	1,340,000.00	74,270.00					1,414,270.00
Total	$17,390,000.00	$3,308,728.75	$1,889,802.84	$30,696.64	$1,565,685.42	$87,086.06	$24,271,999.71

On February 1, 2013, the Authority issued new bonds in the amount of $1,200,000.00. The purpose of this issue was to advance refund the Authority's 2008 issue and to partially advance refund 2007, 2009A and 2009B issues. Also, the Houston County Commission (the "Commission") under provisions of an agreement with the Authority is obligated to pay any amount by which the debt service on the Series 2013 Bonds exceeds the available funds in the Bond Fund of the Authority.

On February 1, 2014, the Authority issued new bonds in the amount of $2,245,000.00. The purpose of this issue was to advance refund the Authority's 2009A issue. Also, the Houston County Commission (the "Commission") under provisions of an agreement with the Authority is obligated to pay any amount by which the debt service on the Series 2014 Bonds exceeds the available funds in the Bond Fund of the Authority.

On February 1, 2016, the Authority issued new bonds in the amount of $2,485,000 which advanced refunded the Authority's 2009A and Series 2009B (collectively, the "Series 2009 Bonds") that were outstanding. Also, the Houston County Commission (the "Commission") under provisions of an agreement with the Authority is obligated to pay any amount by which the debt service on the Series 2016 Bonds exceeds the available funds in the Bond Fund of the Authority.

	Houston County Water Authority, Inc., Series 2013, Series 2014 and Series 2016 Bonds Payable		
Fiscal Year Ending	Principal	Interest	Total Principal and Interest
September 30, 2018	$	$ 200,823.00	$ 200,823.00
2019	90,000.00	200,012.00	290,012.00
2020	95,000.00	198,347.00	293,347.00
2021	95,000.00	196,495.00	291,495.00
2022	100,000.00	194,448.00	294,448.00
Thereafter	5,550,000.00	2,246,123.00	7,796,123.00
Total	$5,930,000.00	$3,236,248.00	$9,166,248.00

Deferred Outflows on Refunding and Premiums

The Commission had a deferred loss on refunding and/or a premium in connection with the issuance of its 2008-A, 2013-A and 2015 General Obligation Refunding Warrants. The premium on the 2008-A General Obligation Warrants is being amortized using the straight-line method over a period of twenty years. During the prior fiscal year, the Commission decided to amortize the remaining premium over a period of two years; therefore this is the final year of the amortization. The deferred loss on refunding and premium on the Series 2013-A General Obligation Refunding Warrants are being amortized using the straight-line method over a period of seven years. During the 2016 fiscal year, the Commission decided to amortize the remaining deferred loss on refunding over four years. The deferred loss on refunding on the 2015 Warrants is being amortized over a period of fifteen years.

	Deferred Outflows on Refunding	Premiums
Deferred Outflows on Refunding and Premiums	$1,395,315.15	$ 357,229.40
Amount Amortized Prior Years	(588,849.89)	(233,916.25)
Balance Deferred Outflows on Refunding and Premiums	806,465.26	123,313.15
Current Amount Amortized	(193,133.53)	(94,765.21)
Balance Deferred Outflows on Refunding and Premiums	$ 613,331.73	$ 28,547.94

Note 12 – Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission has general liability insurance through the Association of County Commissions of Alabama (ACCA) Liability Self Insurance Fund, a public entity risk pool. The Fund is self-sustaining through member contributions. The Commission pays an annual premium based on the Commission's individual claims experience and the experience of the Fund as a whole. Coverage is provided up to $1,000,000 per claim for a maximum total coverage of $3,000,000 in aggregate. Defense costs are included in the limits of the coverage. Employment practices liability coverage provides up to $1,000,000 per occurrence with a $5,000 deductible for loss only. Defense costs are included in the limits of the coverage. Equitable Defense coverage per occurrence is limited to $225,000.00.

The Commission has workers' compensation insurance through the Association of County Commissions of Alabama (ACCA) Workers' Compensation Self Insurance Fund, a public entity risk pool. Premiums are based on a rate per $100 of remuneration for each class of employee which is adjusted by an experience modifier for the individual county less an 11.3% discount. At year-end, pool participants are eligible to receive refunds of unused premiums and the related investment earnings. The Commission may qualify for additional discounts based on losses and premium size.

The Commission purchases commercial insurance for its other risks of loss, including property and casualty insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Commission has employee health insurance coverage through the Local Government Health Insurance Program, administered by the State Employee's Health Insurance Board (SEHIB). The plan, administered by Blue Cross/Blue Shield which functions as a public entity pool risk, is self-sustaining through member premiums. Monthly premiums are determined annually by the plan's actuary and are based on the pool's claims experience, considering any remaining fund balance on hand available for claims.

The Commission purchases commercial life insurance of $15,000 for the majority of their employees through Prudential Life Insurance. The Commission paid premiums of $2.55 for each active employee at the beginning of each month. Based on age, Prudential will decrease employee coverage and premium.

Note 13 – Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2017, were as follows:

	Transfers In			
	General Fund	Gasoline Tax Fund	Other Governmental Funds	Totals
Transfers Out:				
General Fund	$	$4,937,195.48	$3,410,934.73	$8,348,130.21
Other Governmental Funds	464,543.67		222,791.72	687,335.39
Totals	$464,543.67	$4,937,195.48	$3,633,726.45	$9,035,465.60

The Commission transfers funds in the General Fund to the Debt Service Funds to pay current year debt requirements. Funds will be transferred from the General Fund to the Gasoline Fund as needed for projects.

Note 14 – Related Organizations

A majority of the members of the Board of the Houston County Industrial Development Authority, the Houston County Port Authority, the Improvement District of Houston County-Country Crossing Project, Cooperative District of Houston County-Country Crossing Project, and the Houston County Health Care Authority are appointed by the Houston County Commission. The Commission, however, is not financially accountable, because it does not impose its will and have a financial benefit or burden relationship, for these agencies and these agencies are not considered part of the Commission's financial reporting entity. These agencies are considered related organizations of the Commission.

Note 15 – Tax Abatements

The Houston County Commission entered into property tax abatement agreements under the State Tax Incentive Reform Act of 1990 (Section 40-9B-1 et seq.), ***Code of Alabama 1975***. Under the Act, localities may grant property tax abatements for all State and local noneducational property taxes, all construction related transaction taxes, except those local construction taxes levied for educational purposes or for capital improvement for education, and/or all mortgage and recording taxes. The abatements may be granted to any business located within or promising to relocate to Houston County. These programs have the stated purpose of increasing business activity and employment in the County.

Under the agreements entered into by the Industrial Development Board of the City of Dothan, Town of Ashford, Town of Taylor, Houston County Industrial Development Board, and the Houston County Commission county property taxes were reduced by $98,819.28. Abatements exceeding 20% of the total were granted to a manufacturing facility of technical fabrics in the amount of $29,385.51 for the purpose of a new facility. Abatements were granted by the Houston County Commission to a car dealership in the amount of $1,771.56 for the construction of a new dealership.

Houston County also granted sales tax abatements in the amount of $40,332.09. The largest abatement was granted to a food manufacturer/poultry processor in the amount of $30,350.72 for a major addition to the existing facility.

Required Supplementary Information

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Schedule of Changes in the Net Pension Liability
For the Year Ended September 30, 2017

	2017	2016	2015
Total pension liability			
Service cost	$ 1,202,164	$ 1,181,263	$ 1,156,220
Interest	3,126,201	2,994,945	2,862,153
Differences between expected and actual experience	101,485	139,459	
Changes of assumptions	1,202,463		
Benefit payments, including refunds of employee contributions	(2,790,459)	(2,559,471)	(2,157,495)
Transfers among employees	8,085		
Net change in total pension liability	2,849,939	1,756,196	1,860,878
Total pension liability - beginning	40,472,739	38,716,543	36,855,665
Total pension liability - ending (a)	$ 43,322,678	$ 40,472,739	$ 38,716,543
Plan fiduciary net position			
Contributions - employer	$ 964,532	$ 943,680	$ 881,208
Contributions - employee	1,015,419	1,029,023	1,024,621
Net investment income	2,715,892	320,744	2,956,434
Benefit payments, including refunds of employee contributions	(2,790,459)	(2,559,471)	(2,157,495)
Other (Transfers among employers)	8,085	12,346	(295,367)
Net change in plan fiduciary net position	1,913,469	(253,678)	2,409,401
Plan fiduciary net positions - beginning	27,069,102	27,322,780	24,913,379
Plan fiduciary net positions - ending (b)	$ 28,982,571	$ 27,069,102	$ 27,322,780
Net pension liability (asset) - ending (a) - (b)	$ 14,340,107	$ 13,403,637	$ 11,393,763
Plan fiduciary net position as a percentage of the total pension liability	66.90%	66.88%	70.57%
Covered payroll	$ 14,124,091	$ 13,937,961	$ 13,787,184
Net pension liability (asset) as a percentage of covered payroll	101.53%	96.17%	82.64%

(*) Employer's covered payroll during the measurement period is the total covered payroll. For fiscal year 2017, the measurement period is October 1, 2015 through September 30, 2016. GASB issued a statement "Pension Issues" in March 2016 to redefine covered payroll for fiscal year 2017.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of the Employer's Contributions
For the Year Ended September 30, 2017

	2017	2016
Actuarially determined contribution (*)	$ 987,447	$ 1,013,553
Contributions in relation to the actuarially determined contribution (*)	$ 987,447	$ 1,013,553
Contribution deficiency (excess)	$	$
Covered payroll (**)	$ 14,097,503	$ 14,124,091
Contributions as a percentage of covered payroll	7.00%	7.18%

(*) The amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. The Schedule of Employer's Contributions is based on the 12 month period of the underlying financial statement.

(**) Employer's covered payroll for fiscal year 2017 is the total covered payroll for the 12 month period of the underlying financial statement.

Notes to Schedule

Valuation date:
Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2017 were based on the September 30, 2014 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	30 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increases	3.75 - 7.25%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

2015		2014	
$	991,657	$	881,208
$	991,657	$	881,208
$		$	
$	13,937,961	$	13,787,184
	7.11%		6.39%

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2017

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
Revenues			
Taxes	$ 12,599,516.00	$ 12,599,516.00	$ 12,949,156.50
Licenses and Permits	192,200.00	195,200.00	180,879.06
Intergovernmental	1,451,420.00	1,481,403.00	2,062,517.82
Charges for Services	5,747,390.00	5,747,390.00	5,882,702.44
Miscellaneous	584,049.00	634,417.00	899,155.32
Total Revenues	20,574,575.00	20,657,926.00	21,974,411.14
Expenditures			
Current:			
General Government	7,842,921.00	8,410,108.00	8,653,071.81
Public Safety	13,467,313.48	13,673,767.48	13,203,512.89
Sanitation	1,544,377.19	1,544,377.19	1,393,998.71
Health	732,406.00	732,406.00	732,254.42
Welfare	497,761.00	497,761.00	489,220.66
Culture and Recreation	384,699.00	387,499.00	382,359.48
Education	624,500.00	624,500.00	599,000.00
Capital Outlay	223,100.00	223,100.00	266,313.71
Debt Service:			
Principal Retirement	958,084.51	958,084.51	958,084.51
Interest and Fiscal Charges	53,606.82	53,606.82	53,606.82
Total Expenditures	26,328,769.00	27,105,210.00	26,731,423.01
Excess (Deficiency) of Revenues Over Expenditures	(5,754,194.00)	(6,447,284.00)	(4,757,011.87)
Other Financing Sources (Uses)			
Transfers In	14,649,329.00	14,649,329.00	10,893,516.30
Sale of Capital Assets	35,000.00	35,000.00	10,625.14
Proceeds From Issuance of Debt			1,700,000.00
Transfers Out	(13,443,111.00)	(13,443,111.00)	(8,348,130.21)
Total Other Financing Sources (Uses)	1,241,218.00	1,241,218.00	4,256,011.23
Net Change in Fund Balances	(4,512,976.00)	(5,206,066.00)	(501,000.64)
Fund Balances - Beginning of Year	9,325,406.00	9,325,406.00	10,976,096.61
Fund Balances - End of Year	$ 4,812,430.00	$ 4,119,340.00	$ 10,475,095.97

		Budget to GAAP Differences		Actual Amounts GAAP Basis
(1)	$	10,383,471.27	$	23,332,627.77
				180,879.06
(1)		45,501.36		2,108,019.18
(1)		1,552.25		5,884,254.69
				899,155.32
		10,430,524.88		32,404,936.02
				8,653,071.81
				13,203,512.89
				1,393,998.71
				732,254.42
				489,220.66
				382,359.48
				599,000.00
				266,313.71
				958,084.51
				53,606.82
				26,731,423.01
		10,430,524.88		5,673,513.01
(2)		(10,428,972.63)		464,543.67
				10,625.14
				1,700,000.00
				(8,348,130.21)
		(10,428,972.63)		(6,172,961.40)
		1,552.25		(499,448.39)
(3)		(331,860.42)		10,644,236.19
	$	(330,308.17)	$	10,144,787.80

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2017

Explanation of Differences Between Actual Amounts
Budgetary Basis and Actual Amounts GAAP Basis:

Some amounts are combined with the General Fund for reporting purposes, but are budgeted separately.

(1) Revenues	
Public Buildings, Roads and Bridges Fund	$ 10,428,972.63
Dealer License Fees (Probate) Fund	1,552.25
(2) Transfers In	
Public Buildings, Roads and Bridges Fund	
Net Change in Fund Balance - Budget to GAAP	

(3) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Commission's budget. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because of the effect of transactions such as those described above.

$	10,430,524.88
	(10,428,972.63)
$	1,552.25

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Gasoline Tax Fund
For the Year Ended September 30, 2017

	Budgeted Amounts		Actual Amounts
	Original	**Final**	**Budgetary Basis**
Revenues			
Taxes	$	$	$
Licenses and Permits	79,000.00	79,000.00	91,704.04
Intergovernmental	2,280,920.00	2,207,160.00	2,255,870.19
Miscellaneous	5,100.00	36,679.00	79,141.07
Total Revenues	2,365,020.00	2,322,839.00	2,426,715.30
Expenditures			
Current:			
Highways and Roads	9,446,372.00	9,923,665.00	8,313,085.80
Capital Outlay	645,695.00	645,695.00	702,304.07
Debt Service:			
Principal Retirement	567,640.00	567,640.00	540,906.62
Interest and Fiscal Charges	9,846.00	9,846.00	9,499.32
Total Expenditures	10,669,553.00	11,146,846.00	9,565,795.81
Excess (Deficiency) of Revenues Over Expenditures	(8,304,533.00)	(8,824,007.00)	(7,139,080.51)
Other Financing Sources (Uses)			
Transfers In	8,229,533.00	8,929,227.33	7,016,165.17
Sale of Capital Assets	75,000.00	75,000.00	122,915.34
Total Other Financing Sources (Uses)	8,304,533.00	9,004,227.33	7,139,080.51
Net Change in Fund Balances		180,220.33	
Fund Balances - Beginning of Year			
Fund Balances - End of Year	$	$ 180,220.33	$

		Budget to GAAP Differences		Actual Amounts GAAP Basis
(4)	$	121,945.56	$	121,945.56
(4)		1,351.50		93,055.54
(4)		190,508.75		2,446,378.94
(1)		822,810.06		901,951.13
		1,136,615.87		3,563,331.17
(2) (5)		(942,353.82)		7,370,731.98
				702,304.07
				540,906.62
				9,499.32
		(942,353.82)		8,623,441.99
		2,078,969.69		(5,060,110.82)
(3) (6)		(2,078,969.69)		4,937,195.48
				122,915.34
		(2,078,969.69)		5,060,110.82
	$		$	

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Gasoline Tax Fund
For the Year Ended September 30, 2017

Explanation of Differences Between Actual Amounts Budgetary Basis and Actual Amounts GAAP Basis:

The modified accrual basis of accounting (GAAP) requires that interfund reimbursements received for expenditures, properly applicable to other funds, be accounted for as reductions of expenditures in the fund that is reimbursed. Likewise, excess reimbursements received from those funds constitute revenue to the fund receiving the excess reimbursements. These differences, while affecting individual line items, had no effect on overall fund balance.

(1) The Commission budgets excess reimbursements received for expenditures, properly applicable to other funds, as transfers in rather than on the modified accrual basis (GAAP).

(2) The Commission budgets payments made from the Gasoline Tax Fund, properly applicable to other funds, as expenditures of the Gasoline Tax Fund rather than on the modified accrual basis (GAAP).

(3) The Commission budgets reimbursements received by the Gasoline Tax Fund from other funds, for expenditures properly applicable to other funds, as transfers in rather than on the modified accrual basis.

Some amounts are combined with the Gasoline Tax Fund for reporting purposes, but are budgeted separately.

(4) Revenues		
Public Highway and Traffic Fund	$	190,508.75
Severed Mineral Severance Tax Fund		11,490.45
Walden Gas Tax Fund		111,806.61
(5) Expenditures		
Walden Gas Tax Fund		
(6) Transfers In		
Public Highway and Traffic Fund	$	(190,508.75)
Severed Mineral Severance Tax Fund		(11,490.45)
Walden Gas Tax Fund		(53,047.30)
Net Change in Fund Balance - Budget to GAAP		

$	822,810.06
	1,001,113.13
	(1,823,923.19)
	313,805.81
	(58,759.31)
	(255,046.50)
$	

Schedule of Funding Progress
Other Postemployment Benefits
For the Year Ended September 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
09/30/2017	$0	$16,742,594	$16,742,594	0%	$12,446,053	134.52%
09/30/2015	$0	$14,504,807	$14,504,807	0%	$14,225,131	101.97%
09/30/2013	$0	$11,023,011	$11,023,011	0%	$13,245,022	83.22%

Additional Information

Commission Members and Administrative Personnel
October 1, 2016 through September 30, 2017

Commission Members		**Term Expires**
Hon. Mark Culver	Chairman	2018
Hon. Curtis Harvey	Member	2018
Hon. Doug Sinquefield	Member	2018
Hon. Jackie Battles	Member	2018
Hon. Brandon Shoupe	Member	2018
Administrative Personnel		
Mr. William J. Dempsey	Chief Administrative Officer	Indefinite

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Independent Auditor's Report

Members of the Houston County Commission and Chief Administrative Officer
Dothan, Alabama

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Houston County Commission, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Houston County Commission's basic financial statements and have issued our report thereon dated November 9, 2018. We did not audit the financial statements of the Houston County Water Authority, a discretely presented component unit of the Houston County Commission. Those financial statements were audited by other auditors in accordance with ***Government Auditing Standards*** and whose report thereon has been furnished to us. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

Internal Control Over Financial Reporting

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

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

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

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

Compliance and Other Matters

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

Purpose of this Report

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

Rachel Laurie Riddle

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

November 9, 2018