ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2018



Davis, Heinemann & Company, P.C.

Certified Public Accountants

1300 11th Street Suite 500 Huntsville, Texas 77340 (936) 291-3020 Introductory Section



## City of Buffalo, Texas Annual Financial Report For The Year Ended September 30, 2018

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Financial Section





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### **Independent Auditor's Report**

To the City Council City of Buffalo, Texas 144 Avant Street Buffalo, Texas 75831

### **Report on the Financial Statements**

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 Buffalo, Texas ("the City") as of and for the year ended September 30, 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City'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 City of Buffalo, Texas as of September 30, 2018, 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.

### **Emphasis of Matter**

### Change in Accounting Principle

As described in Note A to the financial statements, in 2018, City of Buffalo, Texas adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. Our opinion is not modified with respect to this matter.

### **Other Matters**

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and budgetary comparison information and schedule of the City's proportionate share of the net pension liability and schedule of City pension contributions, and schedule of the City's proportionate share of the net OPEB liability and schedule of City OPEB contributions identified as Required Supplementary Information in the table of contents 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 Buffalo, Texas' basic financial statements. The individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The individual nonmajor fund financial statements is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual nonmajor fund financial statements is fairly stated in all material respects in relation to the basic financial statements as a whole.

### Other Reporting Required by Government Auditing Standards

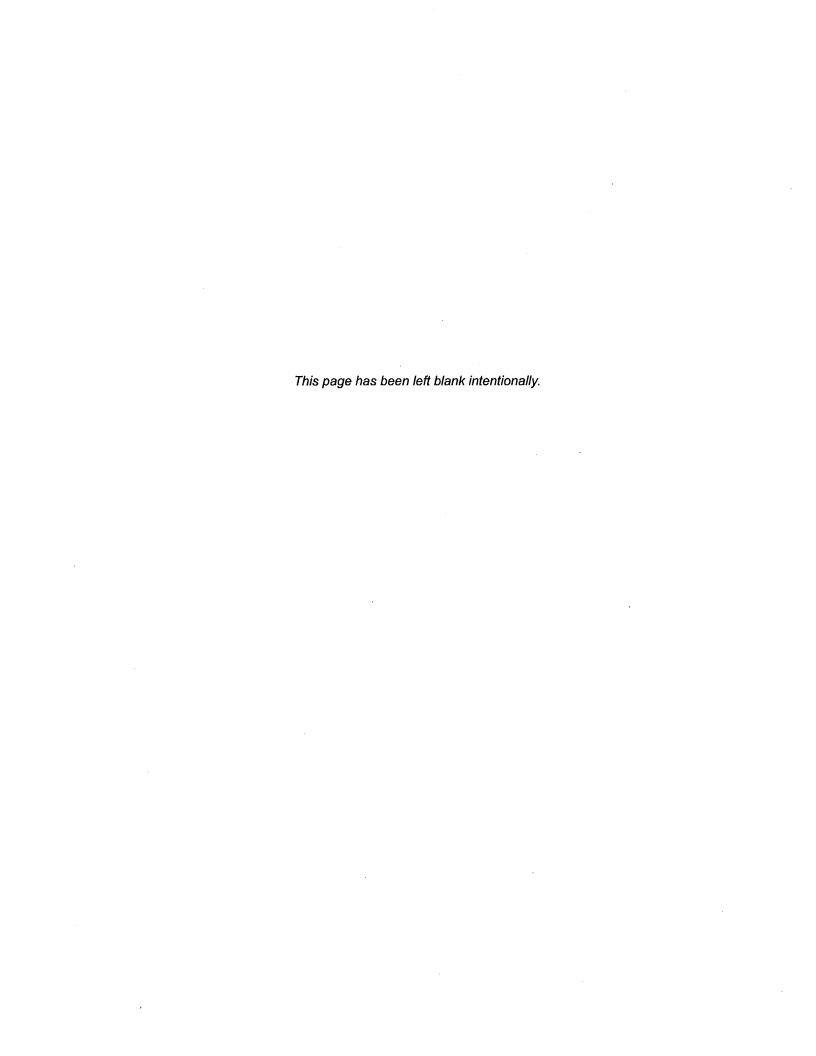
In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2018 on our consideration of City of Buffalo, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Buffalo, Texas' internal control over financial reporting and compliance.

Respectfully submitted,

Davis, Heinemann & Company, P.C.

Davis, Herneman + Co.

Huntsville, Texas December 27, 2018



### MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Buffalo, Texas' annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2018. Please read it in conjunction with the City's financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

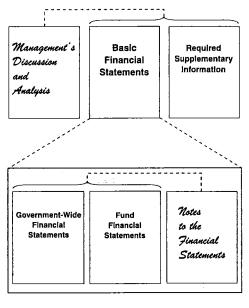
- The City's total combined net position was \$9,453,541at September 30, 2018.
- During the year, the City's expenses were \$3,399.221 which were 394,309 less than the \$3,793,353 generated in taxes, charges for services and other revenues for Governmental and business-type activities.
- The general fund reported a fund balance this year of \$1,892,236.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

Figure A-1, Required Components of the City's Annual Financial Report

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



Detail

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required* supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

### **Government-wide Statements**

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

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

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

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general administration, public safety, streets and bridges, buildings and grounds, and financial and professional. Property, sales and franchise taxes finance most of these activities.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant funds—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- Governmental funds—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$9,453.5 thousand at September 30, 2018. (See Table A-1)

Table A-1
Statement of Net Position
(In thousands of dollars)

	Governmental Business-type											
		Activ					vities	•		T	otal	
		<u>2018</u>		2017		<u>2018</u>		<u>2017</u>		2018		<u>2017</u>
Current Assets:												
Cash and Cash Equivalents	\$	1,554.2	\$	1,204.6	\$	1,315.4	\$	882.6	\$	2,869.6	\$	2,087.2
Investments		494.1		1,087.2		-		250.0		494.1		1,337.2
Internal Balances		(206.7)		(184.7)		206.7		184.7				-
Receivables		585.6		525.1		122.0		129.4		707.6		654.5
Due from Other Governments		~		-		3.0		116.9		3.0		116.9
Inventory		-				17.0		17.0		17.0		17.0
Net Pension Asset		20.0		-		31.0				51.0		
Total Current Assets:		2,447.2		2,632.2		1,695.1		1,580.6		4,142.3	_	4,212.8
Restricted Cash		400.8		689.5		275.4		684.6		676.2		1,374.1
Capital Assets		6,111.0		4,649.2		12,784.2		12,740.5		18,895.2		17,389.7
Less Accumulated												
Depreciation		(2,910.0)		(2,823.0)		(5,237.5)		(4,844.3)		(8,147.5)		(7,667.3)
Capital Assets, Net		3,201.0	_	1,826.2		7,546.7		7,896.2		10,747.7	_	9,722.4
Total Assets		6,049.0		5,147.9		9,517.2	_	10,161.4		15,566.2	_	15,309.3
Deferred Outflows of Resources												
Related to Pension		35.9		10.1		29.9		9.6		65.8		19.7
Related to OPEB		1.9		40.6		1.3		29.7		3.2		70.3
Related to Deferred Charges				<u>-</u>	_	-				-		
Total Deferred Outflows of Resources	_	37.8		50.7	_	31.2		39.3		69.0	_	90.0
Current Liabilities:												
Accounts Payable and												
Accrued Liabilities		91.0		78.1		81.0		195.6		172.0		273.7
Interest Payable		6.4		6.4		14.0		15.1		20.4		21.5
Customer Deposits Payable		<b>-</b>		<b>-</b>		72.9		71.8		72.9		71.8
Current Long-Term Debt	_	103.1	_	49.8	_	250.0		240.0		353.1	_	289.8
Total Current Liabilities	_	200.5		134.3	_	417.9	_	522.5		618.4	_	656.8
Long-Term Liabilities:												
Bonds		-				5,080.0		5,330.0		5,080.0		5,330.0
Capital Leases		137.1		180.1		-		-		137.1		180.1
Notes		115.9		-		-		60.3		115.9 56.8		60.3
Bond Premium and Deferred Charges		38.1		- 20.1		56.8 6.5		7.1		44.6		27.2
Compensated Absences Net OPEB Liability		29.0		25.9		26.9		7.7		55.9		33.6
Total Long-Term Liabilities	_	320.1	_	226.1		5,170.2	_	5,405.1		5,490.3	-	5,631.2
Total Liabilities	_	520.6	_	360.4	_	5,588.1	_	5,927.6		6,108.7	-	6,288.0
Defeated inflame of December	_										_	
Deferred Inflows of Resources Related to Pensions		40.1		1.7		32.8		2.4		72.9		4.1
Total Deferred Inflows of Resources		40.1		1.7		32.8		2.4	_	72.9	_	4.1
	_	70.7		1.7	_	02.0	_			. 2.0	-	7.1
Net Position:		2,844.9		1,596.2		2,216.7		2,326.2		5,061.6		3,922.4
Invested in Capital Assets Restricted		2,644.9 568.8		1,396.2		ک <sub>ا</sub> ک ۱۵۰۱		د, <i>ند</i> ن.د -		568.8		1,247.3
Unrestricted		2,112.4		1,993.0		1,710.8		1,944.5		3,823.2		3,937.5
Total Net Position	-\$	5,526.1	-\$	4,836.5	\$	3,927.5	\$	4,270.7	-\$	9,453.6		9,107.2
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Changes in net position. The City's total revenues were \$3,793.5 thousand and total expenses were \$3,399.2 thousand which resulted in an increase in net position of \$394.3 thousand. (See Table A-2.)

Table A-2
Changes in City's Net Position
(In thousands of dollars)

	Gove	rnmental	Busine	ess-type		
	Ac	tivities	Acti	vities	То	tal
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Program Revenues:						
Charges for services	\$ 338.8	\$ 311.1	\$ 1,346.2	\$ 1,240.9	\$ 1,685.0	\$ 1,552.0
Operating Grants	0.3	6.7	115.1	159.9	115.4	166.6
Capital Grants	1.6	114.6	-	-	1.6	114.6
General Revenues:				-		
Ad Valorem Taxes	453.6	460.0	-	26.4	453.6	486.4
Sales Taxes	1,179.4	874.8	-	-	1,179.4	874.8
Hotel Motel Taxes	172.3	171.3	-	~	172.3	171.3
Franchise Taxes	119.0	111.4	-	-	119.0	111.4
Gain on Sale of Capital Assets	1.7		-	-	1.7	•
Interest Income	9.6	9.6	4.9	2.2	14.5	11.8
Miscellaneous	13.7	15.7	37.3	11.8	51.0	27.5
Transfers		(292.9)		292.9		
Total Revenues	2,290.0	1,782.3	1,503.5	1,734.1	3,793.5	3,516.4
Program Expenses:						
General Government	544.3	417.6	-	-	544.3	417.6
Public Safety	616.9	479.9	-	-	616.9	479.9
Public Works	99.9	177.1	-	-	99.9	177.1
Cultural & Recreation	308.3	363.5	-	-	308.3	363.5
Interest on Long Term Debt	6.7	7.7			6.7	7.7
Water, Sewer & Sanitation		_	1,823.1	1,635.6	1,823.1	1,635.6
Total Expenses	1,576.1	1,445.8	1,823.1	1,635.6	3,399.2	3,081.4
Change in Net Position	\$ 713.9	\$ 336.5	\$ (319.6)	\$ 98.5	\$ 394.3	\$ 435.0

Changes in net position. The City's total revenues were \$3,793,530. A significant portion, forty-four (44) percent, of the City's revenue comes from charges for services and fifty (50) percent of revenue comes from various taxing sources. Three (3) percent of total revenues came from operating grants and contributions the remaining three (3) percent comes from interest earnings and miscellaneous sources. Sales tax collections increased by almost thirty-five (35) percent from the previous year.

The total cost of all programs and services was \$3,399,221.

The largest expenditures in Governmental Activities were in the public safety department and in the Business-Type Activities treatment and distribution of water and wastewater.

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

### **General Fund Budgetary Highlights**

Actual expenditures in the General Fund were \$62,616 less than final appropriations. Revenues were \$45,625 over final estimated revenues for the fiscal year. This was due to the increase in sales tax revenue during the year. At year end, the City's new convention center was almost complete.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

### **Capital Assets**

At the end of 2018, the City had invested \$18,895.3 thousand in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-3.)

Table A-3
Capital Assets
(In thousands of dollars)

	Governmental			Business-type								
		Activ	/ities			Activ	vities	<b>i</b>		To	tal	
		<u>2018</u>		<u>2017</u>		<u>2018</u>		<u>2017</u>		<u>2018</u>		2017
Land	\$	229.3	\$	229.3	\$	4.8	\$	4.8	\$	234.1	\$	234.1
Construction in Progress		1,487.9		-		150.2		106.5		1,638.1		106.5
Buildings and Improvements		2,187.4		2,187.3		-		-		2,187.4		2,187.3
Infrastructure		708.6		708.6		-		-		708.6		708.6
Equipment		377.3		377.3		114.8		121.7		492.1		499.0
Vehicles		1,040.9		1,067.0		100.7		100.8		1,141.6		1,167.8
Office Equipment		79.7		79.7		3.5		3.5		83.2		83.2
Water and Sewer System		-		_		12,410.2		12,403.3		12,410.2		12,403.3
Totals at Historical Cost	_	6,111.1	_	4,649.2	_	12,784.2	_	12,740.6	_	18,895.3	_	17,389.8
Total Accumulated Depreciation		(2,910.0)		(2,823.0)		(5,237.5)		(4,844.4)		(8,147.5)		(7,667.4)
Net Capital Assets	\$	3,201.1	\$	1,826.2	\$	7,546.7	\$	7,896.2	\$	10,747.8	\$	9,722.4

### **Long Term Debt**

At year-end the City had \$5,921.1 thousand in outstanding debt as shown in Table A-4. More detailed information about the City's debt is presented in the notes to the financial statements.

Table A-4 Long Term Debt (In thousands of dollars)

		Governmental				Business-type							
		Activities			Activities				Total				
	į	<u> 2018</u>	<u>;</u>	<u> 2017</u>		<u>2018</u>		<u>2017</u>		<u>2018</u>		<u>2017</u>	
Bonds	\$	-	\$	-	\$	5,330.0	\$	5,570.0	\$	5,330.0	\$	5,570.0	
Leases Payable		180.2		222.0		-		-		180.2		222.0	
Notes Payable		175.9		8.0		-		-		175.9		8.0	
Bond Premium		-		-		358.1		374.8		358.1		374.8	
Deferred Charges		-		-		(301.4)		(314.5)		(301.4)		(314.5)	
Net Pension Liability		-		25.9		-		7.7		-		33.6	
Net OPEB Liability		29.0				26.9				55.9			
Compensated Absences		38.1		20.1		6.5		7.1		44.6		27.2	
Total Long Term Debt	\$	423.2	\$	276.0	\$	5,420.1	\$	5,645.1	\$	5,843.3	\$	5,921.1	

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- The General Fund budget for fiscal year 2018-2019 reflects an increase of three (3) percent in appropriations over the prior year. The largest increases in appropriations are in the Park and Police departments. The increases are offset by the decrease in the Administration department. All other departments had an increase in appropriations. Total estimated revenue is budgeted to decrease by about two (2) percent.
- The service revenue is estimated to remain the same for fiscal year 2018-2019. The budget reflects a decrease in grant and other revenue but a substantial transfer from Debt Service fund to fund long term debt payments. The expenses are budgeted to decrease thirteen (13) percent for the fiscal 2018-2019. The majority of the increase is due to personnel expenses.

### CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Secretary.

Basic Financial Statements



CITY OF BUFFALO, TEXAS STATEMENT OF NET POSITION SEPTEMBER 30, 2018

	Governmental Activities		В	usiness-type Activities		Total
ASSETS:						
Cash and Cash Equivalents	\$	1,554,187	\$	1,315,401	\$	2,869,588
investments		494,108		-		494,108
Receivables (net of allowances for uncollectibles):		577,195		121,768		698,963
Other Receivables		8,389		218		8,607
Internal Balances		(206,689)		206,689		<u>.</u>
Due from other Governments		-		3,025		3,025
Inventories		-		16,988		16,988
Restricted Assets:						070.400
Cash and Cash Equivalents		400,793		275,389		676,182
Noncurrent Assets:						50.040
Net Pension Asset		19,974		30,968		50,942
Capital Assets ( net of accumulated depreciation):		3,200,973		7,546,683	_	10,747,656
Total Assets		6,048,930		9,517,129	_	15,566,059
DEFERRED OUTFLOWS OF RESOURCES:						
Deferred Outflow Related to Pension		35,926		29,920		65,846
Deferred Outflow Related to OPEB		1,878		1,342		3,220
Total Deferred Outflows of Resources		37,804		31,262	_	69,066
LIABILITIES:						
Accounts Payable and Other Current Liabilities		90,995		81,040		172,035
Refundable Customer Deposits		-		72,863		72,863
Accrued Interest Payable		6,360		13,971		20,331
Noncurrent Liabilities-		0,000		, ,		
Due within one year		103,072		250,000		353,072
Due in more than one year		320,131		5,170,195		5,490,326
Total Liabilities		520,558		5,588,069		6,108,627
, otal _las.iiios					_	
DEFERRED INFLOWS OF RESOURCES:						
Deferred Inflow Related to Pensions		40,109		32,848		72,957
Total Deferred Inflows of Resources		40,109		32,848		72,957
NET POSITION:	*					
Net Investment in Capital Assets		2,844,919		2,216,683		5,061,602
Restricted For:		2,011,010		_,_ : 0,000		0,00.,00=
Debt Service		429,944		_		429,944
Capital Projects		37,996		-		37,996
Tourism		100,903				100,903
Unrestricted		2,112,305		1,710,791		3,823,096
Total Net Position	\$	5,526,067	\$	3,927,474	\$	9,453,541
TOTAL FOUL TO SHOW	*=	-,,	*=	-,,	Τ=	

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2018

				Program Revenues						
Functions/Programs		Expenses			Operating Grants and Contributions		-	Capital irants and ontributions		
PRIMARY GOVERNMENT:										
Governmental Activities:					•		•	4 004		
General Government	\$	544,308	\$	6,600	\$	-	\$	1,621		
Public Safety		616,855		318,053		313		-		
Public Works		99,865		13,450		-		-		
Culture and Recreation		308,332		716		-		-		
Interest on Long-term Debt		6,768		-		-				
Total Governmental Activities	_	1,576,128		338,819	_	313		1,621		
Business-type Activities:	•									
Water, Sewer and Garbage Utility		1,823,093		1,346,250		115,046		-		
Total Business-type Activities	_	1,823,093	_	1,346,250		115,046				
Total Primary Government	\$	3,399,221	\$_	1,685,069	\$	115,359	\$	1,621		

General Revenues:

**Property Taxes** 

Sales Taxes

Franchise Taxes

Hotel/ Motel Taxes

Interest Income

Gain on Sale of Capital Assets

Miscellaneous

Total General Revenues

Change in Net Position

Net Position - Beginning

Prior Period Adjustment - See Note N

Net Position - Ending

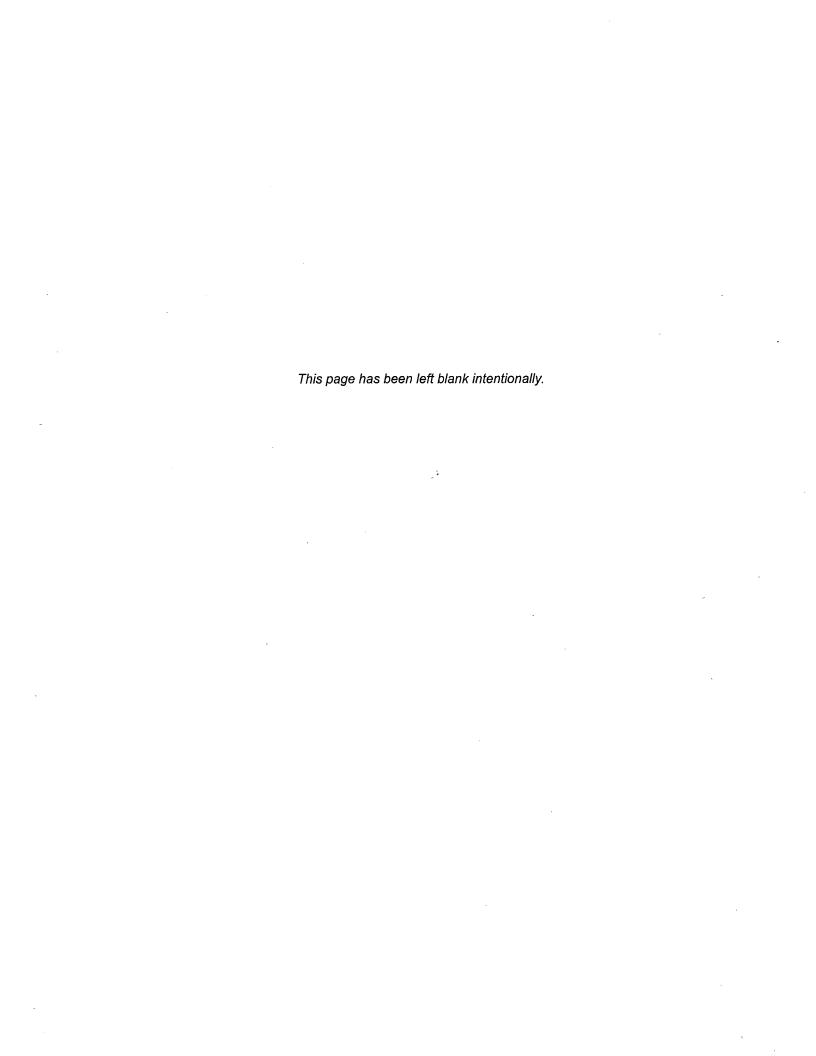
## Net (Expense) Revenue and Changes in Net Position

	Governmental Activities	_	Business-type Activities		_Total
\$	(536,087) (298,489) (86,415) (307,616) (6,768) (1,235,375)			\$ 	(536,087) (298,489) (86,415) (307,616) (6,768) (1,235,375)
-	(1,235,375)	\$	(361,797) (361,797) (361,797)	_	(361,797) (361,797) (1,597,172)
	453,544 1,179,391 118,990 172,281 9,610 1,750 13,691		4,922 - 37,302	•	453,544 1,179,391 118,990 172,281 14,532 1,750 50,993
	1,949,257 713,882 4,836,563	_	42,224 (319,573) 4,270,724	_	1,991,481 394,309 9,107,287
\$	(24,378) 5,526,067	\$_	(23,677)	\$_	(48,055) 9,453,541

CITY OF BUFFALO, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS SEPTEMBER 30, 2018

	General Fund	Debt Service Fund
ASSETS AND OTHER DEBITS:		
Assets:		
Cash and Cash Equivalents	\$ 1,127,862 404,108	\$ 388,328
Investments Receivables (net of allowances for uncollectibles):	494,108 263,815	39,041
Other Receivables	8,389	-
Due from Other Funds	21,035	2,575
Restricted Assets:		
Cash and Cash Equivalents	342,744	
Total Assets and Other Debits	\$2,257,953	\$ 429,944
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND F Liabilities: Accounts Payable Due to Other Funds Total Liabilities	\$ 90,995 230,299 321,294	\$ - - -
Deferred Inflows of Resources:		
Deferred Property Taxes	44,423	39,041
Total Deferred Inflows of Resources	44,423	39,041
Fund Balances: Restricted Fund Balances: Restricted for Debt Service Restricted for Tourism Restricted for Law Enforcement	- - 3,676	390,903
Restricted for Capital Projects	-	-
Unassigned	1,888,560	
Total Fund Balance	1,892,236	390,903
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$2,257,953_	\$429,944

Capital Improvements Fund		Occupa	/Motel ancy Tax und	Total Governmental Funds				
\$	37,996 -	\$	- -	\$	1,554,186 494,108			
	-		42,854		345,710			
	-		-		8,389			
	=		-		23,610			
	-		58,049		400,793			
\$	37,996	\$	100,903	\$	2,826,796			
			ı					
\$	-	\$	-	\$	90,995			
	<u>-</u>		<u></u>		230,299			
	<u></u>	<del></del>	<u> </u>		321,294			
-								
	-		<u>-</u>		83,464			
	<u>-</u>	-	<del>-</del>		83,464			
	_	•	_		390,903			
	- -		100,903		100,903			
	•		-		3,676			
	37,996		-		37,996			
	-				1,888,560			
	37,996		100,903		2,422,038			
\$	37,996	\$	100,903	\$	2,826,796			



CITY OF BUFFALO, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION **SEPTEMBER 30, 2018** 

Total fund balances - governmental funds balance sheet	\$ 2,422,038
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	3,200,973
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	83,464
Payables for bond interest which are not due in the current period are not reported in the funds.	(6,360)
Payables for notes which are not due in the current period are not reported in the funds.	(356,054)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(38,097)
Court fines receivable unavailable to pay for current period expenditures are deferred in the funds.	231,485
Recognition of the City's proportionate share of the net pension liability or asset is not reported in the funds.	19,974
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(40,109)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	35,926
Recognition of the City's proportionate share of the net OPEB liability is not reported in the funds.	(29,052)
Deferred Resource Outflows related to the OPEB plan are not reported in the funds.	 1,878
Net position of governmental activities - Statement of Net Position	\$ 5,526,067

**CITY OF BUFFALO, TEXAS**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2018

		Debt
	General	Service
	Fund	Fund
Revenue:	<del></del>	
Taxes:		
General Property Taxes	\$ 114,850	\$ 337,011
General Sales and Use Taxes	1,174,908	-
Franchise Fees	118,990	-
Alcoholic Beverages	4,483	-
Hotel/Motel Taxes	· •	-
License and Permits	716	-
Intergovernmental	7,453	-
Fines and Fees	330,650	-
Interest Income	6,626	384
Miscellaneous	7,156	-
Gain on Sale of Asset	1,750	-
Total Revenues	1,767,582	337,395
	<del></del>	
Expenditures:		
General Government	534,620	-
Public Safety	545,676	-
Public Works	99,865	• -
Culture and Recreation	125,114	-
Principal	8,003	41,822
Interest and Fiscal Charges	` 133	6,633
Total Expenditures	1,313,411	48,455
Excess (Deficiency) of Revenues		
Over (Under) Expenditures	454,171	288,940
(	<del></del>	<del></del>
Other Financing Sources (Uses):		
Transfers In	-	<del>-</del>
Transfers Out	(250,000)	· -
Other Financing Sources	-	
Total Other Financing Sources (Uses)	(250,000)	
	<del></del>	
Net Change in Fund Balances	204,171	288,940
Fund Balances - Beginning	1,688,065	101,963
Fund Balances - Ending	\$ 1,892,236	\$ 390,903
· =:::::	·	

Capital Improvements Fund	Hotel/Motel Occupancy Tax Fund	Total Governmental Funds
\$ -	\$ -	\$ 451,861
-	•	1,174,908
-	•	118,990
•	470.004	4,483
-	172,281	172,281 716
-	-	7,453
-	-	
-	-	330,650
-	2,600	9,610
-	8,469	15,625 1,750
	400.050	
-	183,350	2,288,327
1,487,893	-	2,022,513
-	-	545,676
-	· •	99,865
-	122,899	248,013
-	· -	49,825
-	<u>-</u>	6,766
1,487,893	122,899	2,972,658
(1,487,893)	60,451	(684,331)
1,350,000		1,350,000
-	(1,100,000)	(1,350,000)
175,889	-	175,889
1,525,889	(1,100,000)	175,889
	(,,,,,	
37,996	(1,039,549)	(508,442)
-	1,140,452	2,930,480
\$ 37,996	\$100,903	\$ 2,422,038

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2018

Net change in fund balances - total governmental funds \$	(508,442)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.  The depreciation of capital assets used in governmental activities is not reported in the funds.  Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.  Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.  Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.  Proceeds of long-term debt is recognized as other financial resources in the funds but not revenue in the SOA.  Pension contributions made after the measurement date but in current FY were de-expended & reduced NPL.  OPEB expense relating to GASB 75 is recorded in the SOA but not in the funds.	1,487,893 (113,143) 1,683 49,823 (17,966) (175,889) (7,282) (2,795)
Change in net position of governmental activities - Statement of Activities	713,882

CITY OF BUFFALO, TEXAS STATEMENT OF NET POSITION ENTERPRISE FUND **SEPTEMBER 30, 2018** 

•		Enterprise Fund
		iter, Sewer and irbage Utility Fund
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$	1,315,401
Receivables (net of allowances for uncollectibles):		121,986
Due from Other Governments		3,025
Due from other funds		227,724
Inventories		16,988
Total Current Assets		1,685,124
Restricted Assets:		075 000
Cash and Cash Equivalents		275,389
Noncurrent Assets: Net Pension Asset		30,968
		30,300
Capital Assets: Property, Plant and Equipment	÷	12,683,388
Idle Assets		100,799
Less Accumulated Depreciation		(5,237,504)
Total Noncurrent Assets		7,577,651
Total Assets	<del></del>	9,538,164
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Outflow Related to Contributions		29,920
Deferred Outflow Related to OPEB		1,342
Total Deferred Outflows of Resources		31,262
Total Assets and Deferred Outflows of Resources	\$	9,569,426
LIABILITIES:		
Current Liabilities:		
Accounts Payable	\$	81,040
Refundable Customer Deposits		72,863
Accrued Interest Payable		13,971
Due To Other Funds		21,035
Current Portion - Bonds Payable		250,000
Noncurrent Liabilities:		E 000 000
Bonds Payable		5,080,000
Unamortized Bond Premiums and Deferred Charges		56,785
Net OPEB Liability Compensated Absences Payable		26,934 6,476
Total Liabilities	_	5,609,104
Total Liabilities		3,003,104
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflow Related to Pensions		32,848
Total Deferred Inflows of Resources	_	32,848
NET POSITION:		
Investment in Capital Assets, Net of Related Debt		2,216,683
Unrestricted Net Position		1,710,791
Total Net Position	\$	3,927,474

**CITY OF BUFFALO, TEXAS**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - ENTERPRISE FUND FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Enterprise Fund Water, Sewer and Garbage Utility Fund
OPERATING REVENUES: Charges for Sales and Services:	
Water Sales	\$ 511,961 539,551
Sewer Charges Sanitation Charges	268,469
Tap Fees	4,250
Penalties and Fees	19,774
Miscellaneous Revenue	39,547
Grants and Contributions	115,046
Total Operating Revenues	1,498,598
OPERATING EXPENSES:	005.000
Salaries and Benefits	395,366
Office Expense Supplies and Materials	9,732 152,600
Maintenance and Operations	269,412
Professional Services	36,621
Insurance	20,615
Sanitation Contract	255,861
Depreciation and Amortization	389,566
Grant Expenses	115,046
Miscellaneous	3,863
Total Operating Expenses	1,648,682
Operating Income	(150,084)
NON-OPERATING REVENUES (EXPENSES):	
Interest Income	4,922
Interest Expense	(174,411)
Total Non-operating Revenues and Expenses	(169,489)
INCOME (LOSS) BEFORE TRANSFERS	(319,573)
TRANSFERS:	
Change in Net Position	(319,573)
Total Net Position - Beginning	4,270,724
Prior Period Adjustment - See Note N	(23,677)
Total Net Position - Ending	\$ 3,927,474

CITY OF BUFFALO, TEXAS STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Enterprise Fund
	Water, Sewer
	and Garbage
Cash Flows from Operating Activities:	ф 1 000 117
Cash Received from Customers Cash Payments to Employees for Services	\$ 1,869,117 (395,366)
Cash Payments to Other Suppliers for Goods and Services	(1,246,783)
Net Cash Provided (Used) by Operating Activities	226,968
The country of the co	<del></del>
Cash Flows from Non-capital Financing Activities:	
Transfers from (to) Primary Government	
Net Cash Provided (Used) by Non-capital Financing Activities	<del>-</del>
Cash Flows from Capital and Related Financing Activities:	
Principal and Interest Paid	(414,644)
Acquisition or Construction of Capital Assets	(43,629)
Net Cash Provided (Used) for Capital & Related Financing Activities	(458,273)
Cash Flows from Investing Activities:	
Interest and Dividends on Investments	4,922
Sale of Investments	250,000
Net Cash Provided (Used) for Investing Activities	254,922
Net Increase (Decrease) in Cash and Cash Equivalents	23,617
Cash and Cash Equivalents at Beginning of Year	1,567,173
Cash and Cash Equivalents at End of Year	\$ <u>1,590,790</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income (Loss)	\$ (150,084)
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities  Depreciation and Amortization	389,566
Change in Assets and Liabilities:	000,000
Decrease (Increase) in Receivables	. 7,376
Decrease (Increase) in Due from Other Funds	(21,932)
Decrease (Increase) in Due from Other Governments	113,869
Decrease (Increase) in Net Pension Asset	(30,968)
Decrease (Increase) in Deferred Outflows of Resources Pensions	9,448
Decrease (Increase) in Deferred Outflows of Resources OPEB	(1,342)
Increase (Decrease) in Accounts Payable	(114,540)
Increase (Decrease) in Refundable Customer Deposits	1,065
Increase (Decrease) in Compensated Absences	(657)
Increase (Decrease) in Deferred Inflows of Resources Pensions	30,391
Increase (Decrease) in Net Pension Liability	(7,682) 2,458
Increase (Decrease) in Net Pension Liability Total Adjustments	377,052
Net Cash Provided (Used) by Operating Activities	\$ 226,968



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

### A. Summary of Significant Accounting Policies

The combined financial statements of City of Buffalo, Texas (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

### 1. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the City.

Based on these criteria, the City has no component units. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

### 2. Basis of Presentation, Basis of Accounting

### a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The City reports the following major enterprise funds:

### b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen not to apply future FASB standards.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

### 3. Financial Statement Amounts

### a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

### b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

### c. Inventories and Prepaid Items

Inventories on the balance sheet are stated at weighted average cost. Inventory items are recorded as expenditures when they are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

### d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

### e. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

#### f. Pensions

For purposes of measuring the net pension 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 or 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.

#### g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

#### h. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the City's City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

#### 4. Change in Accounting Policies

In June, 2015 the Governmental Accounting Standards Board (GASB) issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions" (OPEB), which is effective for fiscal years beginning after June 15, 2017. The City has implemented the provisions of this Statement for the year ended September 30, 2018.

The Statement requires numerous new OPEB disclosures in the notes to the financial statements and new 10-year, pension-related charts as required supplementary information. Also, for the first time the City is required to recognize OPEB expense, report deferred outflows of resources and deferred inflows of resources related to OPEB and a net OPEB liability for its proportionate shares of the collective (TMRS) OPEB expense, collective (TMRS) deferred outflows of resources and deferred inflows of resources related to OPEB and collective (TMRS) net OPEB liability.

#### B. Compliance and Accountability

#### 1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

Violation None reported Action Taken
Not applicable

#### 2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

Deficit

Fund Name None reported Amount Remarks

Not applicable Not applicable

#### C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

#### Cash Deposits:

At September 30, 2018, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$4,039,877 and the bank balance was \$4,049,092. The City's cash deposits at September 30, 2018 and during the year ended September 30, 2018, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

#### Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The City's investments at September 30, 2018 are shown below.

Investment or Investment Type	<u>Maturity</u>	<u>Fair Value</u>
Certificate of Deposit	11/10/2018	\$ 88,662
Certificate of Deposit	02/20/2019	153,051
Certificate of Deposit	10/26/2018	252,395
Total Investments		\$ 494,108

#### Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

#### a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

At September 30, 2018, the City's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

#### b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year end, the City was not exposed to custodial credit risk.

#### c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

#### d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

#### e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

#### **Investment Accounting Policy**

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

#### D. Capital Assets

Capital asset activity for the year ended September 30, 2018, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:	•			
Capital assets not being depreciated:	*	•	•	000.050
Land \$	229,258 \$	- \$	- \$	229,258
Construction in progress		1,487,893		1,487,893
Total capital assets not being depreciated	229,258	1,487,893		1,717,151
Capital assets being depreciated:				
Road Network	708,610	-	-	708,610
Buildings and improvements	2,187,390	•	-	2,187,390
Equipment	456,982	•	-	456,982
Vehicles	1,067,002	-	26,125	1,040,877
Total capital assets being depreciated	4,419,984	-	26,125	4,393,859
Less accumulated depreciation for:				
Road Network	(708,610)	-		(708,610)
Buildings and improvements	(986,351)	(63,033)	-	(1,049,384)
Equipment	(445,967)	(1,963)	-	(447,930)
Vehicles	(682,091)	(48,147)	(26,125)	(704,113)
Total accumulated depreciation	(2,823,019)	(113,143)	(26,125)	(2,910,037)
Total capital assets being depreciated, net	1,596,965	(113,143)		1,483,822
Governmental activities capital assets, net \$	1,826,223 \$	1,374,750 \$	\$_	3,200,973

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

		Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:	_				
Capital assets not being depreciated:					
Land	\$	4,800 \$	- \$	- \$	4,800
Idle Assets		100,799	-	-	100,799
Construction In Progress		5,750	49,379	5,750_	49,379
Total capital assets not being depreciated	_	111,349	49,379	5,750	154,978
Capital assets being depreciated:					
Equipment		121,742	-	6,982	114,760
Vehicles		100,692	-	-	100,692
Water System		5,253,080	6,982	-	5,260,062
Sewer System		7,150,184	-	-	7,150,184
Office Furniture and Equipment		3,510	<u>-</u>		3,510
Total capital assets being depreciated	_	12,629,208	6,982	6,982	12,629,208
Less accumulated depreciation for:	_				
Equipment		(87,718)	(2,363)	-	(90,081)
Vehicles		(53,672)	(5,225)	-	(58,896)
Water System		(1,792,409)	(161,306)	-	(1,953,715)
Sewer System		(2,907,073)	(224,228)	-	(3,131,301)
Office Furniture and Equipment		(3,510)			(3,510)
Total accumulated depreciation		(4,844,382)	(393,121)	<u>-</u>	(5,237,503)
Total capital assets being depreciated, n	et _	7,784,827	(386,139)	6,982	7,391,705
Business-type activities capital assets, net	\$_	7,896,176 \$	(336,760) \$	12,732 \$	7,546,683
Depreciation was charged to functions as follows:					
General Government	\$	2,488			
Public Safety		49,667			
Street		-			
Cultural and Recreation		60,988			
Total Governmental	\$ <u></u>	113,143			
Public Ways and Facilities, Including					
Depreciation of General Infrastructure Assets	\$_	393,121			

### E. Interfund Balances and Activity

#### 1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2018, consisted of the following:

Due To Fund	Fund Due From Fund			Amount	Purpose		
Enterprise Fund	General Fund	Total	\$ \$	206,689 206,689	Capital projects expenditures		

All amounts due are scheduled to be repaid within one year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

#### 2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2018, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund Other Governmental Funds	Other Governmental Funds Other Governmental Funds Total	250,000 1,100,000 \$ 1,350,000	Supplement other funds sources Supplement other funds sources

#### F. Short-Term Debt Activity

The City accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

#### G. Long-Term Obligations

### 1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2018, are as follows:

									Amounts
		Beginning						Ending	Due Within
		Balance		Increases		Decreases		Balance	One Year
Governmental activities:	_				_				
Capital leases	\$	221,987	\$	-	\$	41,822	\$	180,165 \$	43,072
Notes		8,000		175,889		8,000		175,889	60,000
Compensated absences *		20,131		17,966		-		38,097	-
Net Pension Liability		25,951		-		45,925		(19,974)	
Net OPEB Liability		24,478		4,574		<u>-</u>		29,052	
Total governmental activities	\$_	300,547	\$_	198,429	\$_	95,747	\$_	403,229 \$_	103,072
-		· · · · · · · · · · · · · · · · · · ·	_				-		_
Business-type activities:									
General obligation bonds	\$	5,570,000	\$	-	\$	240,000	\$	5,330,000 \$	250,000
Bond Premium		374,805		-		16,658		358,147	-
Deferred Charges on Refundi	ng	(314,464)		-		(13,103)		(301,361)	-
Compensated absences *		7,131		-		656		6,475	-
Net Pension Liability		7,682		-		38,650		(30,968)	-
Net OPEB Liability		23,773		3,161			_	26,934	
Total business-type activities	\$_	5,668,927	\$_	3,161	\$_	282,861	\$_	5,389,227 \$	250,000

<sup>\*</sup> Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	Governmental
Compensated absences	Business-type	Enterprise

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

### 2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2018, are as follows:

	Gover	nmental Activities				
Year Ending September 30,	Principal	Interest	Total			
2019	\$ 60,000 \$	- \$	60,000			
Totals	\$ 175,889 \$	- \$	175,889			
	Rucin	ess-type Activities				
Year Ending September 30,	Principal	Interest	Total			
2019	\$ 250,000 \$	165,450 \$	415,450			
2019	260,000 ¢	155,250 φ	415,250			
2020	275,000	144,550	419,550			
2022	280,000	133,450	413,450			
2023	295,000	121,950	416,950			
2024-2028	1,630,000	448,494	2,078,494			
2029-2033	1,565,000	217,131	1,782,131			
2034-2038	540,000	76,800	616,800			
2039-2043	235,000	7,125	242,125			
Totals	\$ 5,330,000 \$	1,470,200 \$	6,800,200			
lotais	ΨΨ		3,553,253			
Notes Payable: The City obtained a line of credit from Community National Bank and Trust of Texas June 20, 2018 in the amount of \$500,000 to complete the new City Hall building. The note is payable in annual payments of \$60,000 with an interest rate of 2.50%.  Balance at September 30, 2018 \$ 175,889  Capital Leases: The City renegotiated two previous lease agreements into one new agreement with Government						
Capital Corp. October 2012, lease is due in ten annual papayment due October 2021.	in the amount of \$408,1 yments of \$48,455 and	53 for the purchas bears interest at 2	e of two fire trucks. The .988%, with the final			
<b>payo</b>	В	alance at Septemb	per 30, 2018	\$	180,165	
	·	Te	otal Governmental Activities	\$	356,054	
Business Activities:						
Bonds and Certificates of Obligations: The City issued General Obligation Refunding Bonds, Series 2016, in the amount of \$5,535,0000. The interest rate ranges from 2.75% to 4.00% with bonds maturing annually through 2040. The purpose of the issue was to refund Tax and Revenue Certificates of Obligation, Series 1995 and Waterworks and Sewer System Revenue Bond, Series 2009.  Balance at September 30, 2018 \$5,330,000						

**Total Business Activities** 

5,330,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

#### 3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2018, as follows:

Year Ending September 30:		
2019	\$	48,455
2020		48,455
2021		48,455
2022		48,455
	. <del></del>	
Total Minimum Rentals	\$	193,821

#### H. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2018, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

#### l. <u>Pension Plan</u>

#### 1. Plan Description

The City participates in a 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.tmrs.com.

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

#### 2. 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.

Employees covered by benefit terms:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

Employees covered by benefit terms:

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	12
Active employees	15
Total covered employees	31

#### 3. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee 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 5.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 4.70% and 4.80% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018 were 27,551, and were equal to the required contributions.

#### 4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017 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 Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by an additional factor of 100%. 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 males 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

Actuarial assumptions used in the December 31, 2017, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014. Healthy post-retirement mortality rates and 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. Plan reviewed annually, 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.

The long-term expected rate of return on pension plan investments is 6.8%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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.

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 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 in fiscal year 2017 are summarized in the following table:

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

		Increase (Decrease)					
	-	Total Pension	Plan Fiduciary		Net Pension		
Changes in Net Pension Liability		Liability	Net Position		Liability		
,		(a)	(b)		(a) - (b)		
Balance at 12/31/2016	\$	1,306,619	\$ 1,272,986	\$	33,633		
Changes for the year							
Service cost		51,838		-	51,838		
Interest		88,589		-	88,589		
Change of benefit terms		-		-	-		
Difference between expected							
and actual experience		2,360		-	2,360		
Changes of assumptions		-		-	-		
Contributions - employer		-	25,117	7	(25,117)		
Contributions - employee		-	26,72°	l	(26,721)		
Net investment income		-	176,484	1	(176,484)		
Benefit payments, including							
refunds of employee contributions		(40,226)	(40,22)	3)	-		
Administrative expense		-	(91	1)	914		
Other changes		-	(4)	3)	46		
Net changes	-	102,561	187,13	3	(84,575)		
Balance at 12/31/2017	\$	1,409,180	\$ 1,460,12	2 \$	(50,942)		

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability 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		Discount Rate	1% Increase in Discount Rate
Sensitivity of the net Pension Liability to Changes in the Discount Rate	\$	96,853 \$	(50,942)	(177,503)

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.tmrs.com.

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

For the year ended September 30, 2018, the City recognized pension expense of \$34,725.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	 erred Outflows Resources		red Inflows <u>esources</u>
Differences between expected and actual economic experience Changes in actuarial assumptions	\$ 2,035 8,313	· \$	(444)
Difference between projected and actual investment earnings	34,596		(72,513)
Contributions subsequent to the measure- ment date	20,902		-
Total	\$ 65,846	\$	(72,957)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

> 20,902 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 for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec	. 31:	
2019	\$	9,192
2020	\$	(1,294)
2021	\$	(17,801)

#### Postemployment Benefits Other Than Pensions (OPEB)

#### Plan Description 1.

The City participates in the Texas Municipal Retirement System (TMRS) defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SBDF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide gourp-term life insurance coverage for their active members, including or not including retirees. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan and does not meet the definition of a trust under GASB No. 75, Paragraph 4. The member 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 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.

#### Benefits Provided 2.

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). The death benefit for retirees is considered an other postemployment benefit (OPEB) and is a fixed amount of \$7,500.

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	4
Active employees	15
Total covered employees	23

#### Total OPEB Liability 3.

The City's OPEB liability of \$55,986 was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

#### Actuarial assumptions:

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation

2.5% per year

Overall payroll growth

3.5% to 10.5% including inflation

Retiree's share of benefit-related costs

Administration expenses

All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

Mortality rates - service retirees

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.

Mortality rates - disabled retirees

RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017. The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

#### 4. Changes in the Total OPEB Liability

Total OPEB liability - beginning of year	\$ 48,251
Changes for the year:	
Service cost	2,351
Interest on total OPEB liability	1,863
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	3,788
Benefit payments	(267)
Net changes	 7,735
Total OPEB liability - end of year	\$ 55,986

#### 5. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

	1% Decrease in	Discount	1% Increase in
	Discount Rate	Rate	Discount Rate
	2.31%	3.31%	4.31%
City's total OPEB liability	\$ 65,401 \$	55,986	48,281

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

# 6. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

	0	Deferred utflows of esources	Deferred Inflows of of Resources
Differences between expected and actual experience Changes in assumptions and other inputs Contributions subsequent to the measurement date	\$	- \$ 3,002 218	- - -
Total	\$	3,220	<u> </u>

Contributions subsequent to the measurement date of \$218 reported as deferred outflows of resources related to OPEB will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2019. Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Measurement year ended December 31:	
2018	\$ 786
2019	786
2020	786
2021	644
2022	-
Thereafter	 -
Total	\$ 3,002

#### K. Health Care Coverage

During the year ended September 30, 2018, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$758 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable, and terms of coverage and premium costs are included in the contractual provisions.

#### L. Commitments and Contingencies

#### 1. Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

#### 2. Litigation

No reportable litigation was pending against the City at September 30, 2018.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

#### M. Subsequent Events

The City did not have any subsequent events through December 27, 2018, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended September 30, 2018.

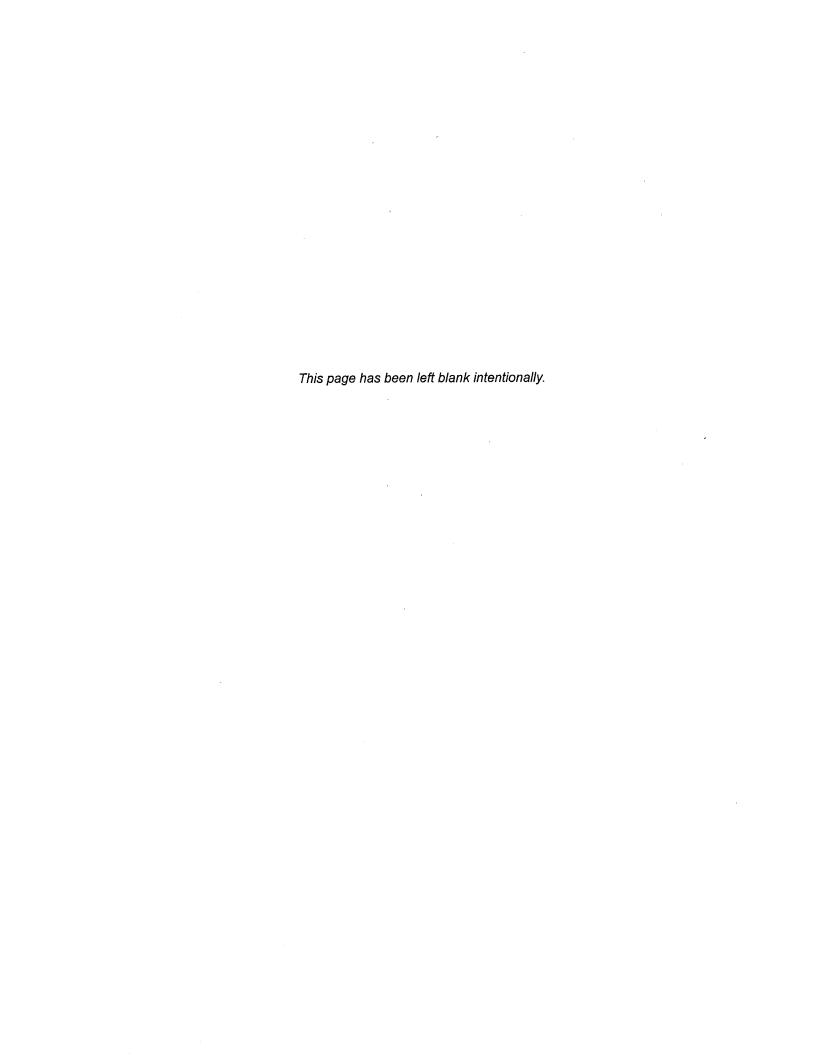
#### N. Prior Period Adjustment

The following discloses the restatement of governmental activities and the business-type net position as of the beginning of the year.

	Governmental		Business-Type	Total
Net Position, beginning of year, as previously stated:	\$	4,836,563	4,270,724 \$	9,107,287
Decrease resulting from the adoption of GASB 75, which resulted in the addition of a Net OPEB		24.272	00.077	40.055
Liability.		24,378	23,677	48,055
Net Position, beginning of year, as restated:	\$	4,812,185	\$\$\$\$	9,059,232

# Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.



CITY OF BUFFALO, TEXAS GENERAL FUND **BUDGETARY COMPARISON SCHEDULE** FOR THE YEAR ENDED SEPTEMBER 30, 2018

		Budgete Original	d Ar	nounts Final		Actual	_	ariance with inal Budget Positive (Negative)
Revenue:								
Taxes:								(0.747)
General Property Taxes	\$	118,766	\$	118,567	\$	114,850	\$	(3,717)
General Sales and Use Taxes		835,405		1,124,230		1,174,908		50,678
Franchise Fees		112,000		118,990		118,990		-
Alcoholic Beverages		4,000		4,483		4,483		-
License and Permits		700		710		716		6
Intergovernmental		6,600		7,453		7,453		- (4 007)
Fines and Fees		304,000		332,457		330,650		(1,807)
Interest Income		4,000		6,453		6,626		173
Miscellaneous		7,200		6,864		7,156		292
Gain on Sale of Asset			_	1,750		1,750	_	-
Total Revenues		1,392,671		1,721,957	_	1,767,582		45,625
DOES NOT FOOT BY THIS AMOUNT>		-		0		-		(0)
Expenditures:								
General Government		495,276		519,354		534,620		(15,266)
Public Safety		514,986		528,243		545,676		(17,433)
Public Works		203,000		197,857		99,865		97,992
Culture and Recreation		128,892		122,454		125,114		(2,660)
Principal		7,985		7,985		8,003		(18)
Interest and Fiscal Charges		134		134		133		1
Total Expenditures		1,350,273	_	1,376,027		1,313,411		62,616
Excess (Deficiency) of Revenues								
Over (Under) Expenditures		42,398	_	345,930	_	454,171	_	108,241
Other Financing Sources (Uses):						•		
Transfers Out		-		(250,000)		(250,000)		-
Total Other Financing Sources (Uses)	<del></del>		-	(250,000)	_	(250,000)	_	
Total Cities I marioning Courses (Coocy			_		_	· · · · · · · ·		
Net Change in Fund Balances		42,398		95,930		204,171		108,241
Fund Balances - Beginning		1,688,065	_	1,688,065		1,688,065	. —	
Fund Balances - Ending	\$	1,730,463	\$_	1,783,995	\$_	1,892,236	<b>\$</b> _	108,241

**CITY OF BUFFALO, TEXAS**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM LAST TEN FISCAL YEARS \*

	_	2018	2017	2016	2015
Total Pension Liability:					
Service cost Interest (on the Total Pension Liability)	\$	51,838 \$ 88,589	54,141 \$ 81,977	48,490 \$ 76,195	47,302 71,246
Changes in benefit terms  Difference between expected and		-	-	-	-
actual experience Change in assumptions		2,360	701 -	(1,562) 33,003	(13,088) -
Benefit payments, including refunds of employee contributions	_	(40,226)	(35,207)	(30,755)	(39,944)
Net Change in Total Pension Liability Total Pension Liability - Beginning	\$	102,561 \$ 1,306,619	101,612 \$ 1,205,007	125,371 \$ 1,079,636	65,516 1,014,120
Total Pension Liability - Ending (a)	\$_	1,409,180 \$	1,306,619 \$	1,205,007 \$	1,079,636
Plan Fiduciary Net Pension					
Contributions - Employer	\$	25,117 \$	22,686 \$	22,734 \$	25,281
Contributions - Employee Net Investment Income		26,721 176,484	27,936 79,684	25,602 1,713	25,325 62,274
Benefit Payments, including refunds of employee contributions		(40,226)	(35,207)	(30,755)	(39,944)
Administrative expense Other		(914) (46)	(900) (48)	(1,043) (52)	(650) (53)
Net Change in Plan Fiduciary Net Position	<b>\$</b> _	187,136 \$	94,151 \$	18,199 \$	72,233
Plan Fiduciary Net Position - Beginning	_	1,272,986	1,178,835	1,160,636	1,088,403
Plan Fiduciary Net Position - Ending (b)	\$_	1,460,122 \$	1,272,986 \$_	1,178,835 \$	1,160,636
Net Pension Liability - Ending (a) - (b)	<b>\$</b> _	(50,942)\$	33,633 \$	26,172 \$	(81,000)
Plan fiduciary net position as a percentage of the total pension liability		103.62%	97.43%	97.83%	107.50%
Covered Employee Payroll	\$	534,410 \$	558,730 \$	512,034 \$	506,505
Net Pension Liability as a Percentage of Covered Payroll		-9.53%	6.02%	5.11%	-15.99%

<sup>\*</sup> This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

CITY OF BUFFALO, TEXAS SCHEDULE OF CITY CONTRIBUTIONS TEXAS MUNICIPAL RETIREMENT SYSTEM LAST TEN FISCAL YEARS \*

	 2018	2017	2016	2015
Actuarially determined contribution	\$ 24,333 \$	25,990 \$	22,913 \$	23,015
Contributions in relation to the actuarially determined contribution	24,333	25,990	22,913	23,015
Contribution deficiency (excess)	\$ \$_	\$	<u> </u>	*
City's covered-employee payroll Covered employee payroll	\$ 534,410 \$	534,329 \$	551,767 \$	502,832
Contributions as a percentage of covered-employee payroll	4.55%	4.86%	4.15%	4.58%

<sup>\*</sup> This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

### **EXHIBIT B-4**

CITY OF BUFFALO, TEXAS SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY TEXAS MUNICIPAL RETIREMENT SYSTEM LAST TEN FISCAL YEARS \*

	Measurement Year Ended 2017	
Total OPEB Liability - Beginning of Year	\$ 48,251	
Changes for the Year Services Cost Interest on Total OPEB Liability Changes in Benefit Terms Differences between expected and actual experience Changes in assumptions or Other Inputs Benefit Payments **	2,351 1,863 - - 3,788 (267)	
Net Change Total OPEB Liability - End of Year	\$ 7,735 55,986	
Covered Payroll	\$ 534,410	
Total OPEB liability as a Percentage of Payroll	10.48%	

<sup>\*\*</sup> Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contribution for retirees.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2018

#### Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days prior, public notice of the meeting has been given.
- Prior to the start of the fiscal year, the budget is legally enacted through passage of an ordinance by the City Council.

Once a budget is approved, it can be amended in the same format as adopted, by approval of a majority of the members of the City Council. Amendments are presented to the Council at regular meetings.

Each amendment must have City Council approval. Such amendments are made before the fact, are reflected in the official minutes of the Council and are not made after fiscal year end as required by law.

#### В Pension

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

Amortization method

Remaining amortization period

Asset valuation method

Inflation

Salary increases

Investment rate of return

Retirement age

Entry age normal

Level percentage of payroll, closed

19 years

10 year smoothed market; 15% soft corridor

2.5%

3.50 to 10.5%, including inflation

6.75%

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 There were no benefit changes during the year.

#### C. Defined Benefit Postemployment Benefits Other than Pension Plan

Valuation Date:

Notes 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

Inflation

Salary increases

Administrative expenses

Investment rate of return

3.50% to 10.5%, including inflation

All administrative expenses are paid through the Pension

Trust and accounted for under reporting requirements under

GASB Statement No. 68.

Mortality rates - service retirees RP2000 Combined Mortality Table with Blue Collar Adjustment

Entry age normal

with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational

basis with scale BB.

RP2000 Combined Mortality Table with Blue Collar Adjustment Mortality rates - disabled retirees

> with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality

improvements subject to the 3% floor.

Other information:

Notes

There were no benefit or assumption changes during the year.

HOTEL/MOTEL OCCUPANCY TAX FUND SPECIAL REVENUE FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget		Actual		Variance Positive (Negative)
Revenue:		-			·
Hotel/Motel Taxes	\$ 171,100	\$	172,281	\$	1,181
Interest Income	2,550		2,600		50
Miscellaneous	8,469		8,469		-
Total Revenues	182,119		183,350	_	1,231
Expenditures:					
Culture and Recreation	136,586		122,899		13,687
Total Expenditures	136,586		122,899		13,687
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	45,533		60,451		14,918
Other Financing Sources (Uses):					
Transfers Out	(1,100,000)		(1,100,000)		-
Total Other Financing Sources (Uses)	(1,100,000)		(1,100,000)		
Net Change in Fund Balances	(1,054,467)		(1,039,549)		14,918
Fund Balances - Beginning	1,140,452		1,140,452		
Fund Balances - Ending	\$ 85,985	\$	100,903	\$	14,918

DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2018

		Budget		Actual		Variance Positive Negative)
Revenue: Taxes:	•					
General Property Taxes	\$	351,732	\$	337,011	\$	(14,721)
Interest Income	•	210	·	384	Ť	174
Total Revenues		351,942		337,395		(14,547)
Expenditures:						
Principal		41,822		41,822		-
Interest and Fiscal Charges		6,633		6,633		-
Total Expenditures	_	48,455		48,455		
Excess (Deficiency) of Revenues						
Over (Under) Expenditures		303,487		288,940		(14,547)
Other Financing Sources (Uses):						
Total Other Financing Sources (Uses)		-		-		-
Net Change in Fund Balances		303,487		288,940		(14,547)
Fund Balances - Beginning		101,963		101,963		-
Fund Balances - Ending	\$	405,450	\$	390,903	\$	(14,547)

# Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.





## DAVIS, HEINEMANN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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PHONE (936) 291-3020
FAX (936) 291-9607

Independent Auditor's Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With Government Auditing Standards

City Council
City of Buffalo, Texas
144 Avant Street
Buffalo, Texas 75831

Members of the City Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Buffalo, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise City of Buffalo, Texas basic financial statements, and have issued our report thereon dated December 27, 2018.

#### **Internal Control Over Financial Reporting**

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

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

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

#### **Compliance and Other Matters**

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

#### Purpose of this Report

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

Respectfully submitted,

Davis, Heinemann & Company, P.C.

Davis, Geneman + Co.

Huntsville, Texas December 27, 2018

CITY OF BUFFALO, TEXAS SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

A.	Summar	of Auditor's	Results

1.	Financial Statements			
	Type of auditor's report issued:	<u>Unmodified</u>		
	Internal control over financial reporting:			
	One or more material weaknesses identified?	Yes	X_	No
	One or more significant deficiencies identified that are not considered to be material weaknesses?	Yes	_X	None Reported
	Noncompliance material to financial statements noted?	Yes	X_	No
Fina	ancial Statement Findings			

NONE

**CITY OF BUFFALO, TEXAS** SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED SEPTEMBER 30, 2018

		Management's Explanation
Finding/Recommendation	Current Status	If Not Implemented
None reported.		

