

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Comal County’s annual financial report presents our discussion and analysis of the County’s financial performance during the fiscal year ended December 31, 2015. Please read it in conjunction with the County’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

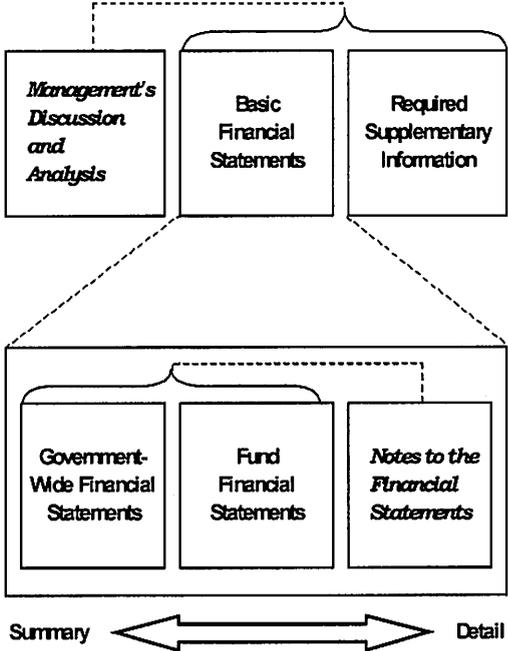
- The County’s total combined net position exceeded its liabilities by \$150,385,481 at December 31, 2015. Of this amount, \$9,781,857 is available to meet the County’s ongoing obligations.
- The County’s total net position decreased by \$12,665,304 over the prior year due to the implementation of GASB 68 requirements for the reporting of pension liabilities.
- The general fund’s fund balance increased to \$20,798,885 at the end of 2015, an increase of \$631,588 over 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the County’s overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the County’s operations in more detail than the government-wide statements.
- *The governmental funds statements* tell how *general government services* were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund statements* offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as self-funded health insurance.
- *Fiduciary fund statements* provide information about the financial relationships in which the County acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

Figure A-1. Required Components of the County’s Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Figure A-1 shows how the required parts of this annual report are arranged and are related to one another.

Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the County's Government-wide and Fund Financial Statements

Type of Statements	Government-wide	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire County's government (except fiduciary funds) and the County's component units	The activities of the County that are not proprietary or fiduciary	Activities the County operates similar to private businesses: self insurance	Instances in which the County is the trustee or agent for someone else's resources
Required financial statements	Statement of net position	Balance sheet	Statement of net position	Statement of fiduciary net position
	Statement of activities	Statement of revenues, expenditures and changes in fund balances	Statement of revenues, expenses and changes in fund net position Statement of cash flows	Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset / liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the County's funds do not currently contain capital assets, although they can.
Type of inflow / outflow information	All revenue and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenue and expenses during the year, regardless of when cash is received or paid	All revenue and expenses during the year, regardless of when cash is received or paid

Government-wide Statements

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

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

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

The government-wide financial statements of the County include the *Governmental Activities*. Most of the County's basic services are included here, such as the justice system, public safety, corrections, infrastructure, and health services. Property taxes, sales taxes, fees of office, charges for services and grants finance these activities.

Fund Financial Statements

Fund financial statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds—Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The County maintains sixty-one individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the road and bridge fund, the capital projects fund and the debt service fund, all of which are considered to be major funds. Data from other governmental funds are combined into a single, aggregated presentation. Individual data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds—The County maintains just one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to report activities that provide supplies and services for the County's other programs and activities—such as the County's Self Insurance Fund. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 23-51.

Required and Other Supplementary Information is presented concerning the County's major funds. The General Fund, the Road and Bridge Fund, the Capital Projects Fund, and the Debt Service Fund are the County's major funds. The County adopts annual budgets for the General Fund and the Road and Bridge Fund. A budgetary comparison schedule, which includes the original and final amended budget and actual figures, has been provided to demonstrate compliance with this budget. The Capital Projects Fund is budgeted on a project basis instead of an annual basis. Required supplementary information can be found on pages 52-56.

The combining and individual fund statements and schedules referred to earlier provide information for non-major governmental funds, internal service funds, agency funds, and component units and are presented immediately following the required supplementary information. Additionally, the County legally adopts budgets for a number of other governmental funds. Budgetary comparison schedules and combining and individual fund statements and schedules can be found on pages 90-165.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

GASB 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments require that the County provide a comparative analysis of government-wide data.

The County's combined net position was \$150,385,481 at December 31, 2015. (See Table A-1).

Table A-1

Comal County			
Net Position			
December 31			
	2015	2014	
	Governmental	Governmental	
	Activities	Activities	
Current assets	\$ 157,498,650	\$ 91,338,502	
Non-current assets	16,581,070	24,000,000	
Capital assets	157,553,474	158,381,011	
Total assets	<u>331,633,194</u>	<u>273,719,513</u>	
Deferred outflows of resources	4,659,365	-	
Other liabilities	91,405,896	11,567,318	
Long-term liabilities	70,803,294	58,067,966	
Total liabilities	<u>162,209,190</u>	<u>69,635,284</u>	
Deferred inflows of resources - property taxes	23,697,888	38,364,001	
Net position:			
Net investment in capital assets	126,904,499	158,798,518	
Restricted	13,699,125	8,677,648	
Unrestricted	9,781,857	(4,425,381)	
Total net position	<u>\$ 150,385,481</u>	<u>\$ 163,050,785</u>	

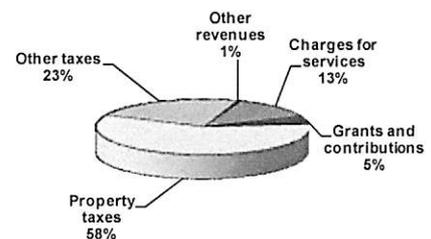
Change in net position. The primary reason the County's net position decreased is from the implementation of GASB 68 which resulted in an increase of the net pension liability of \$18,534,586. The County would have had an increase in net position of \$5,569,282 if we had not had to restate the net pension liability.

The County's total revenues were \$66,970,484. A significant portion, 81% (\$54,565,233) of the County's revenue comes from taxes. (See Table A-2.) Charges for services make up 13% (\$8,639,656) of revenues. The remaining 6% of revenues (\$3,765,595) comes from other sources such as grants and other revenues and reimbursements.

- Property values increased by 10% over 2014, resulting in an increase in property tax revenue.
- Sales tax revenues increased by 5.5%.
- Charges for services increased by 1.7%.

The total cost of all programs and services was \$65,987,353; of these costs \$15,342,521 (23%) was for public safety, \$11,196,825 (17%) for corrections and rehabilitation, \$11,925,744 (18%) for general government, \$14,104,664 (21%) for infrastructure and \$8,856,770 (13%) for justice system. Other programs

Figure A-3
County Sources of Revenue - Governmental Activities



account for the remaining 8%. All programs had increases in their operations in 2015. The overall increase was primarily due to a cost of living pay increase for all employees.

- There was an overall increase in expenditures of \$1,358,533 or 2.10%.

Figure A-4
County Expenses by Function
Governmental Activities

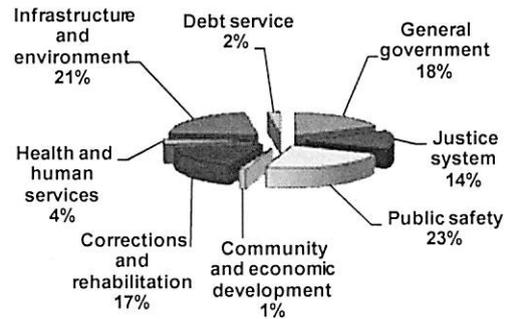
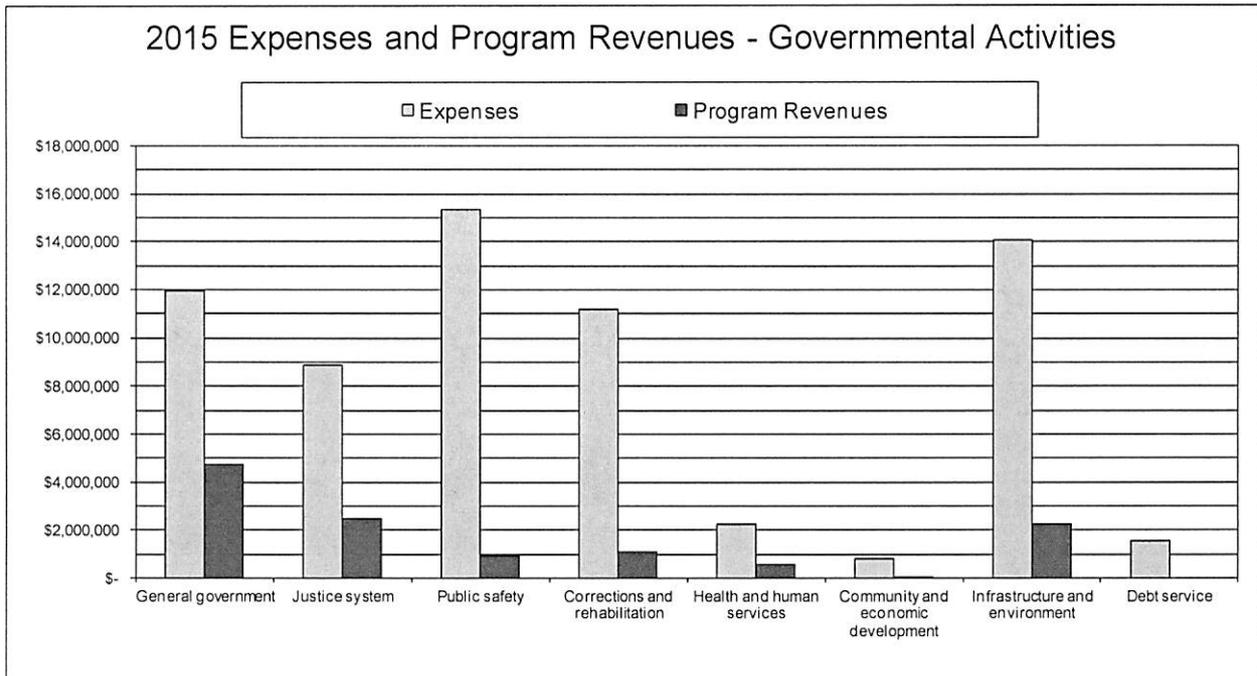


Table A-2

Comal County
Changes in Net Position
December 31

	2015 Governmental Activities	2014 Governmental Activities
REVENUES:		
Program revenues:		
Charges for services	\$ 8,639,656	\$ 8,495,061
Operating grants and contributions	1,475,482	1,484,802
Capital grants and contributions	1,996,312	2,473,906
General revenues:		
Taxes:		
Property taxes	39,059,483	37,286,971
Other taxes	15,505,750	14,591,927
Other	293,801	920,464
Total revenues	<u>66,970,484</u>	<u>65,253,131</u>
EXPENSES:		
General government	11,925,744	14,683,771
Justice system	8,856,770	7,896,286
Public safety	15,342,521	14,115,830
Corrections and rehabilitation	11,196,825	10,093,882
Health and human services	2,237,489	2,386,769
Community and economic development	775,693	617,160
Infrastructure and environment	14,104,664	13,084,264
Debt service	1,547,647	1,750,858
Total expenses	<u>65,987,353</u>	<u>64,628,820</u>
Change in net position	983,131	624,311
Beginning net position	163,050,785	162,426,474
Restatement of net position	(13,648,435)	-
Ending net position	<u>\$ 150,385,481</u>	<u>\$ 163,050,785</u>



The above table shows a comparison of revenue and grants generated by the program compared to expenses of the program. The excess expenditures are paid with general revenues.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

Governmental Funds

The County's major general government functions are contained in the General, Special Revenue, Debt Service, and Capital Projects Funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements.

At December 31, 2015, the County's governmental funds reported combined fund balances of \$49,845,945, an increase of \$7,314,345 in comparison with the prior year. Approximately 41% of the combined fund balances constitutes unassigned fund balance, which is available to meet the County's current and future needs. Approximately 27% of the combined fund balance is in the debt service fund and is restricted for payment of county debt. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has been committed for encumbrances, capital projects, and grant expenses.

The General Fund is the chief operating fund of the County. At December 31, 2015, the General Fund reported revenues of \$45,616,345, an increase of \$989,789 or about 2% over the prior year. The County was under budget in revenues in several categories in the General Fund. Ad valorem taxes, sales taxes, and fines were the primary categories where revenues did not reach budgeted levels. Ad valorem taxes increased by approximately 3% or \$862,385 above 2014. Mixed drink taxes exceeded budgeted revenues by \$174,553 or about 43.6%.

Expenditures in the General Fund increased by \$2,994,130 over 2014. The increase was due primarily to a cost of living raise for all employees, additional personnel and higher medical insurance costs for the County.

The fund balance in the County's General Fund increased by \$631,588 during the current fiscal year. Key factors in this increase were as follows:

- Increased property values due to new construction.
- Lower than budgeted expenditures due to conservative spending by departments.

The Road and Bridge Fund is the County's second major fund. At December 31, 2015, the Road and Bridge fund reported revenues of \$9,740,195, an increase of \$1,361,822 or 16% more than the prior year. The increase is due to increases in ad valorem taxes, and auto registrations.

Expenditures in the Road and Bridge Fund decreased \$673,508 from 2014. The decrease was due primarily to lower expenditures for fuel and paving and road building materials in 2015.

The fund balance in the Road and Bridge fund increased by \$2,165,600 during the current fiscal year.

The key factors were as follows:

- Higher property tax collections.
- Higher auto registration fees.
- Lower expenditures for fuel and road construction and maintenance.

The Capital Projects Fund is the County's third major fund and is used to account for receipts and disbursements relating to the acquisition or construction of major capital projects. At December 31, 2015, the fund balance decreased \$493,436 from the prior year. This is the result of closing out completed projects and the start of new projects.

The Debt Service Fund is used to account for receipts and disbursements relating to the County's long-term bonded debt obligations. At December 31, 2015, the fund balance increased \$5,021,477 from the prior year.

Proprietary funds – Internal service funds provide the same type of information found in the government-wide financial statements, but in more detail. The County has one internal service fund used to report activities that provide services and supplies to the County's other programs and activities.

The Comal County Health Insurance fund reports the activities connected with the County's self-insurance program for employee health insurance. At December 31, 2015, the net position increased \$115,672 or 5% from the prior year.

General Fund Budgetary Highlights

Actual revenues were \$2,038,576 under the budget. The most significant variances between the budget and actual revenues were decreases in ad valorem taxes, sales taxes, interest, and charges for services and increases in mixed drink taxes.

Since the County budgets by line-item, there were 69 budget amendments and line-item transfers during the year which resulted in a \$2,936,480 increase in the budgeted expenditures for all budgeted funds with \$1,324,944 of the increase in the general fund. Amendments were made to move encumbered amounts forward from the prior year, and new positions and for the purchase of equipment that could not be postponed until the next budget cycle. Line-item transfers were made to cover additional costs that arose in a number of lines. The actual expenditures in the general fund for 2015 were \$3,109,291 below the final amended budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, the County had invested \$157,553,474 in capital assets for its governmental activities. This investment in capital assets includes land, improvements, buildings, intangibles, infrastructure, equipment and vehicles.

Table A-3

	Comal County's Capital Assets (net of depreciation)	
	2015 Governmental Activities	2014 Governmental Activities
Land	\$ 11,106,726	\$ 10,898,838
Buildings	23,048,058	22,435,693
Improvements other than buildings	1,966,428	1,775,170
Furniture, fixtures and equipment	6,249,277	5,091,294
Intangibles	1,541,798	1,661,261
Infrastructure	109,235,043	112,492,146
Construction in process	4,406,144	4,026,609
Net capital assets	<u>\$ 157,553,474</u>	<u>\$ 158,381,011</u>

Major capital asset events during the current year included the following:

- The County purchased \$1,670,745 in vehicles and other capital assets for public safety.
- The County acquired \$399,202 in vehicles for recycling programs.
- The County purchased \$1,157,870 in voting and tabulating machines.
- The County spent \$219,399 on architects fees for preliminary design of a new jail and Sheriff's Office.
- The County spent \$1,150,338 for a building two blocks from the Annex to be converted to the new Elections Office.

Additional information on Comal County's capital assets can be found in note 1.D.4. on page 29 and in note 3.C. on page 35.

Long Term Debt

At year-end the County had \$80,964,517 in long-term debt outstanding as shown in Table A-4. More detailed information about the County's debt is presented in the Notes to the Financial Statements in note 3.E. on pages 37 – 42.

Bond Ratings

The County's bonds presently carry "Aaa" ratings with underlying ratings as follows: Moody's Investor Services "Aa2" and Standard & Poors "A".

Table A-4

Comal County's Long Term Debt

	2015 Governmental Activities	2014 Governmental Activities
Bonds and notes payable	\$ 58,156,350	\$ 60,154,423
Capital leases	339,992	534,712
Compensated absences payable	995,631	966,107
Net pension obligation	18,917,214	382,628
Net post employment benefit obligation	2,555,330	2,235,261
	<u>\$ 80,964,517</u>	<u>\$ 64,273,131</u>

In 2008 the County adopted the provisions of Governmental Accounting Standards Board (GASB) No. 45. The standard requires governmental entities to compute and record current and future obligations of the County's other post employment benefits. An actuarial study of these benefits resulted in an accrual of \$2,555,330 for these current and future benefits in the government-wide financial statements. More information can be found in note 4.E on pages 48 - 51.

ECONOMIC FACTORS

Comal County's unemployment rate decreased to 3.4% at year-end, down from 3.6% at the end of 2014. This is more favorable than the state's average of 4.2% and the national average rate of 4.8%.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or separately issued component unit financial statements, or need additional financial information, contact the County Auditor's Office, 150 North Seguin Street, Suite 201, New Braunfels, Texas 78130.