

CITY OF FLATONIA, TEXAS

FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

**CITY OF FLATONIA, TEXAS
FINANCIAL STATEMENTS
For the Year Ended September 30, 2017**

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FINANCIAL STATEMENTS
For the Year Ended September 30, 2017**

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INTRODUCTORY SECTION

**CITY OF FLATONIA, TEXAS
LIST OF PRINCIPAL OFFICIALS
September 30, 2017**

Mayor	Bryan Milson
Mayor Pro-tem	Catherine Steinhauser
Councilpersons	Donna Cockrell Mark Eversole Dennis Geesaman Ginny Sears
City Manager	Mark McLaughlin
Utility Director	Jack Pavlas
Code Compliance Officer	Greg Robinson
City Secretary	Melissa Brunner
Utility Billing Clerk	Herminia Dale
Chief of Police	Perry Kram
Municipal Court Judge	Kathy Mladenka
Municipal Court Clerk	Herminia Dale
City Attorney	Angela Beck
Tax Assessor/Collector	Fayette County Appraisal District

FINANCIAL SECTION

Goldman, Hunt & Notz, L.L.P.

Certified Public Accountants

DONALD G. GOLDMAN, CPA
D. DALE HUNT, CPA
JAMIE K. NOTZ, CPA, CVA*

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*CERTIFIED VALUATION ANALYST

TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

*CERTIFIED INFORMATION SYSTEMS AUDITOR

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Flatonia, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Flatonia, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Flatonia, Texas as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and Texas Municipal Retirement System schedules on pages 4 through 8 and pages 47 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining nonmajor fund financial statements have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on the information.



Goldman, Hunt & Notz, L.L.P.
March 13, 2018

**CITY OF FLATONIA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2017**

This discussion and analysis is intended to be an easily readable analysis of City of Flatonia, Texas's (City) financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements that follow.

Report Layout

In addition to the Management's Discussion and Analysis (MD&A), the report consists of basic financial statements, notes to the financial statements, required supplementary information, and other information. The basic financial statements are highly condensed and present a government-wide view of the City's finances. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the City. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Basic Financial Statements

- The Statement of Net Position focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of the assets the City owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.
- The Statement of Activities focuses gross and net costs of City programs and the extent to which such programs rely upon general tax and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Fund financial statements focus separately on major governmental funds and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. The City's major governmental funds are presented in their own columns. Statements for the City's proprietary fund follow the governmental funds and include net assets, revenue, expenses and changes in net assets, and cash flow.
- The notes to the financial statements provide additional disclosure required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.

The discussion and analysis of City of Flatonia, Texas's financial performance provides an overall review of the City's financial activities for the year ended September 30, 2017. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

- The assets and deferred outflows of resources of City of Flatonia, Texas exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended September 30, 2017 by \$7,925,340 (net position). Of this amount \$475,815 of unrestricted net position is available to meet the City's ongoing obligations to citizens and creditors.
- At September 30, 2017, the City's governmental funds reported combined ending fund balances of \$838,164.
- At September 30, 2017, unassigned fund balance for the General Fund was \$718,023 or 34% of total General Fund expenditures.
- The total cost of all City activities was \$5,692,383 for the fiscal year.
- During the year, the City's revenues exceeded expenses of the governmental activities by \$311,672 and expenses exceeded revenues of the business-type activities by \$647,951.

CITY OF FLATONIA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2017

Government-wide Overall Financial Analysis

City of Flatonia, Texas
Components of Net Position
September 30, 2017
With Comparative Totals for September 30, 2016
(in thousands)

	Governmental Activities		Business-type Activities		Total Government		Amount Change	% Change
	2017	2016	2017	2016	2017	2016		
Cash and other assets	\$ 1,015	\$ 740	\$ 523	\$ 1,619	\$ 1,538	\$ 2,359	\$ (821)	-34.8%
Capital assets, net	3,982	3,800	4,174	4,187	8,156	7,987	169	2.1%
Total assets	<u>4,997</u>	<u>4,540</u>	<u>4,697</u>	<u>5,806</u>	<u>9,694</u>	<u>10,346</u>	<u>(652)</u>	-6.3%
Deferred outflows of resources	154	177	143	170	297	347	(50)	-14.4%
Total deferred outflows of resources	<u>154</u>	<u>177</u>	<u>143</u>	<u>170</u>	<u>297</u>	<u>347</u>	<u>(50)</u>	-14.4%
Total assets and deferred outflows of resources	<u>5,151</u>	<u>4,717</u>	<u>4,840</u>	<u>5,976</u>	<u>9,991</u>	<u>10,693</u>	<u>(702)</u>	-6.6%
Current and other liabilities	216	210	257	647	473	857	(384)	-44.8%
Long term liabilities	800	706	654	772	1,454	1,478	(24)	-1.6%
Total liabilities	<u>1,016</u>	<u>916</u>	<u>911</u>	<u>1,419</u>	<u>1,927</u>	<u>2,335</u>	<u>(408)</u>	-17.5%
Deferred inflows of resources	72	49	67	47	139	96	43	44.8%
Total deferred inflows of resources	<u>72</u>	<u>49</u>	<u>67</u>	<u>47</u>	<u>139</u>	<u>96</u>	<u>43</u>	44.8%
Net position:								
Net investment in capital assets	3,495	3,451	3,794	3,739	7,289	7,190	99	1.4%
Restricted	117	100	43	32	160	132	28	21.2%
Unrestricted	451	201	25	739	476	940	(464)	-49.4%
Total net position	<u>\$ 4,063</u>	<u>\$ 3,752</u>	<u>\$ 3,862</u>	<u>\$ 4,510</u>	<u>\$ 7,925</u>	<u>\$ 8,262</u>	<u>\$ (337)</u>	-4.1%

During the year ended September 30, 2017, the net position decreased approximately \$337,000. Cash and other assets decreased by \$821,000, net capital assets increased by \$169,000, and deferred outflows of resources related to pension system decreased by \$50,000. Current and other liabilities decreased by \$384,000, long term liabilities decreased by \$24,000, and the deferred inflows of resources related to pension system increased by \$43,000.

CITY OF FLATONIA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2017

Government-wide Overall Financial Analysis (Continued)

City of Flatonia, Texas
Condensed Statement of Activities
For the Year Ended September 30, 2017
With Comparative Totals for September 30, 2016
(in thousands)

	Governmental Activities		Business-type Activities		Total Government		Amount Change	% Change
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>		
Revenues:								
Program revenues								
Charges for services	\$ 426	\$ 520	\$ 3,286	\$ 3,385	\$ 3,712	\$ 3,905	\$ (193)	-4.9%
Grants and contributions	182	39	28	674	210	713	(503)	-70.5%
General revenues								
Taxes	1,272	1,110	-	-	1,272	1,110	162	14.6%
Interest	5	4	-	-	5	4	1	25.0%
Royalty income	66	13	-	-	66	13	53	407.7%
Other income	85	83	4	11	89	94	(5)	-5.3%
Total revenues	<u>2,036</u>	<u>1,769</u>	<u>3,318</u>	<u>4,070</u>	<u>5,354</u>	<u>5,839</u>	<u>(485)</u>	<u>-8.3%</u>
Expenses:								
General government	388	316	-	-	388	316	72	22.8%
Public safety	887	783	-	-	887	783	104	13.3%
Streets	328	325	-	-	328	325	3	0.9%
Sanitation	304	309	-	-	304	309	(5)	-1.6%
Tourism	76	63	-	-	76	63	13	20.6%
Electric	-	-	2,665	2,589	2,665	2,589	76	2.9%
Water	-	-	417	464	417	464	(47)	-10.1%
Wastewater	-	-	613	138	613	138	475	344.2%
Interest and fees	11	12	5	7	16	19	(3)	-15.8%
(Gain) loss on disposal of asset	3	-	(6)	-	(3)	-	(3)	
Total expenses	<u>1,997</u>	<u>1,808</u>	<u>3,694</u>	<u>3,198</u>	<u>5,691</u>	<u>5,006</u>	<u>685</u>	<u>13.7%</u>
Excess (deficiency) before transfers	39	(39)	(376)	872	(337)	833	(1,170)	-140.5%
Transfers	<u>272</u>	<u>8</u>	<u>(272)</u>	<u>(8)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.0%</u>
Change in net position	311	(31)	(648)	864	(337)	833	(1,170)	-140.5%
Beginning net position, as restated	-	-	4,510	-	4,510	-	4,510	
Beginning net position	<u>3,752</u>	<u>3,783</u>	<u>-</u>	<u>3,646</u>	<u>3,752</u>	<u>7,429</u>	<u>(3,677)</u>	<u>-49.5%</u>
Ending net position	<u>\$ 4,063</u>	<u>\$ 3,752</u>	<u>\$ 3,862</u>	<u>\$ 4,510</u>	<u>\$ 7,925</u>	<u>\$ 8,262</u>	<u>\$ (337)</u>	<u>-4.1%</u>

Total revenues decreased by \$485,000 mostly due to decreases in charges for services, as well as grants and contributions. Expenses increased by \$685,000 mostly due to increased sanitation fees for sludge removal and franchise fees.

**CITY OF FLATONIA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2017**

Prior Period Adjustment

Business-type Activities

Net position was understated by \$142,000 during 2016. Net position previously reported was \$4,368,000 for 2016 and was restated during 2017 as \$4,510,000 for 2016. Additional information on the prior period adjustment can be found in the notes to the financial statements.

Budgetary Highlights

General Fund actual revenues exceeded budgeted revenues by \$459,336. Actual General Fund expenditures were \$17,964 less than budgeted and actual net transfers in exceeded the amount budgeted by \$273,912.

Capital Assets

At year-end the City had approximately \$8,156,000 invested in capital assets, net of depreciation, including land, construction in progress, buildings and improvements, vehicles, machinery, equipment, roads, and electric, water, and wastewater distribution systems. This amount represents a net increase (additions, deletions, and depreciation) of approximately \$169,000 or 2.1% from the prior year.

**City of Flatonia, Texas
Capital Assets
September 30, 2017
With Comparative Totals for September 30, 2016
(in thousands)**

	Governmental Activities		Business-type Activities		Totals		Amount	%
	2017	2016	2017	2016	2017	2016	Change	Change
Land	\$ 433	\$ 313	\$ 12	\$ 12	\$ 445	\$ 325	\$ 120	36.9%
Construction in progress	65	37	25	688	90	725	(635)	-87.6%
Buildings and improvements	2,473	2,473	283	274	2,756	2,747	9	0.3%
Vehicles, machinery, and equipment	663	657	631	783	1,294	1,440	(146)	-10.1%
Road and bridge	2,660	2,554	-	-	2,660	2,554	106	4.2%
Utility distribution systems:								
Electric	-	-	1,500	1,691	1,500	1,691	(191)	-11.3%
Wastewater	-	-	1,612	2,033	1,612	2,033	(421)	-20.7%
Water	-	-	2,425	2,562	2,425	2,562	(137)	-5.3%
Subtotal	6,294	6,034	6,488	8,043	12,782	14,077	(1,295)	-9.2%
Accumulated depreciation	(2,312)	(2,234)	(2,314)	(3,856)	(4,626)	(6,090)	1,464	-24.0%
Total capital assets, net	<u>\$ 3,982</u>	<u>\$ 3,800</u>	<u>\$ 4,174</u>	<u>\$ 4,187</u>	<u>\$ 8,156</u>	<u>\$ 7,987</u>	<u>\$ 169</u>	2.1%

Additional information on the City's capital assets can be found in the notes to the financial statements.

**CITY OF FLATONIA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2017**

Long-term Liabilities

At year-end the City had approximately \$1,572,000 of long-term liabilities. There were new borrowings of \$189,000, net pension liability decreased \$95,000, and \$119,000 was paid on existing debt.

**City of Flatonia, Texas
Long-term Liabilities
September 30, 2017
With Comparative Totals for September 30, 2016
(in thousands)**

	Governmental Activities		Business-type Activities		Totals		Amount Change	% Change
	2017	2016	2017	2016	2017	2016		
Bonds	\$ 216	\$ 249	\$ 380	\$ 448	\$ 596	\$ 697	\$ (101)	-14.5%
Loans	271	100	-	-	271	100	171	171.0%
Net pension liability	367	408	338	392	705	800	(95)	-11.9%
Total long-term liabilities	<u>\$ 854</u>	<u>\$ 757</u>	<u>\$ 718</u>	<u>\$ 840</u>	<u>\$ 1,572</u>	<u>\$ 1,597</u>	<u>\$ (25)</u>	-1.6%

More detailed information is presented in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The City's property tax rate for 2017/2018 is \$.33 per \$100 in valuation. The total assessed value is \$112,084,655, the total certified taxable value is \$92,247,460 with \$150,000 pending appraisal review board, and the certified tax levy is \$303,922.

In the General Fund, the City has budgeted \$1,838,222 in revenues and \$1,787,024 in expenditures.

The City will continue to look very closely at the services it provides and what changes can be made to best serve the community and also stay within the City's financial resources.

Financial Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City Secretary at P.O. Box 329, Flatonia, Texas 78941.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF FLATONIA, TEXAS
STATEMENT OF NET POSITION
September 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 677,248	\$ 12,799	\$ 690,047
Accounts receivable	48,169	391,539	439,708
Taxes receivable	67,234	-	67,234
Other receivables	4,474	-	4,474
Due from other government	2,074	-	2,074
Interfund balances	100,319	(100,319)	-
Prepaid	2,639	17,493	20,132
Inventory	-	46,715	46,715
Restricted assets:			
Restricted cash and cash equivalents	112,542	155,499	268,041
Capital assets, net of accumulated depreciation	3,982,252	4,173,500	8,155,752
Total assets	4,996,951	4,697,226	9,694,177
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts related to pensions	154,622	142,730	297,352
Total deferred outflows of resources	154,622	142,730	297,352
Total assets and deferred outflows of resources	\$ 5,151,573	\$ 4,839,956	\$ 9,991,529

The notes to the financial statements are an integral part of this statement.

CITY OF FLATONIA, TEXAS
STATEMENT OF NET POSITION (CONTINUED)
September 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
LIABILITIES			
Accounts payable - trade	\$ 116,325	\$ 24,408	\$ 140,733
Accounts payable - other	43,912	37,805	81,717
Sales taxes payable	2,223	7,401	9,624
Utility rebate	-	11,018	11,018
Customer deposits	-	112,411	112,411
Notes payable - due within one year	19,209	-	19,209
Bonds payable - due within one year	34,000	64,000	98,000
Noncurrent liabilities:			
Net pension liability	366,435	338,248	704,683
Notes payable - due in more than one year	251,608	-	251,608
Bonds payable - due in more than one year	182,000	316,000	498,000
Total liabilities	1,015,712	911,291	1,927,003
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts related to pensions	72,377	66,809	139,186
Total deferred inflows of resources	72,377	66,809	139,186
NET POSITION			
Net investment in capital assets	3,495,435	3,793,500	7,288,935
Restricted for:			
Police	5,680	-	5,680
Fire	100	-	100
Building security	12,824	-	12,824
Capital projects	-	6,143	6,143
Debt service	-	36,945	36,945
Judicial fee	1,118	-	1,118
Municipal court	15,395	-	15,395
Tourism	82,385	-	82,385
Unrestricted	450,547	25,268	475,815
Total net position	\$ 4,063,484	\$ 3,861,856	\$ 7,925,340

The notes to the financial statements are an integral part of this statement.

CITY OF FLATONIA, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities
Primary Government					
General government activities:					
General government	\$ 387,736	\$ -	\$ 113,729	\$ (274,007)	\$ (274,007)
Public safety	887,385	33,471	-	(853,914)	(853,914)
Streets	328,172	-	68,527	(259,645)	(259,645)
Sanitation	303,902	392,668	-	88,766	88,766
Hotel/motel	76,201	-	-	(76,201)	(76,201)
Total governmental activities	<u>1,983,396</u>	<u>426,139</u>	<u>182,256</u>	<u>(1,375,001)</u>	<u>(1,375,001)</u>
Business-type activities:					
Electric	2,664,985	2,594,772	-	-	(70,213)
Water	417,175	430,467	21,551	-	34,843
Wastewater	613,553	260,929	6,772	-	(345,852)
Total business-type activities	<u>3,695,713</u>	<u>3,286,168</u>	<u>28,323</u>	<u>-</u>	<u>(381,222)</u>
Total primary government	<u>\$ 5,679,109</u>	<u>\$ 3,712,307</u>	<u>\$ 210,579</u>	<u>(1,375,001)</u>	<u>(1,756,223)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes				284,362	284,362
Franchise taxes				562,816	562,816
Sales taxes				326,557	326,557
Hotel/motel				95,750	95,750
Mixed beverage taxes				2,758	2,758
Interest income				568	568
Interest expense				(2,442)	(13,274)
Administrative fee				(2,400)	(2,400)
Donations				13,279	13,279
Royalty income				66,110	66,110
Other income				3,205	75,165
Gain / (loss) on disposal of asset				(2,922)	3,073
Transfers (net)				271,655	-
Total general revenues and transfers				<u>1,686,673</u>	<u>1,419,944</u>
Change in net position				<u>311,672</u>	<u>(336,279)</u>
Net position - beginning, as restated				<u>3,751,812</u>	<u>8,261,619</u>
Net position - ending				<u>\$ 4,063,484</u>	<u>\$ 7,925,340</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

**CITY OF FLATONIA, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2017**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and investments	\$ 677,248	\$ -	\$ 677,248
Restricted cash and investments	5,780	106,762	112,542
Receivables:			
Sales and mixed beverage taxes	28,507	-	28,507
Sanitation services	48,169	-	48,169
Franchise taxes	3,067	-	3,067
Ad valorem taxes	14,075	-	14,075
Occupancy taxes	-	21,585	21,585
Other	4,474	-	4,474
Due from other government	2,074	-	2,074
Interfund balances	100,319	-	100,319
Prepaid expenditures	2,639	-	2,639
Total assets	<u>\$ 886,352</u>	<u>\$ 128,347</u>	<u>\$ 1,014,699</u>
LIABILITIES			
Accounts payable	\$ 99,700	\$ 16,625	116,325
Other accrued expenses	46,135	-	46,135
Total liabilities	<u>145,835</u>	<u>16,625</u>	<u>162,460</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable taxes	14,075	-	14,075
Total deferred inflows of resources	<u>14,075</u>	<u>-</u>	<u>14,075</u>
FUND BALANCES			
Nonspendable	2,639	-	2,639
Restricted	5,780	111,722	117,502
Unassigned	718,023	-	718,023
Total fund balances	<u>726,442</u>	<u>111,722</u>	<u>838,164</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 886,352</u>	<u>\$ 128,347</u>	<u>\$ 1,014,699</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FLATONIA, TEXAS
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
For the Year Ended September 30, 2017

Amounts reported for governmental activities in the Statement of Net Position (pages 9-10) are different because:

Total fund balances - governmental funds (page 12)	\$ 838,164
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,982,252
Deferred outflows of resources related to pension expense are not due and payable in the current period and, therefore, are not reported in the funds.	154,622
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities are comprised of the following:	
Net pension liability	(366,435)
Notes payable - due within one year	(19,209)
Notes payable - due in more than one year	(251,608)
Bonds payable - due within one year	(34,000)
Bonds payable - due in more than one year	(182,000)
Delinquent taxes receivable are not considered available to pay for current period expenditures and, therefore, are deferred in the funds.	14,075
Deferred inflows of resources related to pension expense are not due and collectible in the current period and, therefore, are not reported in the funds.	(72,377)
Net position of governmental activities	<u>\$ 4,063,484</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FLATONIA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Ad valorem tax	\$ 282,294	\$ -	\$ 282,294
Sales tax	326,557	-	326,557
Occupancy tax	-	95,750	95,750
Franchise tax	562,816	-	562,816
Mixed beverage taxes	2,758	-	2,758
Licenses and permits	31,516	-	31,516
Fines	32,444	1,027	33,471
Sanitation services	392,668	-	392,668
Interest income	5,180	-	5,180
Rental income	10,173	-	10,173
Restricted donations	4,200	-	4,200
Fire department donations	9,079	-	9,079
Grant income	182,256	-	182,256
Royalty income	66,110	-	66,110
Loan proceeds	189,264	-	189,264
Miscellaneous	30,271	-	30,271
Total revenues	<u>2,127,586</u>	<u>96,777</u>	<u>2,224,363</u>
EXPENDITURES			
Current:			
General government	319,733	-	319,733
Public safety	825,140	-	825,140
Streets, bridges and parks	243,498	-	243,498
Sanitation contractor	303,902	-	303,902
Tourism	-	76,201	76,201
Debt service			
Principal	-	51,473	51,473
Interest	-	10,832	10,832
Capital outlay	396,245	-	396,245
Total expenditures	<u>2,088,518</u>	<u>138,506</u>	<u>2,227,024</u>
Excess (deficiency) of revenues over (under) expenditures	<u>39,068</u>	<u>(41,729)</u>	<u>(2,661)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	273,912	152,898	426,810
Transfers out	(62,306)	(92,849)	(155,155)
Total other financing sources (uses)	<u>211,606</u>	<u>60,049</u>	<u>271,655</u>
Net change in fund balances	250,674	18,320	268,994
Fund balances - beginning	475,768	93,402	569,170
Fund balances - ending	<u><u>\$ 726,442</u></u>	<u><u>\$ 111,722</u></u>	<u><u>\$ 838,164</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF FLATONIA, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017

Amounts reported for governmental activities in the Statement of Activities (page 11)
are different because:

Net change in fund balances - total governmental funds (page 14)	\$ 268,994
Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	396,245
Depreciation expense on capital assets reported in the government-wide statement of activities does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(210,920)
Loss on disposal of capital assets	(2,922)
Proceeds from long-term liabilities are reported as revenue in the fund financial statements, but are reported as a liability in the government-wide financial statements.	(189,264)
Principal payments on long-term liabilities are recorded as expenditures in the governmental funds, but they serve to reduce long-term liabilities in the government-wide financial statements.	51,473
Some property taxes will not be collected for several months after the City's fiscal year end, and are not considered "available" revenues in the governmental funds.	2,068
Expenditures are recognized in the governmental funds when paid are due for items not normally paid with available financial resources. However, the Statement of Activities is presented on an accrual basis and expenses reported when incurred.	(4,002)
Change in net position of governmental activities	<u>\$ 311,672</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF FLATONIA, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2017**

	Business-type Activities - Enterprise Funds			
	Electric	Water	Wastewater	Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 8,099	\$ 4,700	\$ -	\$ 12,799
Restricted assets:				
Cash and cash equivalents	95,391	23,163	36,945	155,499
Accounts receivable - trade (net)	303,409	56,544	31,586	391,539
Interfund balances	230,000	-	(330,319)	(100,319)
Prepaid - other	15,479	1,910	104	17,493
Inventory	46,715	-	-	46,715
Total current assets	<u>699,093</u>	<u>86,317</u>	<u>(261,684)</u>	<u>523,726</u>
Noncurrent assets:				
Capital assets:				
Land	2,875	6,034	2,875	11,784
Construction in progress	-	-	24,906	24,906
Utility plant and distribution system	1,499,821	2,424,660	1,612,357	5,536,838
Buildings and improvements	152,046	82,177	48,444	282,667
Vehicles, machinery and equipment	487,981	118,606	24,927	631,514
Less: accumulated depreciation	<u>(1,317,150)</u>	<u>(477,688)</u>	<u>(519,371)</u>	<u>(2,314,209)</u>
Total capital assets (net of accumulated depreciation)	<u>825,573</u>	<u>2,153,789</u>	<u>1,194,138</u>	<u>4,173,500</u>
Total noncurrent assets	<u>825,573</u>	<u>2,153,789</u>	<u>1,194,138</u>	<u>4,173,500</u>
Total assets	<u>1,524,666</u>	<u>2,240,106</u>	<u>932,454</u>	<u>4,697,226</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts related to pensions	<u>89,206</u>	<u>53,524</u>	<u>-</u>	<u>142,730</u>
Total deferred outflows of resources	<u>89,206</u>	<u>53,524</u>	<u>-</u>	<u>142,730</u>
Total assets and deferred outflows of resources	<u>\$ 1,613,872</u>	<u>\$ 2,293,630</u>	<u>\$ 932,454</u>	<u>\$ 4,839,956</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FLATONIA, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS (CONTINUED)
September 30, 2017

	Business-type Activities - Enterprise Funds			
	Electric	Water	Wastewater	Totals
LIABILITIES				
Current liabilities:				
Accounts payable - trade	\$ 7,367	\$ 6,604	\$ 10,437	\$ 24,408
Accounts payable - other	23,066	14,739	-	37,805
Sales taxes payable	7,349	44	8	7,401
Utility rebate	11,018	-	-	11,018
Customer deposits	95,391	17,020	-	112,411
Bonds payable - current portion	-	30,000	34,000	64,000
Total current liabilities	<u>144,191</u>	<u>68,407</u>	<u>44,445</u>	<u>257,043</u>
Noncurrent liabilities:				
Net pension liability	211,405	126,843	-	338,248
Bonds payable	-	245,000	71,000	316,000
Total noncurrent liabilities	<u>211,405</u>	<u>371,843</u>	<u>71,000</u>	<u>654,248</u>
Total liabilities	<u>355,596</u>	<u>440,250</u>	<u>115,445</u>	<u>911,291</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred amounts related to pensions	41,756	25,053	-	66,809
Total deferred inflows of resources	<u>41,756</u>	<u>25,053</u>	<u>-</u>	<u>66,809</u>
NET POSITION				
Net investment in capital assets	825,573	1,878,789	1,089,138	3,793,500
Restricted for debt service	-	-	36,945	36,945
Restricted for capital projects	-	6,143	-	6,143
Unrestricted (deficit)	390,947	(56,605)	(309,074)	25,268
Total net position	<u>\$ 1,216,520</u>	<u>\$ 1,828,327</u>	<u>\$ 817,009</u>	<u>\$ 3,861,856</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FLATONIA, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended September 30, 2017

	Business-type Activities - Enterprise Funds			
	Electric	Water	Wastewater	Totals
Operating revenues:				
Charges for services	\$ 2,594,772	\$ 430,467	\$ 255,435	\$ 3,280,674
Miscellaneous	-	-	5,494	5,494
Total operating revenues	<u>2,594,772</u>	<u>430,467</u>	<u>260,929</u>	<u>3,286,168</u>
Operating expenses:				
Utilities purchased	1,634,785	-	-	1,634,785
Franchise fee	450,000	-	100,000	550,000
Personnel services	367,608	218,176	-	585,784
Maintenance and operating	166,993	146,977	471,310	785,280
Depreciation	44,974	51,426	41,766	138,166
Bad debt	625	596	477	1,698
Total operating expenses	<u>2,664,985</u>	<u>417,175</u>	<u>613,553</u>	<u>3,695,713</u>
Operating income (loss)	<u>(70,213)</u>	<u>13,292</u>	<u>(352,624)</u>	<u>(409,545)</u>
Non operating revenues (expenses):				
Interest income	-	420	148	568
Interest expense	-	-	(2,442)	(2,442)
Transfers in	-	429,142	147,192	576,334
Transfers out	(602)	(734,114)	(113,273)	(847,989)
Bond administration fee	-	(1,500)	(900)	(2,400)
Grant income	-	21,551	6,772	28,323
Other income (expense)	11,143	(1,064)	(879)	9,200
Total non operating revenues (expenses)	<u>10,541</u>	<u>(285,565)</u>	<u>36,618</u>	<u>(238,406)</u>
Change in net position	<u>(59,672)</u>	<u>(272,273)</u>	<u>(316,006)</u>	<u>(647,951)</u>
Total net position - beginning, as restated	<u>1,276,192</u>	<u>2,100,600</u>	<u>1,133,015</u>	<u>4,509,807</u>
Total net position - ending	<u><u>\$ 1,216,520</u></u>	<u><u>\$ 1,828,327</u></u>	<u><u>\$ 817,009</u></u>	<u><u>\$ 3,861,856</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF FLATONIA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2017

	Business-type Activities - Enterprise Funds			
	Electric	Water	Wastewater	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 2,341,621	\$ 746,396	\$ 254,188	\$ 3,342,205
Payments to suppliers	(1,806,376)	(534,749)	(136,899)	(2,478,024)
Payments to employees	(357,483)	(229,681)	-	(587,164)
Franchise fee	(450,000)	-	(100,000)	(550,000)
Net cash provided by (used for) operating activities	(272,238)	(18,034)	17,289	(272,983)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	-	429,142	147,192	576,334
Transfers to other funds	(602)	(734,114)	(113,273)	(847,989)
Net cash provided by (used for) noncapital financing activities	(602)	(304,972)	33,919	(271,655)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from other income	2,580	625	-	3,205
Proceeds from grant income	-	21,551	6,772	28,323
Proceeds from sale of capital assets	9,377	602	602	10,581
Purchases of capital assets	(16,268)	(71,599)	(40,958)	(128,825)
Interest and fees paid on capital debt	-	(1,500)	(3,342)	(4,842)
Principal paid on capital debt	-	(35,000)	(33,000)	(68,000)
Net cash provided by (used for) capital and related financing activities	(4,311)	(85,321)	(69,926)	(159,558)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	-	420	148	568
Net cash provided by (used for) investing activities	-	420	148	568
Net increase (decrease) in cash and cash equivalents	(277,151)	(407,907)	(18,570)	(703,628)
Cash and cash equivalents at beginning of the year	-	435,770	55,515	491,285
Cash and cash equivalents at beginning of the year, as restated	380,641	-	-	380,641
Cash and cash equivalents at end of the year	<u>\$ 103,490</u>	<u>\$ 27,863</u>	<u>\$ 36,945</u>	<u>\$ 168,298</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF FLATONIA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
For the Year Ended September 30, 2017**

	Business-type Activities - Enterprise Funds			
	Electric	Water	Wastewater	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
Operating income (loss)	<u>\$ (70,213)</u>	<u>\$ 13,292</u>	<u>\$ (352,624)</u>	<u>\$ (409,545)</u>
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation expense	44,974	51,426	41,766	138,166
(Increase) decrease in accounts receivable - trade (net)	(26,007)	(6,427)	(769)	(33,203)
(Increase) decrease in accounts receivable - grants	-	322,397	-	322,397
(Increase) decrease in interfund balances	(230,000)	-	330,319	100,319
(Increase) decrease in prepaid items	(774)	(125)	(1)	(900)
(Increase) decrease in inventory	2,964	-	-	2,964
(Increase) decrease in pension related deferred outflows	7,860	15,810	3,466	27,136
Increase (decrease) in accounts payable	(8,728)	249	4,084	(4,395)
Increase (decrease) in grants payable	-	(385,251)	-	(385,251)
Increase (decrease) in other liabilities	1,166	(2,770)	8	(1,596)
Increase (decrease) in customer deposits	4,255	680	-	4,935
Increase (decrease) in net pension liability	(12,607)	(33,166)	(8,000)	(53,773)
Increase (decrease) in pension related deferred inflows	14,872	5,851	(960)	19,763
Total adjustments	<u>(202,025)</u>	<u>(31,326)</u>	<u>369,913</u>	<u>136,562</u>
Net cash provided by (used for) operating activities	<u><u>\$ (272,238)</u></u>	<u><u>\$ (18,034)</u></u>	<u><u>\$ 17,289</u></u>	<u><u>\$ (272,983)</u></u>
RECONCILIATION OF TOTAL CASH				
Cash	\$ 8,099	\$ 4,700	\$ -	\$ 12,799
Restricted cash	<u>95,391</u>	<u>23,163</u>	<u>36,945</u>	<u>155,499</u>
Total cash	<u><u>\$ 103,490</u></u>	<u><u>\$ 27,863</u></u>	<u><u>\$ 36,945</u></u>	<u><u>\$ 168,298</u></u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Flatonia, Texas (the City) is incorporated as a Type A general law municipality, governed by City Council with an elected mayor and five council members. The City adopted the City Manager plan of governance, under which the council sets policy that determines the scope and functions of city government. The City Manager is responsible for directing the workforce and programs of the City in accordance with ordinances, rules and regulations adopted by the council. The City provides the following services: general government, public safety, maintenance of roads, bridges, and parks, health and sanitation, and electric, water, and wastewater utility services.

Basis of Accounting/Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in the United States. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). In addition, the City applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

A. Government-Wide Financial Statements

The City's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column.

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-Wide financial statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. (Deferred inflows of resources are considered noncurrent). The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, franchise tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The following are the City's governmental funds:

General Fund: The General Fund is the government's primary operating fund of the City. All financial resources of general government, except those required to be accounted for in another fund, are accounted for in the General Fund.

Special Revenue Funds: The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes.

C. Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

The Proprietary Fund is accounted for using the "economic resources measurement focus and the accrual basis of accounting." Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of cash flows.

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Proprietary Fund Financial Statements (concluded)

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

The City reports the following major proprietary funds:

Electric Fund: The Electric Fund accounts for the activities of the City's electric power distribution system.

Water Fund: The Water Fund accounts for the activities of the City's water distribution and treatment system.

Wastewater Fund: The Wastewater Fund accounts for the activities of the City's sewage disposal and treatment system.

D. Budget

The City Council follows these procedures in establishing the City budgets:

1. Thirty to sixty days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at which comments concerning the budget are heard.
3. The budget is legally enacted by the City Council prior to the beginning of the fiscal year.
4. The City Manager is authorized to transfer budgeted amounts between the departments within any fund; however any revisions that alter the total expenditures of any fund must be approved by the City Council.

The budget was not amended during this fiscal year.

E. Inventory

The Electric Fund inventory is valued at actual cost. Material and supplies, which constitute the bulk of the inventory, are charged to expense when acquired. Inventory on hand at the balance sheet date is appropriately adjusted and recorded as a current asset in the Electric Fund.

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Vacation and Sick Leave

The City allows full-time employees to accrue vacation leave according to the number of years of employment they have, with the maximum amount of leave being four weeks after providing twenty years of service. Vacation leave is accrued according to the anniversary date of an employee's hiring. If an employee does not or cannot take all earned vacation leave by his hiring anniversary, he may carry over as much as may be accrued in one year; any excess is forfeited. Upon separation in good standing, an employee shall be paid for all accrued vacation leave that has been neither used nor forfeited. At September 30, 2017, accrued vacation for all funds was \$41,153.

The City allows full-time employees to accrue sick leave. Unused sick leave is not paid upon separation, and therefore no liability is recorded.

G. Classification of Fund Balances

In accordance with *Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the City Council.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources (committed, assigned, and unassigned) as they are needed.

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Property Tax

Taxes are levied on October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 and attach as an enforceable lien on the property as of July 1 of the following year. The Fayette County Appraisal District bills and collects taxes for the City as per year-to-year contracts with the City. Property taxes not collected within 60 days are deemed not to be material to the financial statements, so no allowance for doubtful accounts has been established.

During the year ended September 30, 2017, the City levied an ad valorem tax for maintenance and operations at a rate of 0.33 per \$100 of assessed value. A total tax levy of \$275,259 resulted, based on a net taxable valuation of \$83,411,666 for the 2016 tax year.

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has four items that qualify for reporting in this category. They are related to the deferred future pension expense related to the net pension liability (asset). Deferred future pension expense results from the difference in projected and actual experience on pension plan investments, difference in expected and actual experience (which also includes difference in assumption changes), and pension contributions remitted after the measurement date. All differences are based on actuarial gains or losses. These amounts are deferred and amortized over their respective remaining recognition period.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

J. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

Land	Not depreciated
Public domain infrastructure	30 – 50 years
Utility system infrastructure	30 – 50 years
Buildings	30 – 40 years
Vehicles	7 – 10 years
Equipment	5 – 10 years

K. Excess of Expenditures over Revenues in Individual Funds

An excess of expenditures over revenues in the following fund in the year ended September 30, 2017:

	<u>Amount</u>
Debt Service Fund	\$ 62,305

L. Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments (including restricted assets) with maturity dates of twelve months or less to be cash equivalents.

M. Pensions

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

N. Reclassifications

The City's Hotel/Motel Occupancy Tax Fund was classified as a major fund in 2016. During 2017, the Hotel/Motel Occupancy Tax Fund did not meet the requirements for major fund determination as per *Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The reclassification presents the beginning fund balance for the Other Governmental Funds as \$93,402.

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 2: CASH

City monies are deposited in demand accounts at the City's depository. The City utilizes a pooled cash strategy with each fund's cash balance summarized by fund type and included in the combined Statement of Net Position as cash and investments. Overdrafts, which result from a fund overdrawing its share of pooled cash, are reported as interfund payables by the overdrawn fund and as interfund receivables of either the General or another fund within a similar purpose. At September 30, 2017, the City's Wastewater Fund pooled cash balance was overdrawn by \$330,319, which is covered by interfund receivables from the General Fund and Electric Fund. The interfund receivable was split between the General Fund and Electric Fund in order to prevent the respective funds' pooled cash balance from becoming overdrawn as well.

Custodial Credit Risk - Deposits

At September 30, 2017, the carrying amount of the City's deposits was \$479,054. Of this amount, \$501,775 was on deposit at Prosperity Bank in Flatonia, Texas in the City's name. Of the Prosperity bank balance, \$481,290 was covered by Federal Depository Insurance. The City's Prosperity deposits were fully collateralized during the entire year by pledged municipal securities having a fair market value of \$820,410 at the balance sheet date. The balance of the City's deposits totaling \$478,815 was invested with TexPool (see Note 3).

Texas Government Code authorizes City of Flatonia, Texas to invest in the following eligible securities:

1. A surety bond;
2. An investment security;
3. An ownership or beneficial interest in an investment security, other than an option contract to purchase or sell an investment security;
4. A fixed-rate collateralized mortgage obligation that has an expected weighted average life of ten years or less and does not constitute a high-risk mortgage security;
5. A floating-rate collateralized mortgage obligation that does not constitute a high-risk mortgage security;
6. A letter of credit issued by a federal home loan bank.

Investment securities are defined as:

1. An obligation that in the opinion of the Attorney General of the United States is a general obligation of the United States and backed by its full faith and credit;
2. A general or special obligation issued by a public agency that is payable from taxes, revenues, or a combination of taxes and revenues;
3. A security in which a public entity may invest under Subchapter A, Chapter 2256 of Texas Statutes.

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 3: INVESTMENTS

In 1986 the Texas Legislature authorized the State Treasurer to incorporate a special-purpose trust company called the Texas Treasury Safekeeping Trust Company (Texas Trust). The Texas Trust has direct access to the services of the Federal Reserve Bank and performs other trust company activities. It is specifically authorized to manage, disburse, transfer, safekeep, and invest public funds and securities.

The Texas Trust created the Texas Local Government Investment Pool (TexPool) as a public funds investment pool. Eligible participants include, but may not be limited to, incorporated cities, counties, villages, certain types of water districts, school districts, junior college districts, community college districts, and certain other special districts in the State of Texas. TexPool began operations on December 6, 1989. On September 1, 1996, the operations of the State Treasury, including the Texas Trust and TexPool, were merged with the State Comptroller of Public Accounts (State Comptroller).

The administrative and investment services to TexPool are provided by Federated Investors, Inc. (Federated) under an agreement with Texas Trust effective April 8, 2002. The current contract was executed on September 1, 2017 effective through August 31, 2018.

Federated is the investment manager, and State Street Bank and Trust is the custodian for TexPool. As administrator for the TexPool program, Federated provides participant services and marketing functions to TexPool participants, while Boston Financial Data Services provides the transfer agent function. Federated is the participant contact point for account maintenance, assistance with transactions and other administrative information.

Credit Risk

The TexPool portfolio is designed and managed to ensure that they maintain an AAAm rating (or the equivalent) by a nationally recognized statistical rating organization. As of August 31, 2017, TexPool's investments in United States government securities and the underlying securities of the Repurchase Agreements were A-1 by Standard and Poor's, P-1 by Moody's and F-1 by Fitch. Money market mutual funds were rated AAA by Standard and Poor's, A by Moody's and AAA by Fitch ratings as of August 31, 2017.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of the investment in a single issuer. TexPool's investment policy has no limit on the amount it may invest in any single Governmental Sponsored Enterprise (GSE). As of August 31, 2017, TexPool had more than 5.0% of the pool's investments in the following GSEs: 39.2% with the Federal Home Loan Bank, 11.0% with the Federal Farm Credit Bank and 13.6% with the Federal Home Loan Mortgage Corporation.

Interest Rate Risk

The weighted average maturity of the TexPool portfolio is limited to 60 days calculated using the reset date for variable rate notes (VRNs) and 90 days or fewer using the final maturity date for VRNs, with the maximum maturity for any individual security in the portfolio not exceeding 397 days for fixed rate securities and 24 months for VRNs. The following schedule reflects TexPool's weighted average maturity by investment type and as a whole:

<u>Investments</u>	<u>Weighted Average Maturity (Days)</u>
Government sponsored enterprises	38
Money market mutual funds	1
Repurchase agreements	2
United States government treasuries	83
Total portfolio weighted average maturity	30

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 3: INVESTMENTS (Concluded)

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Texas Trust would not be able to recover the loss of its investments or collateral securities that are in possession of an outside entity. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not held in the name of the Texas Trust and are held by the counterparty, its trust or agent but not in the name of the Texas Trust. At September 30, 2017, the carrying amount of the City's account was \$478,815. An investment in TexPool is not exposed to custodial credit risk as they are insured or registered or the securities are held by the Texas Trust or its agent in the Texas Trust's name.

PUBLIC FUNDS INVESTMENT ACT

According to the Public Funds Investment Act, the City can invest its funds in the following types of accounts:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of the State of Texas or its agencies;
3. Other obligations, the principal of and the interest on which are unconditionally guaranteed or insured by the State of Texas or the United States.
4. Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent.
5. Certificates of deposit issued by the state and national banks domiciled in Texas that are:
 - A. guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or
 - B. secured by obligations of paragraph 1 - 4 above and that have a market value of not less than the principal amount of the certificates.
6. Certificates of deposit issued by savings and loan associations domiciled in Texas that are:
 - A. guaranteed or insured by the Federal Savings and Loan Insurance Corporation, or its successor; or
 - B. secured by obligations of paragraphs 1 - 4 above and that have a market value of not less than the principal amount.
7. Other securities approved by the Public Funds Investment Act.

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 4: CHANGES IN CAPITAL ASSETS

Governmental Activities

The following is a summary of changes in the general fixed asset account group for the fiscal year:

	Primary Government			
	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 313,144	\$ 119,882	\$ -	\$ 433,026
Construction in progress	37,299	65,191	37,299	65,191
Total capital assets not being depreciated	350,443	185,073	37,299	498,217
Capital assets, being depreciated:				
Buildings and improvements	2,472,614	29,761	28,784	2,473,591
Vehicles, machinery, and equipment	656,574	112,884	106,473	662,985
Road and bridge	2,553,904	105,826	-	2,659,730
Total capital assets, being depreciated	5,683,092	248,471	135,257	5,796,306
Less accumulated depreciation for:				
Buildings and improvements	1,082,377	88,679	28,158	1,142,898
Vehicles, machinery, and equipment	450,828	56,558	104,177	403,209
Road and bridge	700,481	65,683	-	766,164
Total accumulated depreciation	2,233,686	210,920	132,335	2,312,271
Total capital assets, being depreciated, net	3,449,406	37,551	2,922	3,484,035
Governmental activities capital assets, net	<u>\$ 3,799,849</u>	<u>\$ 222,624</u>	<u>\$ 40,221</u>	<u>\$ 3,982,252</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 11,784	\$ -	\$ -	\$ 11,784
Construction in progress	688,144	24,906	688,144	24,906
Total capital assets, not being depreciated	699,928	24,906	688,144	36,690
Capital assets, being depreciated:				
Buildings and improvements	273,684	13,547	4,564	282,667
Vehicles, machinery, and equipment	783,262	-	151,748	631,514
Utility plant and distribution system				
Electric	1,690,802	16,268	207,249	1,499,821
Wastewater	2,033,713	270,484	691,840	1,612,357
Water	2,561,818	491,763	628,921	2,424,660
Total capital assets, being depreciated	7,343,279	792,062	1,684,322	6,451,019
Less accumulated depreciation for:				
Buildings and improvements	44,386	9,101	4,564	48,923
Vehicles, machinery, and equipment	741,103	9,648	150,935	599,816
Utility plant and distribution system				
Electric	991,184	33,674	207,249	817,609
Wastewater	1,142,642	39,461	690,358	491,745
Water	936,464	46,282	626,630	356,116
Total accumulated depreciation	3,855,779	138,166	1,679,736	2,314,209
Total capital assets, being depreciated, net	3,487,500	653,896	4,586	4,136,810
Business-type activities capital assets, net	<u>\$ 4,187,428</u>	<u>\$ 678,802</u>	<u>\$ 692,730</u>	<u>\$ 4,173,500</u>

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 4: CHANGES IN FIXED ASSETS (Concluded)

Depreciation expense was charged to functions as follows:

	<u>Amount</u>
Governmental activities:	
General government	\$ 66,669
Public safety	60,911
Streets, bridges and parks	<u>83,340</u>
Total depreciation expense - governmental activities	<u>\$ 210,920</u>
Business-type activities:	
Electric	\$ 44,974
Water	51,426
Wastewater	<u>41,766</u>
Total depreciation expense - business-type activities	<u>\$ 138,166</u>

NOTE 5: LONG-TERM LIABILITIES

A summary of all long-term liabilities is presented below.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Government-type activities:					
Series 2013 certificates of obligation	\$ 249,000	\$ -	\$ 33,000	\$ 216,000	\$ 34,000
Government Capital Corporation - 2014	100,026	-	18,473	81,553	19,209
Government Capital Corporation - 2017	-	189,264	-	189,264	-
Net pension liability	<u>408,021</u>	<u>-</u>	<u>41,586</u>	<u>366,435</u>	<u>-</u>
Total government-type activities	<u>757,047</u>	<u>189,264</u>	<u>93,059</u>	<u>853,252</u>	<u>53,209</u>
Business-type activities:					
Series 2006 certificates of obligation	310,000	-	35,000	275,000	30,000
Series 2012 certificates of obligation	138,000	-	33,000	105,000	34,000
Net pension liability	<u>392,021</u>	<u>-</u>	<u>53,773</u>	<u>338,248</u>	<u>-</u>
Total business-type activities	<u>840,021</u>	<u>-</u>	<u>121,773</u>	<u>718,248</u>	<u>64,000</u>
Total long-term liabilities	<u>\$ 1,597,068</u>	<u>\$ 189,264</u>	<u>\$ 214,832</u>	<u>\$ 1,571,500</u>	<u>\$ 117,209</u>

The governmental activities interest expense consists of \$10,832 paid by the Debt Service Fund for retirement of certificates of obligation debt and general note debt.

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 5: LONG-TERM LIABILITIES (Continued)

The business-type activities interest expense consists of \$2,442 paid by the Wastewater Fund for retirement of certificates of obligation debt.

\$660,000 "City of Flatonia, Texas Combination Tax and Subordinate Lien Revenue Certificates of Obligation, Series 2006" dated July 15, 2006

On June 13, 2006, the City of Flatonia authorized the issuance of \$660,000, Series 2006, Combination Tax and Subordinate Lien Revenue Certificates of Obligation. Principal payments ranging from \$30,000 to \$35,000 are due annually on September 1, 2007 and continue until September 1, 2026. The interest rate is fixed at zero.

The City issued the Certificates of Obligation for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, including (1) constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving the City's utility system, (2) the purchase of land, rights of way, materials, supplies, and equipment for authorized needs and purposes relating to the utility system improvements, and (3) the payment of professional services related to the construction and financing of the aforementioned projects.

The Certificates of this series are payable from the proceeds of an ad valorem tax levied upon all taxable property within the City and are further payable from and secured by a subordinate and inferior lien on and pledge of the net revenues derived from the operation of the City's combined utility system. At this time the City does not levy an ad valorem tax to service this debt.

As of September 30, 2017, the City was in compliance with the covenants of the bond ordinance.

\$266,000 "City of Flatonia, Texas General Obligation Refunding Bonds, Series 2012" dated August 8, 2012

On July 10, 2012 the City of Flatonia authorized the issuance of \$266,000, Series 2012, General Obligation Refunding Bonds. The interest rate is fixed at 2.01% and is payable on February 15 and August 15 of each year, commencing on February 15, 2013 and continuing while any of the Refunding Bonds remain outstanding. Principal payments ranging in amount from \$31,000 to \$36,000 are due annually on February 15th, commencing on February 15, 2013 and continuing until February 15, 2020. The bonds may not be redeemed prior to their stated maturities.

The City issued the Bonds for the purpose of calling and defeasing the City of Flatonia, Texas Combination Tax and Revenue Certificates of Obligation, Series 1998. The Refunding Bonds defeased the Series 1998 Certificates stated to mature on February 15 in each of the years 2013 through 2018, in the aggregate principal amount of \$255,000.

The Refunding Bonds may be paid from the proceeds of an ad valorem tax levied upon all taxable property within the City or from other lawfully available funds. It is the City's practice to transfer and accumulate funds on a monthly basis from the Water and Wastewater funds so that there will be a sufficient amount available to pay the annual debt requirement. At this time, the City does not levy an ad valorem tax to service this debt.

As of September 30, 2017, the City was in compliance with the covenants of the bond ordinance.

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 5: LONG-TERM LIABILITIES (Continued)

\$340,000 "City of Flatonia, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2013" dated October 15, 2013

On August 27, 2013 the City of Flatonia authorized the issuance of \$340,000, Series 2013, Combination Tax and Limited Pledge Revenue Certificates of Obligation. The interest rate is fixed at 2.75% and is payable on February 15 and August 15 of each year, commencing on February 15, 2014 and continuing while any of the certificates remain outstanding. Principal payments ranging in amount from \$28,000 to \$38,000 are due annually on August 15, commencing on August 15, 2014 and continuing until August 15, 2023. Certificates may be redeemed prior to their stated maturities, at the option of the City.

The City issued the certificates for the purpose of making permanent public improvements to wit: designing, constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving a new public safety facility, and the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned facility, and the payment of professional services related to the design, construction, project management, and financing of the aforementioned facility. The certificates of this series are payable from the proceeds of an ad valorem tax levied upon all taxable property within the City and from a lien on and pledge of certain revenues derived by the City from the operation of the City's utility system. At this time, the City does not levy an ad valorem tax to service this debt.

As of September 30, 2017, the City was in compliance with the covenants of the bond ordinance.

\$135,078 Government Capital Corporation – 2014 Loan

On February 18, 2014 the City of Flatonia authorized the establishment of a financing agreement with Government Capital Corporation in the amount of \$135,078. The interest rate is fixed at 3.98%. Interest and principal payments are due on March 15 of each year, commencing on March 15, 2015 and continuing until the final payment is made on March 15, 2021.

The purpose of the financing agreement is to purchase tangible personal property for the Police, Fire and Utility Departments.

\$189,264 Government Capital Corporation – 2017 Loan

On August 8, 2017 the City of Flatonia authorized the establishment of a financing agreement with Government Capital Corporation in the amount of \$189,264. The interest rate is fixed at 3.98%. Interest and principal payments are due on October 15 of each year, commencing on October 15, 2018 and continuing until the final payment is made on October 15, 2022.

The purpose of the financing agreement is to purchase four 2017 Ford Explorers and related necessary equipment packages for the Police Department.

\$704,683 Net Pension Liability

The unfunded pension liability repayment schedule is not known as of the date of this report.

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 5: LONG-TERM LIABILITIES (Continued)

Annual Debt Requirements

Annual requirements to retire Series 2006 Certificates of Obligation are as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	\$ 30,000	\$ -	\$ 30,000
2019	30,000	-	30,000
2020	30,000	-	30,000
2021	30,000	-	30,000
2022	30,000	-	30,000
2023 - 2026	125,000	-	125,000
Total	<u>\$ 275,000</u>	<u>\$ -</u>	<u>\$ 275,000</u>

Annual requirements to retire Series 2012 Refunding Bonds are as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	\$ 34,000	\$ 1,769	\$ 35,769
2019	35,000	1,075	36,075
2020	36,000	362	36,362
Total	<u>\$ 105,000</u>	<u>\$ 3,206</u>	<u>\$ 108,206</u>

Annual requirements to retire Series 2013 Revenue Bonds are as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	\$ 34,000	\$ 5,940	\$ 39,940
2019	35,000	5,005	40,005
2020	36,000	4,042	40,042
2021	36,000	3,052	39,052
2022	37,000	2,063	39,063
2023	38,000	1,045	39,045
Total	<u>\$ 216,000</u>	<u>\$ 21,147</u>	<u>\$ 237,147</u>

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 5: LONG-TERM LIABILITIES (Concluded)

Annual requirements to retire Government Capital Corporation – 2014 loan are as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	\$ 19,209	\$ 3,249	\$ 22,458
2019	19,975	2,484	22,459
2020	20,770	1,688	22,458
2021	21,599	860	22,459
Total	<u>\$ 81,553</u>	<u>\$ 8,281</u>	<u>\$ 89,834</u>

Annual requirements to retire Government Capital Corporation – 2017 loan are as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	\$ -	\$ -	\$ -
2019	34,411	8,229	42,640
2020	36,477	6,163	42,640
2021	37,929	4,711	42,640
2022	39,439	3,202	42,641
2023	41,008	1,632	42,640
Total	<u>\$ 189,264</u>	<u>\$ 23,937</u>	<u>\$ 213,201</u>

Annual debt service requirements to maturity for all long-term debt, exclusive of net pension liability, are as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	\$ 117,209	\$ 10,958	\$ 128,167
2019	154,386	10,023	164,409
2020	159,247	7,601	166,848
2021	125,528	4,740	130,268
2022	106,439	2,923	109,362
2023 - 2026	204,008	1,045	205,053
Total	<u>\$ 866,817</u>	<u>\$ 37,290</u>	<u>\$ 904,107</u>

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 6: PENSION PLAN

A. Plan Description

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS.

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Plan provisions for the City were as follows:

	Plan Year 2016
Employee deposit rate	7.0%
Matching ratio (town to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20
Updated Service Credit	100% Repeating
Annuity Increase (to retirees)	70% of CPI Repeating

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	10
Active employees	18
Total	38

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 6: PENSION PLAN (Continued)

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employees gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year 2017. The contributions rates for the City were 17.72% and 17.93% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$157,208.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

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

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by a factor of 100.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. The Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 6: PENSION PLAN (Continued)

D. Net Pension Liability (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method 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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 6: PENSION PLAN (Continued)

D. Net Pension Liability (Concluded)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability(Asset)
	(a)	(b)	(a) - (b)
Balance at 12/31/2015	\$ 4,336,537	\$ 3,536,495	\$ 800,042
Changes for the year:			
Service cost	136,750	-	136,750
Interest	294,118	-	294,118
Change in benefit terms	-	-	-
Difference between expected and actual experience	(92,517)	-	(92,517)
Changes in assumptions	-	-	-
Contributions - employer	-	141,534	(141,534)
Contributions - employee	-	55,882	(55,882)
Net investment income	-	239,138	(239,138)
Benefit payments, including refunds of employee contributions	(95,218)	(95,218)	-
Administrative expense	-	(2,699)	2,699
Other changes	-	(145)	145
Net changes	243,133	338,492	(95,359)
Balance at 12/31/2016	\$ 4,579,670	\$ 3,874,987	\$ 704,683

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

The following presents the net pension liability (asset) of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability(asset)	\$1,348,483	\$704,683	\$173,748

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 6: PENSION PLAN (Continued)

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

For the year ended September 30, 2017, the City recognized pension expense (income) of \$154,336.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$139,186
Changes in actuarial assumptions	\$ 20,097	\$ -
Difference between projected and actual investment earnings	\$161,438	\$ -
Contributions subsequent to the measurement date December 31, 2015	\$115,817	\$ -
Total	\$297,352	\$139,186

\$115,817 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Net deferred outflows (inflows) of resources
2016	\$ 15,219
2017	14,920
2018	15,852
2019	(3,642)
2020	-
Thereafter	-
Total	\$ 42,349

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 6: PENSION PLAN (Concluded)

F. Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Your city offers supplemental death to:	Plan Year 2016	Plan Year 2017
Active employees	Yes	Yes
Retirees	Yes	Yes

G. Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contribution to the TMRS SDBF for the year ended 2017, 2016 and 2015 were \$1,777, \$1,416, and \$1,297, respectively, which equaled the required contributions for the year.

Schedule of Contribution Rates:

(RETIREE-only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution (ARC) (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2014	0.03%	0.03%	100.0%
2015	0.03%	0.03%	100.0%
2016	0.03%	0.03%	100.0%
2017	0.04%	0.04%	100.0%
2018	0.04%	0.04%	100.0%

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 7: FUND BALANCES

Governmental fund balances at September 30, 2017 are as follows:

	General Fund	Other Governmental Funds	Total Governmental Funds
Non-spendable:			
Prepaid expenditures	\$ 2,639	\$ -	\$ 2,639
Restricted:			
Bulletproof vests	4,680	-	4,680
Body cameras	1,000	-	1,000
Engraved bricks	100	-	100
Building security	-	12,824	12,824
Judicial fee	-	1,118	1,118
Municipal court	-	15,395	15,395
Tourism	-	82,385	82,385
Unassigned	718,023	-	718,023
Total fund balances	<u>\$ 726,442</u>	<u>\$ 111,722</u>	<u>\$ 838,164</u>

The Government restricted the following fund balance types by taking the following action:

<u>Restricted Purpose</u>	<u>Amount</u>	<u>Action</u>
Police	\$ 5,680	Externally imposed
Fire	\$ 100	Externally imposed
Building Security	\$12,824	Externally imposed
Judicial Fee	\$ 1,118	Externally imposed
Municipal Court	\$15,395	Externally imposed
Tourism	\$82,385	Externally imposed

The City uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar spending. Additionally, the Government would first use *committed*, then *assigned*, and lastly *unassigned* amounts of unrestricted fund balance when expenditures are made. In January 2014 the City approved a minimum fund balance policy such that it would strive to maintain an amount that represents 45 days of operating expense. At September 30, 2017 the City was in compliance with its minimum fund balance policy.

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 8: INTERFUND TRANSFERS, RECEIVABLES AND PAYABLES

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated. Interfund transfers for the year ended September 30, 2017 are as follows:

	General Fund	Other Govern- mental Funds	Electric	Water	Waste- water	Total
Transfers in	\$ 273,912	\$ 152,898	\$ -	\$ 429,142	\$ 147,192	\$ 1,003,144
Transfers out	(62,306)	(92,849)	(602)	(734,114)	(113,273)	(1,003,144)
Net	<u>\$ 211,606</u>	<u>\$ 60,049</u>	<u>\$ (602)</u>	<u>\$ (304,972)</u>	<u>\$ 33,919</u>	<u>\$ -</u>

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other fund." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds are eliminated in the Statement of Net Position. Interfund balances for the year ended September 30, 2017 are as follows:

	General Fund	Other Govern- mental Funds	Electric	Water	Waste- water	Total
Interfund Receivables	\$ 100,319	\$ -	\$ 230,000	\$ -	\$ -	\$ 330,319
Interfund Payables	-	-	-	-	(330,319)	(330,319)
Net	<u>\$ 100,319</u>	<u>\$ -</u>	<u>\$ 230,000</u>	<u>\$ -</u>	<u>\$ (330,319)</u>	<u>\$ -</u>

NOTE 9: OPERATING LEASE

The City has an operating lease with Xerox Corporation for two copy machines that ends on September 30, 2019. The amount of lease payments expended during the fiscal year ended September 30, 2017 was \$7,212. Future lease payments are scheduled as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Amount</u>
2018	\$ 7,212
2019	7,212
	<u>\$ 14,424</u>

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 10: RISK MANAGEMENT

The City 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. During the year ended September 30, 2017, the City purchased commercial insurance to cover general risks of loss. There were no significant reductions in coverage in the past fiscal year.

NOTE 11: SUBSEQUENT EVENTS

On January 9, 2018 the City adopted the Resolution accepting the Bylaws and the restated and amended Certificate of Formation for the Flatonia Economic Development Corporation.

In preparing these financial statements, events and transactions have been evaluated for potential recognition or disclosure through March 13, 2018, the date the financial statements were available to be issued.

NOTE 12: PRIOR PERIOD ADJUSTMENT

During the year, it was determined that an invalid outstanding check was included on the year-end pooled cash bank reconciliation. To correct this error, the net position of the City's Electric Fund and business-type activities has been restated. The impact of this restatement on net position is as seen in the following table.

	Governmental Activities	Business-type Activities			Total
		Electric	Water	Wastewater	
Net position, September 30, 2016, as previously stated	\$ 3,751,812	\$ 1,134,196	\$ 2,100,600	\$ 1,133,015	\$ 8,119,623
Restatement of net position - Cash and cash equivalents	-	141,996	-	-	141,996
Net position, September 30, 2016, as restated	<u>\$ 3,751,812</u>	<u>\$ 1,276,192</u>	<u>\$ 2,100,600</u>	<u>\$ 1,133,015</u>	<u>\$ 8,261,619</u>

The restatement had no effect on governmental fund balance.

**CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017**

NOTE 13: GRANTS

On October 15, 2015, the City entered into a \$275,000 Texas Community Development Block Grant (Contract No. 7215469) with the U.S. Department of Housing and Urban Development, passed through the Texas Department of Agriculture. This grant will aid in the replacement of water lines to prevent frequent maintenance issues and disruptions in service along North Penn Avenue, West 12th Street, North Converse Avenue, and East 12th Street. On May 10, 2016, the Council awarded M&C Fonseca Construction Co., Inc. the construction portion of the grant in the amount of \$218,350. During the year ended September 30, 2017, \$31,106 of federal funds was expended for construction, engineering, and administration costs. On May 9, 2017, the construction of the water lines was completed and a monitoring review compliance letter was approved.

On February 27, 2016, the City entered into a \$637,500 Texas Community Development Block Grant (Contract No. 7215342) with the U.S. Department of Housing and Urban Development, passed through the Texas Department of Agriculture. This grant will provide public infrastructure in the form of water, sewer, electrical and street improvements for the City of Flatonia, Texas in support of AMK Properties LLC, a travel center facility located on FM 609, with direct access to Interstate Highway 10. The infrastructure improvements are the minimum necessary and will enable the company to begin operations in the City of Flatonia, Texas. The City certifies that the activities carried out under this contract will meet the National Objective of benefitting low- and moderate-income persons with at least 51% of the beneficiaries qualifying as low- to moderate-income. As a result of this Project, the City shall ensure that AMK Properties LLC creates thirty-two (32) permanent new jobs at the travel center. Of the thirty-two (32) total jobs, fifty-one percent (51%) or seventeen (17) jobs total shall be held by low- and moderate-income persons prior to the contract termination date. On May 10, 2016, the Council awarded M&C Fonseca Construction Co., Inc. the construction portion of the grant in the amount of \$408,005 with the City of Flatonia, Texas providing the parts and materials for the electrical construction portion of the grant in the amount of \$30,000. During the year ended September 30, 2017, \$80,545 of federal funds was expended for construction, engineering, acquisition, and administrative costs. The construction of the infrastructure was completed, and the asset was placed into operational service on February 24, 2017. The remaining federal funds of \$123,318 will not be utilized for this grant and shall be released back to the federal agency. As of the report date, AMK Properties LLC has not met the grant requirement regarding the hiring of thirty-two (32) total jobs, fifty-one percent (51%) or seventeen (17) jobs total shall be held by low- and moderate-income persons; therefore, the grant is not considered complete.

On July 18, 2016, the City entered into a \$161,595 Hazard Mitigation Grant Program (Project No. DR-4223-046) with the U.S. Department of Homeland Security Federal Emergency Management Agency, passed through the Texas Department of Public Safety Texas Division of Emergency Management. This grant will provide for the purchase, use, and storage of a 25 KVA 120/240v single phase mobile emergency generator for use by the City of Flatonia, Texas wastewater treatment plant. The generator will be used to power seven lift stations throughout the City, and necessary improvements will be made at each lift station for its use. The generator will provide back-up power to support critical services at the wastewater treatment plant in the event of a power outage. During the year ended September 30, 2017, City of Flatonia, Texas did not expend any federal funds for this project.

CITY OF FLATONIA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

NOTE 13: GRANTS (Concluded)

On July 18, 2016, the City entered into a \$189,750 Hazard Mitigation Grant Program (Project No. DR-4223-047) with the U.S. Department of Homeland Security Federal Emergency Management Agency, passed through the Texas Department of Public Safety Texas Division of Emergency Management. This grant will provide battery backup for Siren 1 and the installation of four new warning sirens in the City of Flatonia. Sirens 2, 3, & 5 will be installed on 50 feet steel poles, and Siren 4 will be attached to the existing water tower. The warning sirens will be integrated into the existing system and will help warn citizens of tornadoes, flooding, and fire. The locations of the sirens are as follows: Siren 1 – 306 E. South Main Street; Siren 2 – County Road 313 and West Old Spanish Road; Siren 3 – Interstate Highway 10 and State Highway 95; Siren 4 – South Market Street at East Old Hallettsville Road; and Siren 5 – American Legion Post 94 Softball Fields. On November 4, 2016, the State requested for the de-obligation of federal funds in the amount of \$49,950. The revised project funding, reflecting the de-obligation of funds, now presents a budget for federal funds equal to \$139,800. During the year ended September 30, 2017, City of Flatonia did not expend any federal funds for this project.

On June 18, 2015, the City entered into a grant agreement with the U.S. Department of Housing and Urban Development Office of Community Planning and Development, passed through the Texas Department of Housing Community Affairs to participate in the Home Investment Partnership Program (Reservation No. 2013-0083, Contract No. 1002218 and 1002220). The City is participating in the HOME HRA Reservation System in order to assist homeowners with rehabilitation or reconstruction of their homes. The project is needed due to the number of families in the City that are living in substandard conditions. If funding is available, the project aspires to assist between one and twenty low-income and very low-income homeowners at or below eighty percent area median family income. Reconstruction of these homes will meet Housing Quality Standards and the Texas Minimum Construction Standards. Rehabilitation assistance will not exceed \$40,000 per home, and reconstruction assistance will not exceed \$85,000 per home. During the year ended September 30, 2017, \$98,252 of federal funds was expended for construction, engineering, acquisition, and administrative costs.

NOTE 14: COMMITMENTS

The City entered into several construction contracts during the fiscal year for the construction of mobile emergency generator and additional warning sirens. As of September 30, 2017, the City had outstanding construction contracts totaling \$350,597 that will be financed from federal grant funds and operating funds.

	<u>Construction Commitments</u>
General Fund - Battery Backup and Emergency Sirens	
Grant Project No. DR-4223-047	\$ 160,043
Wastewater Fund - Mobile Emergency Generators	
Grant Project No. DR-4223-046	<u>190,554</u>
Total construction commitments	<u><u>\$ 350,597</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FLATONIA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
For the Year Ended September 30, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Ad valorem tax	\$ 278,050	\$ 282,294	\$ 4,244
Sales tax	325,000	326,557	1,557
Franchise tax	563,000	562,816	(184)
Other taxes	3,500	2,758	(742)
Licenses and permits	11,250	31,516	20,266
Fines	50,000	32,444	(17,556)
Sanitation services	398,500	392,668	(5,832)
Interest income	750	5,180	4,430
Rental income	10,000	10,173	173
Restricted donations	-	4,200	4,200
Fire department donations	9,500	9,079	(421)
Grant income	-	182,256	182,256
Royalty income	8,500	66,110	57,610
Loan proceeds	-	189,264	189,264
Miscellaneous	10,200	30,271	20,071
Total revenues	<u>1,668,250</u>	<u>2,127,586</u>	<u>459,336</u>
EXPENDITURES			
Current:			
General government	295,713	221,481	74,232
Public safety	820,186	825,140	(4,954)
Streets, bridges and parks	263,385	243,498	19,887
Sanitation contractor	306,000	303,902	2,098
Capital outlay	421,198	494,497	(73,299)
Total expenditures	<u>2,106,482</u>	<u>2,088,518</u>	<u>17,964</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(438,232)</u>	<u>39,068</u>	<u>477,300</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	273,912	273,912
Transfers out	(62,306)	(62,306)	-
Total other financing sources (uses)	<u>(62,306)</u>	<u>211,606</u>	<u>273,912</u>
Net change in fund balance	<u>\$ (500,538)</u>	<u>\$ 250,674</u>	<u>\$ 751,212</u>

CITY OF FLATONIA, TEXAS
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2017

NOTE 1: BUDGETS

The budget for the Governmental Fund adopted during the year by the City Council was prepared using the modified accrual basis of accounting in accordance with generally accepted accounting principles. The General Fund has a legally adopted budget. The other governmental funds budgetary comparisons are not displayed because they are not major funds.

CITY OF FLATONIA, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET POSITION LIABILITY AND RELATED RATIOS (unaudited)
September 30, 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total pension liability			
Service cost	\$ 131,140	\$ 130,184	\$ 136,750
Interest (on the total pension liability)	272,888	291,787	294,118
Changes of benefit terms	-	-	-
Difference between expected and actual experience	2,703	(125,220)	(92,517)
Change of assumptions	-	36,047	-
Benefit payments, including refunds of employee contributions	<u>(73,417)</u>	<u>(199,113)</u>	<u>(95,218)</u>
Net change in total pension liability	333,314	133,685	243,133
Total pension liability - beginning	<u>3,869,538</u>	<u>4,202,852</u>	<u>4,336,537</u>
Total pension liability - ending (a)	<u><u>\$ 4,202,852</u></u>	<u><u>\$ 4,336,537</u></u>	<u><u>\$ 4,579,670</u></u>
Plan fiduciary net position			
Contributions - employer	\$ 144,348	\$ 143,419	\$ 141,534
Contributions - employee	56,932	56,287	55,882
Net investment income	184,466	5,216	239,138
Benefit payments, including refunds of employee contributions	(73,417)	(199,113)	(95,218)
Administrative expense	(1,925)	(3,176)	(2,699)
Other	<u>(158)</u>	<u>(157)</u>	<u>(145)</u>
Net change in plan fiduciary net position	310,246	2,476	338,492
Plan fiduciary net position - beginning	<u>3,223,773</u>	<u>3,534,019</u>	<u>3,536,495</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 3,534,019</u></u>	<u><u>\$ 3,536,495</u></u>	<u><u>\$ 3,874,987</u></u>
Net pension liability - ending (a) - (b)	\$ 668,833	\$ 800,042	\$ 704,683
Plan fiduciary net position as a percentage of total pension liability	84.09%	81.55%	84.61%
Covered payroll	\$ 813,316	\$ 804,104	\$ 798,308
Net pension liability as a percentage of covered payroll	82.24%	99.49%	88.27%

**CITY OF FLATONIA, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS (unaudited)
September 30, 2017**

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contribution	\$ 145,050	\$ 139,693	\$ 157,208
Contributions in relation to the actuarially determined contribution	<u>145,120</u>	<u>139,767</u>	<u>157,208</u>
Contribution deficiency (excess)	<u>\$ (70)</u>	<u>\$ (74)</u>	<u>\$ -</u>
Covered payroll	\$ 814,232	\$ 786,829	\$ 879,521
Contributions as a percentage of covered payroll	17.82%	17.76%	17.87%

**CITY OF FLATONIA, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
NOTES TO SCHEDULE OF CONTRIBUTIONS (unaudited)
September 30, 2017**

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of percent of payroll, Closed
Remaining Amortization Period	27 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

OTHER INFORMATION

September 30, 2017

Total liabilities and fund balances

CITY OF FLATONIA, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2017

	Special Revenue				Total Nonmajor Governmental Funds
	Debt Service	Hotel/ Motel	Municipal Court	Judicial Fee	Building Security
REVENUES					
Occupancy tax	\$ -	\$ 95,750	\$ -	\$ -	\$ -
Fines	-	-	557	52	418
Total revenues	-	95,750	557	52	418
EXPENDITURES					
Tourism	-	76,201	-	-	-
Principal	51,473	-	-	-	-
Interest	10,832	-	-	-	-
Total expenditures	62,305	76,201	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(62,305)	19,549	557	52	418
OTHER FINANCING SOURCES (USES)					
Transfers in	62,305	90,593	-	-	-
Transfers out	-	(92,849)	-	-	-
Total other financing sources (uses)	62,305	(2,256)	-	-	-
Net change in fund balances	-	17,293	557	52	418
Fund balances - beginning	-	65,092	14,838	1,066	12,406
Fund balances - ending	\$ -	\$ 82,385	\$ 15,395	\$ 1,118	\$ 12,824