

ANNUAL FINANCIAL REPORT

of the

CITY OF SCHULENBURG, TEXAS

For the Year Ended
September 30, 2017

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CITY OF SCHULENBURG, TEXAS

TABLE OF CONTENTS

September 30, 2017

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	5
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-Wide Financial Statements	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements	
Governmental Funds Financial Statements	
Balance Sheet – Governmental Funds	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	21
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25
Proprietary Fund Financial Statements	
Statement of Net Position	27
Statement of Revenues, Expenses, and Changes in Fund Net Position	29
Statement of Cash Flows	31
Fiduciary Funds Financial Statements	
Statement of Net Position – Fiduciary Funds	32
Statement of Changes in Net Position – Fiduciary Funds	33
Notes to Financial Statements	35
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	67
Schedule of Changes in Net Pension Liability and Related Ratios – Texas Municipal Retirement System	69
Schedule of the City's Proportionate Share of the Net Pension Liability – Texas Emergency Services Retirement System	71
Schedule of Contributions – Texas Municipal Retirement System	73
Schedule of Contributions – Texas Emergency Services Retirement System	75
<u>COMBINING STATEMENTS</u>	
Combining Balance Sheet – Nonmajor Governmental Funds	79
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	81
Combining Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	82

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Schulenburg, Texas:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, schedule of the City's proportionate share of the net pension liability, and schedules of contributions, identified as Required Supplementary Information on 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's basic financial statements. The combining statements are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining statements are 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 combining statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
July 6, 2018

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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CITY OF SCHULENBURG, TEXAS

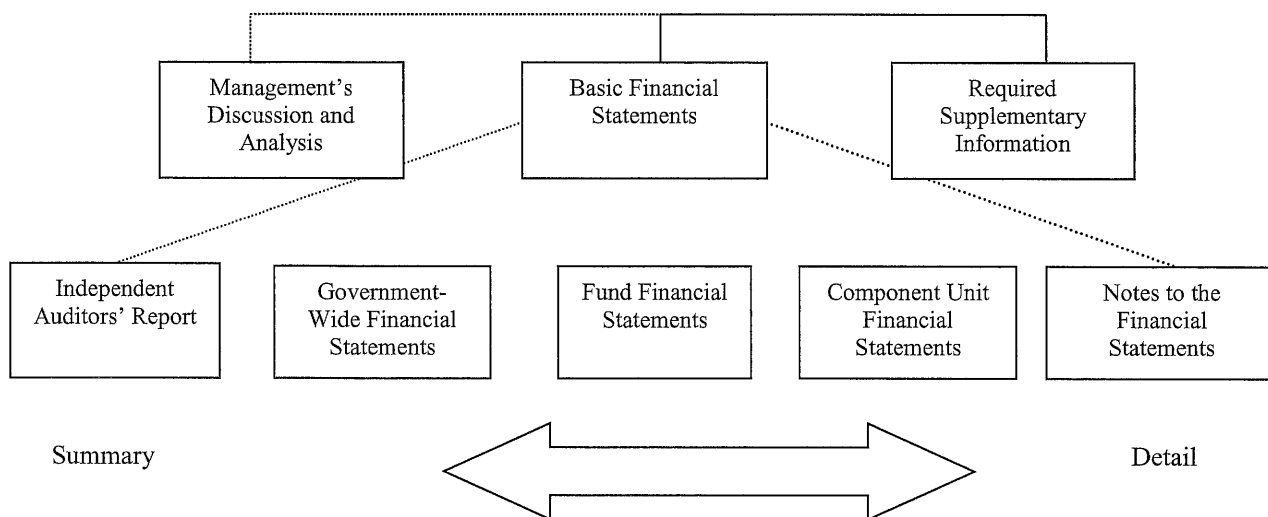
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2017

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Schulenburg, Texas (the "City") for the year ended September 30, 2017. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

Components of the Financial Section



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting method used by most private-sector companies. All of the current year revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change

CITY OF SCHULENBURG, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2017

occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City's financials into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here including general government, public safety, public works, and community development. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines, and permit fees finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water distribution, wastewater collection/treatment, electric services, garbage collection, and warehouse.

The government-wide financial statements include not only for the City itself (known as the primary government), but also a legally separate economic development corporation, for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The three categories of City funds are governmental, proprietary, and fiduciary.

Governmental Funds

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

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

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is always considered to be a major fund for reporting purposes.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

CITY OF SCHULENBURG, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2017

Proprietary Funds

The City maintains one type of proprietary fund, enterprise funds. The enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, wastewater collection/treatment, electric services, garbage collection, and warehouse. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City maintains three fiduciary funds; the library trust fund, the fire protection fund, and the perpetual care cemetery fund. The City's fiduciary activities are reported in separate statements of net position and statements of changes in fiduciary net position.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). RSI includes a budgetary comparison schedule for the general fund, a schedule of changes in net pension liability and related ratios, a schedule of the City's proportionate share of the net pension liability, and schedules of contributions for the Texas Municipal Retirement System and the Texas Emergency Services Retirement System. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve, over time, as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceed liabilities and deferred inflows by \$17,543,651 as of year end. The largest portion of the City's net position (77%) reflects its investments in capital assets (e.g., land, City hall, fleet equipment, streets, and drainage systems, as well as the public works facilities) less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

CITY OF SCHULENBURG, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2017

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	September 30, 2017			September 30, 2016		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Current and other assets	\$ 1,123,855	\$ 5,993,795	\$ 7,117,650	\$ 1,037,298	\$ 5,545,126	\$ 6,582,424
Capital assets, net	9,051,491	6,970,962	16,022,453	9,604,102	7,164,170	16,768,272
Total Assets	10,175,346	12,964,757	23,140,103	10,641,400	12,709,296	23,350,696
Deferred outflows - pensions	834,117	337,215	1,171,332	861,746	342,473	1,204,219
Deferred charge on refunding	22,942	-	22,942	26,766	-	26,766
Total Deferred Outflows of Resources	857,059	337,215	1,194,274	888,512	342,473	1,230,985
Long-term liabilities	2,498,864	1,725,415	4,224,279	2,428,807	1,501,247	3,930,054
Other liabilities	693,520	1,805,920	2,499,440	823,172	1,916,272	2,739,444
Total Liabilities	3,192,384	3,531,335	6,723,719	3,251,979	3,417,519	6,669,498
Deferred inflows - pensions	45,906	21,101	67,007	67,870	32,150	100,020
Total Deferred Inflows of Resources	45,906	21,101	67,007	67,870	32,150	100,020
Net Position:						
Net investment in capital assets	8,411,433	5,180,962	13,592,395	8,819,089	5,264,170	14,083,259
Restricted	830,983	166,074	997,057	628,801	166,074	794,875
Unrestricted	(1,448,301)	4,402,500	2,954,199	(1,237,827)	4,171,856	2,934,029
Total Net Position	\$ 7,794,115	\$ 9,749,536	\$ 17,543,651	\$ 8,210,063	\$ 9,602,100	\$ 17,812,163

A portion of the primary government's net position, \$997,057, represents resources that are subject to external restriction on how they may be used.

The total assets are \$23,140,103, a decrease of \$210,593 compared to prior year. The decrease is mainly due to capital assets depreciation. The total liabilities are \$6,723,719, an increase of \$54,221 compared to prior year. The increase is mainly due to the net pension liability increase. The total deferred outflows of resources are \$1,194,274, a decrease of \$36,711 compared to prior year. The total deferred inflows of resources are \$67,007, a decrease of \$33,013 compared to prior year. The decreases in deferred outflows and inflows of resources are due to decreases in actuarially determined pension related deferred items.

CITY OF SCHULENBURG, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2017

Statement of Activities:

The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2017			For the Year Ended September 30, 2016		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 232,237	\$ 9,218,329	\$ 9,450,566	\$ 252,913	\$ 9,102,089	\$ 9,355,002
Operating grants and contributions	141,382	-	141,382	169,920	-	169,920
Capital grants and contributions	-	-	-	147,000	249,500	396,500
General revenues:						
Property taxes	470,849	-	470,849	429,240	-	429,240
Sales taxes	543,499	-	543,499	534,389	-	534,389
Hotel taxes	220,077	-	220,077	187,430	-	187,430
Franchise taxes	80,000	-	80,000	62,495	-	62,495
Investment income	24,277	19,176	43,453	9,192	18,728	27,920
Other revenue	(9,595)	35,164	25,569	12,116	164,573	176,689
Total Revenues	1,702,726	9,272,669	10,975,395	1,804,695	9,534,890	11,339,585
Expenses						
General government	604,316	-	604,316	650,047	-	650,047
Public safety	1,212,462	-	1,212,462	1,160,683	-	1,160,683
Parks, recreation, and culture	953,210	-	953,210	898,029	-	898,029
Public works	1,211,636	-	1,211,636	1,106,995	-	1,106,995
Interest and fees on long-term debt	18,046	78,830	96,876	22,501	79,113	101,614
Utilities	-	7,165,407	7,165,407	-	7,031,351	7,031,351
Total Expenses	3,999,670	7,244,237	11,243,907	3,838,255	7,110,464	10,948,719
Increase (Decrease) in Net Position						
Before Transfers	(2,296,944)	2,028,432	(268,512)	(2,033,560)	2,424,426	390,866
Transfers in (out)	1,880,996	(1,880,996)	-	1,755,424	(1,755,424)	-
Change in Net Position	(415,948)	147,436	(268,512)	(278,136)	669,002	390,866
Beginning net position	8,210,063	9,602,100	17,812,163	8,488,199	8,933,098	17,421,297
Ending Net Position	\$ 7,794,115	\$ 9,749,536	\$ 17,543,651	\$ 8,210,063	\$ 9,602,100	\$ 17,812,163

For the year, revenues from governmental activities totaled \$1,702,726, a decrease of \$101,969 compared to the prior year. Capital grants and contributions decreased by \$147,000 from prior year due to no Community Development Block Grant projects in the current year. Expenses increased by \$161,415 from the prior year

CITY OF SCHULENBURG, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2017

mainly due to an increase in police department and parks, recreation, and culture expenses in addition to an increase in public works expenses related to personnel costs and street repairs.

Revenues from business-type activities totaled \$9,272,669, a decrease of \$262,221 compared to the prior year. The decrease in revenues is largely due to the prior year CDBG grant and refunds/reimbursements. Expenses increased by \$133,773 from the prior year mainly due to an increase in pension expense and the hiring of additional operators for the water and sewer departments.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$1,022,974, of which \$292,235 is nonspendable for loans receivable, \$263,708 is restricted for industrial development, \$561,606 is restricted for the enabling legislation, and \$5,669 is restricted for grant activities.

There was an increase in the combined fund balance of \$174,464 from the prior year, primarily due to a transfer in from the utility fund and hotel occupancy taxes in excess of tourism-related expenditures.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund had a balance of \$4,068. The general fund's revenue decreased by \$114,896 from the prior year mainly due to a decrease in intergovernmental revenues. The general fund expenditures decreased by \$59,578 from the prior year mainly due to a decrease in street repairs and maintenance projects.

Proprietary Funds – The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

The budgeted general fund revenues were over the actual revenues by \$279,387 during the year. This negative variance is mainly due to receiving less sales tax revenues than anticipated. General fund expenditures were under the amended budget by \$767,704. This was mainly due to positive variances for the general body, fire department, Blinn College, and the street department.

CAPITAL ASSETS

At the end of the year, the City's governmental and business-type activities had invested \$16,022,453 in a variety of capital assets (net of accumulated depreciation). This represents a net decrease of \$745,819. New major capital asset events during the current year include the following:

- Water well storage tank improvement for a total of \$133,850
- Wastewater treatment plant mechanical screen improvement for a total of \$115,000

CITY OF SCHULENBURG, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2017

More detailed information on the City's capital assets can be found in note III.C. to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total long-term debt of \$2,453,000. Certificates of obligation accounted for \$1,790,000 and general obligation refunding bonds accounted for \$663,000.

More detailed information about the City's long-term liabilities is presented in note III.D. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The property tax rate for fiscal year ended September 30, 2018 was approved at \$0.1747 per \$100 assessed property value.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Tami Blaschke-Walker, City Administrator/ City Secretary, City Hall, 535 N. Main Street, P.O. Box 8, Schulenburg, Texas 78956; telephone 979-743-4126.

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BASIC FINANCIAL STATEMENTS

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CITY OF SCHULENBURG, TEXAS

STATEMENT OF NET POSITION

September 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	SEDC
<u>Assets</u>				
Cash and cash equivalents	\$ 674,937	\$ 2,697,619	\$ 3,372,556	\$ 451,334
Investments	-	1,695,000	1,695,000	123,086
Receivables (net of allowance for uncollectible)	70,721	1,145,560	1,216,281	-
Due from other governments	95,303	-	95,303	45,497
Due from primary government	-	-	-	25,946
Internal balances	(9,341)	9,341	-	-
Inventory	-	443,256	443,256	-
Industrial loans receivable	292,235	-	292,235	123,797
Other assets	-	3,019	3,019	-
Capital assets:				
Nondepreciable	322,302	339,803	662,105	-
Net depreciable capital assets	8,729,189	6,631,159	15,360,348	501,273
Total Assets	10,175,346	12,964,757	23,140,103	1,270,933
<u>Deferred Outflows of Resources</u>				
Deferred outflows - TMRS	660,327	337,215	997,542	-
Deferred outflows - TESRS	173,790	-	173,790	-
Deferred charge on refunding	22,942	-	22,942	-
Total Deferred Outflows of Resources	857,059	337,215	1,194,274	-
<u>Liabilities</u>				
Accounts payable	84,983	446,824	531,807	56,732
Customer deposits payable	-	195,586	195,586	-
Payroll deductions payable	-	2,680	2,680	-
Due to state	-	14,737	14,737	-
Due to component unit	-	25,946	25,946	-
Due to others	-	46,247	46,247	-
Accrued interest	5,906	37,269	43,175	1,504
Noncurrent liabilities:				
Long-term liabilities due within one year	134,467	134,328	268,795	80,000
Long-term liabilities due in more than one year	559,053	1,671,592	2,230,645	521,000
Net pension liability - TMRS	1,919,322	956,126	2,875,448	-
Net pension liability - TESRS	488,653	-	488,653	-
Total Liabilities	3,192,384	3,531,335	6,723,719	659,236
<u>Deferred Inflows of Resources</u>				
Deferred inflows - TMRS	45,906	21,101	67,007	-
Total Deferred Inflows of Resources	45,906	21,101	67,007	-
<u>Net Position</u>				
Net investment in capital assets	8,411,433	5,180,962	13,592,395	(99,727)
Restricted for:				
Economic development	-	-	-	711,424
Industrial development	263,708	-	263,708	-
Enabling legislation	561,606	-	561,606	-
Grant activities	5,669	-	5,669	-
Debt service	-	166,074	166,074	-
Unrestricted	(1,448,301)	4,402,500	2,954,199	-
Total Net Position	\$ 7,794,115	\$ 9,749,536	\$ 17,543,651	\$ 611,697

See Notes to Financial Statements.

CITY OF SCHULENBURG, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
General government	\$ 604,316	\$ 42,608	\$ -
Public safety	1,212,462	146,009	11,396
Parks, recreation, and culture	953,210	33,935	84,904
Public works	1,211,636	9,540	45,082
Interest and fees on long-term debt	18,046	145	-
Total Governmental Activities	3,999,670	232,237	141,382
Business-Type Activities			
Utilities	7,165,407	9,218,329	-
Interest and fees on long-term debt	78,830	-	-
Total Business-Type Activities	7,244,237	9,218,329	-
Total Primary Government	\$ 11,243,907	\$ 9,450,566	\$ 141,382
Component Unit			
Economic development	\$ 270,764	\$ -	\$ -
Interest and fees on long-term debt	13,523	-	-
Total Component Unit	\$ 284,287	\$ -	\$ -

General Revenues:

- Property taxes
- Sales taxes
- Hotel tax
- Franchise taxes
- Investment income
- Other revenues
- Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net Revenue (Expense) and Changes in Net Position

Primary Government

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
\$ (561,708)	\$ -	\$ (561,708)	\$ -
(1,055,057)	-	(1,055,057)	-
(834,371)	-	(834,371)	-
(1,157,014)	-	(1,157,014)	-
(17,901)	-	(17,901)	-
<u>(3,626,051)</u>	<u>-</u>	<u>(3,626,051)</u>	<u>-</u>
-	2,052,922	2,052,922	-
-	<u>(78,830)</u>	<u>(78,830)</u>	-
-	1,974,092	1,974,092	-
<u>(3,626,051)</u>	<u>1,974,092</u>	<u>(1,651,959)</u>	<u>-</u>
-	-	-	(270,764)
-	-	-	<u>(13,523)</u>
-	-	-	<u>(284,287)</u>
470,849	-	470,849	-
543,499	-	543,499	272,221
220,077	-	220,077	-
80,000	-	80,000	-
24,277	19,176	43,453	4,408
(9,595)	35,164	25,569	-
<u>1,880,996</u>	<u>(1,880,996)</u>	<u>-</u>	<u>-</u>
<u>3,210,103</u>	<u>(1,826,656)</u>	<u>1,383,447</u>	<u>276,629</u>
(415,948)	147,436	(268,512)	(7,658)
<u>8,210,063</u>	<u>9,602,100</u>	<u>17,812,163</u>	<u>619,355</u>
<u>\$ 7,794,115</u>	<u>\$ 9,749,536</u>	<u>\$ 17,543,651</u>	<u>\$ 611,697</u>

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CITY OF SCHULENBURG, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2017

	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 1,400	\$ 673,537	\$ 674,937
Receivables, net	16,098	54,623	70,721
Due from state comptroller	95,303	-	95,303
Loans receivable	-	292,235	292,235
Total Assets	\$ 112,801	\$ 1,020,395	\$ 1,133,196
<u>Liabilities</u>			
Accounts payable	\$ 83,494	\$ 1,489	\$ 84,983
Due to other funds	9,341	-	9,341
Total Liabilities	92,835	1,489	94,324
<u>Deferred Inflows of Resources</u>			
Unavailable revenue - property taxes	15,898	-	15,898
<u>Fund Balances</u>			
Nonspendable	-	292,235	292,235
Restricted for:			
Industrial development	-	263,708	263,708
Enabling legislation	104,312	457,294	561,606
Grant activities	-	5,669	5,669
Unassigned	(100,244)	-	(100,244)
Total Fund Balances	4,068	1,018,906	1,022,974
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 112,801	\$ 1,020,395	\$ 1,133,196

See Notes to Financial Statements

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

Total fund balances – total governmental funds \$ 1,022,974

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets – nondepreciable	322,302
Capital assets – net depreciable	8,729,189

Changes in pension activity do not affect the fund balances on the statement of revenues, expenditures, and changes in fund balances for the governmental funds.

These changes in pension activity that affect the City's net position are as follows:

Net pension liability - TMRS	(1,919,322)
Net pension liability - TESRS	(488,653)
Deferred outflows - TMRS	660,327
Deferred outflows - TESRS	173,790
Deferred inflows - TMRS	(45,906)

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds.

15,898

Some liabilities, including bonds payable, other post employment benefits, and compensated absences are not reported as liabilities in the governmental funds.

Deferred charge on refunding	22,942
Accrued interest payable	(5,906)
Noncurrent liabilities due in one year	(134,467)
Noncurrent liabilities due in more than one year	(559,053)

Net Position of Governmental Activities \$ 7,794,115

See Notes to Financial Statements.

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CITY OF SCHULENBURG, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended September 30, 2017

	General	Nonmajor Governmental	Total Governmental Funds
Revenues			
Property taxes	\$ 470,849	\$ -	\$ 470,849
Sales taxes	543,499	-	543,499
Hotel occupancy taxes	-	220,077	220,077
Franchise taxes	80,000	-	80,000
Fines and court costs	97,811	-	97,811
Licenses and permits	35,507	-	35,507
Charges for services	30,380	-	30,380
Intergovernmental revenue	104,703	-	104,703
Interest earnings	22,341	1,936	24,277
Miscellaneous	85,703	11,601	97,304
Total Revenues	1,470,793	233,614	1,704,407
Expenditures			
General government:			
General body	158,496	-	158,496
Office management	470,124	-	470,124
Public safety:			
Fire department	129,884	-	129,884
Police department	890,421	-	890,421
Municipal court	42,848	-	42,848
Parks, recreation, and culture:			
Sports complex	173,485	-	173,485
Parks and recreation	198,855	-	198,855
Swimming pool	23,662	-	23,662
Library	296,666	-	296,666
Civic center	23,147	-	23,147
Community center	6,297	-	6,297
City cemetery	80,331	-	80,331
Public works:			
Street department	604,500	-	604,500
Industrial development	-	1,725	1,725
Tourism	-	145,139	145,139
Blinn College	1,000	-	1,000
Debt service:			
Principal	148,778	-	148,778
Interest	15,581	-	15,581
Total Expenditures	3,264,075	146,864	3,410,939
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,793,282)	86,750	(1,706,532)
Other Financing Sources			
Transfers in	1,880,996	-	1,880,996
Total Other Financing Sources	1,880,996	-	1,880,996
Net Change in Fund Balances	87,714	86,750	174,464
Beginning fund balances	(83,646)	932,156	848,510
Ending Fund Balances	\$ 4,068	\$ 1,018,906	\$ 1,022,974

See Notes to Financial Statements.

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

Amounts reported for governmental activities in the Statement of Activities are different because:

Net changes in fund balances - total governmental funds	\$	174,464
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay		148,294
Depreciation		(700,905)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Deferred revenue		(1,681)
<p>The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when it is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.</p>		
Principal payment on debt		104,000
Amortization of deferred charges		(3,824)
Principal payment on capital leases		44,779
Deferred inflows - TMRS		19,271
Deferred inflows - TESRS		2,693
Deferred outflows - TMRS		(33,967)
Deferred outflows - TESRS		6,338
Net pension liability - TMRS		(117,292)
Net pension liability - TESRS		(58,562)
Change in compensated absences		(915)
Accrued interest		1,359
Change in Net Position of Governmental Activities		\$ (415,948)

See Notes to Financial Statements.

CITY OF SCHULENBURG, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2017

	<u>Business-Type Activities</u> <u>Utility</u>
<u>Assets</u>	
Current Assets	
Cash and cash equivalents	\$ 2,697,619
Investments	1,695,000
Receivables, net	1,145,560
Due from other funds	9,341
Inventory	443,256
Other assets	3,019
Total Current Assets	<u>5,993,795</u>
Noncurrent Assets	
Capital assets:	
Nondepreciable	339,803
Depreciable capital assets	22,868,822
Less: accumulated depreciation	<u>(16,237,663)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>6,970,962</u>
Total Noncurrent Assets	<u>6,970,962</u>
Total Assets	<u>12,964,757</u>
Deferred Outflows of Resources	
Deferred outflows - pension	<u>337,215</u>
<u>Liabilities</u>	
Current Liabilities	
Accounts payable	446,824
Accrued interest payable	37,269
Payroll deduction payable	2,680
Customer deposits	195,586
Due to state	14,737
Due to other units	46,247
Due to component unit	25,946
Bonds payable - current	120,000
Compensated absences	14,328
Total Current Liabilities	<u>903,617</u>
Noncurrent liabilities	
Bonds payable	1,670,000
Compensated absences	1,592
Net pension liability	956,126
Total Noncurrent Liabilities	<u>2,627,718</u>
Total Liabilities	<u>3,531,335</u>
Deferred Inflows of Resources	
Deferred inflows - pension	<u>21,101</u>
<u>Net Position</u>	
Net investment in capital assets	5,180,962
Restricted for debt service	166,074
Unrestricted	4,402,500
Total Net Position	<u>\$ 9,749,536</u>

See Notes to Financial Statements.

CITY OF SCHULENBURG, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND

For the Year Ended September 30, 2017

	Business-Type Activities
	Utility
<u>Operating Revenues</u>	
Charges for services	\$ 9,120,514
Penalties and interest	97,579
License and permits	236
Other revenue	35,164
Total Operating Revenues	9,253,493
<u>Operating Expenses</u>	
Payroll costs	934,562
Professional services	87,388
Contracted services	4,102,562
Supplies and materials	948,318
Recurring operating expense	625,758
Depreciation expense	464,152
Miscellaneous expense	2,667
Total Operating Expenses	7,165,407
Operating Income	2,088,086
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	19,176
Interest expense	(78,830)
Total Nonoperating (Expenses)	(59,654)
Income Before Transfers	2,028,432
Transfers (out)	(1,880,996)
Change in Net Position	147,436
Beginning net position	9,602,100
Ending Net Position	\$ 9,749,536

See Notes to Financial Statements.

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CITY OF SCHULENBURG, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2017

	Business-Type Activities
	Utility
<u>Cash Flows from Operating Activities</u>	
Cash received for services	\$ 9,053,962
Cash paid for salaries and wages	(873,458)
Inventory decreased	150,719
Cash payments for inventory	(5,609,772)
Net Cash Provided by Operating Activities	2,721,451
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfer to other funds	(1,880,996)
Net Cash (Used) by Noncapital Financing Activities	(1,880,996)
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition and construction of capital assets	(270,944)
Principal paid on revenue bonds	(110,000)
Interest paid on revenue bonds and capital leases	(78,830)
Net Cash (Used) by Capital and Related Financing Activities	(459,774)
<u>Cash Flows from Investing Activities</u>	
Interest on investments	19,176
Net Cash Provided by Investing Activities	19,176
Net Increase in Cash and Cash Equivalents	399,857
Beginning cash and cash equivalents	2,297,762
Ending Cash and Cash Equivalents	\$ 2,697,619
 Reconciliation of Operating Income (Loss)	
to Net Cash Provided (Used) by Operating Activities	
Operating income	\$ 2,088,086
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Depreciation	464,152
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(199,531)
Deferred outflows - pension	5,258
Inventory	150,719
Customer deposits	8,119
Deferred inflows - pension	(11,049)
Accounts payable and accrued liabilities	160,243
Compensated absences	(352)
Net pension liability	67,247
Amount due to state	(11,441)
Net Cash Provided by Operating Activities	\$ 2,721,451

See Notes to Financial Statements.

CITY OF SCHULENBURG, TEXAS

STATEMENT OF NET POSITION

FIDUCIARY FUNDS

September 30, 2017

	<u>Library Trust</u>	<u>Fire Protection</u>	<u>Perpetual Care Cemetery Trust</u>	<u>Total Fiduciary Funds</u>
Assets:				
Cash and cash equivalents	\$ 256	\$ 277,298	\$ 54,712	\$ 332,266
Investments	21,839	-	215,000	236,839
Accounts receivable	-	2,744	-	2,744
Due from other units	-	42,266	3,981	46,247
Total Assets	\$ 22,095	\$ 322,308	\$ 273,693	\$ 618,096
Net Position:				
Held in trust	\$ 22,095	\$ 322,308	\$ 273,693	\$ 618,096
Total Net Position	\$ 22,095	\$ 322,308	\$ 273,693	\$ 618,096

See Notes to Financial Statements.

CITY OF SCHULENBURG, TEXAS

STATEMENT OF CHANGES IN NET POSITION

FIDUCIARY FUNDS

For the Year Ended September 30, 2017

	<u>Library Trust</u>	<u>Fire Protection</u>	<u>Perpetual Care Cemetery Trust</u>	<u>Total Fiduciary Funds</u>
<u>Additions</u>				
Public donations	\$ -	\$ 24,871	\$ 1,652	\$ 26,523
Interest earned	1,841	131	1,859	3,831
Total Revenues	<u>1,841</u>	<u>25,002</u>	<u>3,511</u>	<u>30,354</u>
Change in Net Position	1,841	25,002	3,511	30,354
Beginning net position	<u>20,254</u>	<u>297,306</u>	<u>270,182</u>	<u>587,742</u>
Ending Net Position	<u>\$ 22,095</u>	<u>\$ 322,308</u>	<u>\$ 273,693</u>	<u>\$ 618,096</u>

See Notes to Financial Statements.

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CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Schulenburg, Texas (the "City") was incorporated under the laws of the State of Texas in 1875. The City has operated under the Mayor-Alderman form of government.

The City provides the following services: public safety, public works, community development, water and sewer services, general administration, garbage collection, electric services, and warehouse storage.

The City is an independent political subdivision of the State of Texas governed by an elected commission and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The component unit, as listed below, although legally separate, is considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with the prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Unit

Schulenburg Economic Development Corporation

The Schulenburg Economic Development Corporation (SEDC) was created to levy and account for the collection of a sales and use tax at the rate of one half of the City's sales tax rate for the purpose of financing economic development projects that provide economic benefit and diversify the economic base of the community. City Council appoints all members of the governing board and approves any debt issued by the SEDC.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component unit. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. 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.

The City reports the following governmental funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, and community services. The general fund is always considered a major fund for reporting purposes.

The *special revenue funds* are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds include industrial development escrow, hotel/motel occupancy taxes, and the grant fund. The special revenue funds are considered nonmajor funds for reporting purposes.

The City reports the following enterprise fund:

The *enterprise fund* is known as the utility fund and is used and account for the operations that provide electricity, garbage, water and wastewater collection, and wastewater treatment operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The utility fund is considered a major fund for reporting purposes.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

Additionally, the City reports the following fund type:

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City maintains three fiduciary funds; the library trust fund, the fire protection fund, and the perpetual care cemetery trust fund.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

2. Investments

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposits, are reported at cost.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following: direct obligations of the U.S. Government, fully collateralized certificates of deposit and money market accounts, and statewide investment pools.

3. Receivables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in an applicable governmental fund to indicate that they are not available for appropriation and are not expendable, available financial resources.

All trade receivables are shown net of an allowance for uncollectibles.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

4. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

5. Capital Assets

Capital assets, including property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial and an estimated useful life in excess of eight years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with the construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Furniture and equipment	8 to 10 years
Vehicles	8 to 10 years
Infrastructure	15 to 30 years
Utility system	25 years
Buildings and improvements	25 to 50 years

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has five items that qualify for reporting in this category on the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows of resources are recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. Another deferral is recognized as a result of differences between the actuarial expectations and the actual economic experience related to the City's defined benefit pension plan and a deferred charge has been recognized for the changes in actuarial assumptions related to the City's defined benefit pension plan. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. A deferred

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category in the government-wide Statement of Net Position. Deferred inflows of resources are recognized for the differences between the actuarial expectations and the actual economic experience related to the City's defined benefit pension plan. This amount is deferred and amortized over the average of the expected service lives of pension plan members. At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

7. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation time. Amounts accumulated, up to certain amounts, may be paid to employees upon termination of employment. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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

The property tax rate is allocated each year to the general fund. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the general fund.

Assets acquired under the terms of a capital lease are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

9. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

10. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

11. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

12. Estimates

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

13. Pensions

For the 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 the Texas Emergency Services Retirement System (TESRS) and additions to/deductions from TMRS's and TESRS's fiduciary net position have been determined on the same basis as they are reported by TMRS and TESRS. 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. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the charter is the object and purpose stated in the approved budget. Appropriations lapse at the end of the year. Supplemental budget appropriations were made for the year.

Excess of Expenditures over Appropriations

General fund		
Parks, recreation, and culture:		
Parks and recreation	\$	6,005
Debt service:		
Interest	\$	777
Principal	\$	44,778

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2017, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
TexPool	\$ 335,140	0.00
Certificates of deposit	1,931,839	0.50
Total Investments	\$ 2,266,979	

Portfolio Weighted Average Maturity 0.43

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

Credit risk. The City's investment policy limits investments in public fund investment pools rated as to investment quality not less than 'AAA' or 'AAA-m', or at an equivalent rating by at least one nationally recognized rating service. As of September 30, 2017, the City's investments in TexPool were rated 'AAAm' by Standard & Poor's.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of year end, fair market values of pledged securities and FDIC coverage exceeded bank balances.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool 'AAAm'. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, the investment pool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool's liquidity.

B. Receivables

The following comprises receivable balances at year end:

	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Enterprise</u>
Property taxes	\$ 20,293	\$ -	\$ -
Sales taxes	94,383	-	-
Hotel taxes	-	54,623	-
Other taxes	1,119	-	-
Utilities	-	-	1,332,561
Allowance	(4,394)	-	(187,001)
	<u>\$ 111,401</u>	<u>\$ 54,623</u>	<u>\$ 1,145,560</u>

Long-Term Receivables

The loan receivables of \$292,235 for the City and \$123,797 for the EDC are being utilized by businesses within the City for the purchase of land, machinery, equipment, and working capital expenditures. The loans are made in exchange for the creation of full-time job positions held by low/moderate income persons through the Texas Department of Commerce. There are currently six outstanding loans that have remaining terms varying from one to fifteen years.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

The annual loan receivable requirements at year-end are as follows:

Fiscal Year Ended Sept. 30	Governmental Activities Long- Term Receivable		Component Unit Long-Term Receivable	
	Principal	Interest	Principal	Interest
2018	\$ 42,713	\$ 7,642	\$ 38,088	\$ 2,959
2019	43,895	6,789	20,247	2,061
2020	45,108	5,574	4,414	1,586
2021	41,402	4,078	4,525	1,475
2022	27,495	3,393	4,640	1,360
2023-2027	88,162	6,885	25,020	4,980
2028-2032	3,460	20	26,863	1,656
Total	\$ 292,235	\$ 34,381	\$ 123,797	\$ 16,077

C. Capital Assets

A summary of changes in capital assets for governmental activities at year end is as follows:

	Beginning Balance	Increases	(Decreases)	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 322,302	\$ -	\$ -	\$ 322,302
Total capital assets not being depreciated	322,302	-	-	322,302
Other capital assets:				
Building	6,263,442	-	-	6,263,442
Machinery and equipment	694,126	86,741	(63,029)	717,838
Vehicles	2,374,673	61,553	(51,420)	2,384,806
Infrastructure	13,059,095	-	-	13,059,095
Total other capital assets	22,391,336	148,294	(114,449)	22,425,181
Less accumulated depreciation for:				
Building	(3,491,564)	(128,234)	-	(3,619,798)
Machinery and equipment	(561,040)	(41,570)	63,029	(539,581)
Vehicles	(2,003,157)	(95,798)	51,420	(2,047,535)
Infrastructure	(7,053,775)	(435,303)	-	(7,489,078)
Total accumulated depreciation	(13,109,536)	(700,905)	114,449	(13,695,992)
Other capital assets, net	9,281,800	(552,611)	-	8,729,189
Governmental Activities				
Capital Assets, Net	\$ 9,604,102	\$ (552,611)	\$ -	9,051,491
				Less associated debt (663,000)
				Plus deferred charge on refunding 22,942
				Net Investment in Capital Assets \$ 8,411,433

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

Depreciation was charged to governmental functions as follows:

General government:		
General body	\$	29,241
Building inspector		34
Public safety:		
Fire department		45,503
Police department		34,296
Parks, recreation, and culture:		
Sports complex		31,918
Parks and recreation		68,388
Swimming pool		273
Library		4,621
Civic center		9,848
Community center		2,203
City cemetery		475
Public works:		
Street department		474,105
Total Governmental-Type Activities Depreciation Expense	\$	700,905

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

The following is a summary of changes in capital assets for business-type activities for the year:

Business-Type Activities:	Beginning Balance	Increases	(Decreases)	Ending Balance
Capital assets not being depreciated:				
Land	\$ 205,953	\$ -	\$ -	\$ 205,953
Construction in progress	-	133,850	-	133,850
Total capital assets not being depreciated	205,953	133,850	-	339,803
Other capital assets:				
Building	1,046,944	-	-	1,046,944
Machinery and equipment	2,656,117	22,094	-	2,678,211
Furniture and fixtures	133,819	-	-	133,819
Utility system	18,894,848	115,000	-	19,009,848
Total other capital assets	22,731,728	137,094	-	22,868,822
Less accumulated depreciation for:				
Building	(584,532)	(27,774)	-	(612,306)
Machinery and equipment	(2,021,290)	(123,392)	-	(2,144,682)
Furniture and fixtures	(133,731)	(88)	-	(133,819)
Utility system	(13,033,958)	(312,898)	-	(13,346,856)
Total accumulated depreciation	(15,773,511)	(464,152)	-	(16,237,663)
Other capital assets, net	6,958,217	(327,058)	-	6,631,159
Business-Type Activities Capital Assets, Net	\$ 7,164,170	\$ (193,208)	\$ -	6,970,962
			Less associated debt	(1,790,000)
			Net Investment in Capital Assets	\$ 5,180,962

Depreciation was charged to business-type functions as follows:

Electric	\$ 100,291
Water	110,750
Sewer	199,155
Warehouse	13,511
Garbage	40,445
Total Business-Type Activities Depreciation Expense	\$ 464,152

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

The following is a summary of changes in capital assets for the component unit for the year:

Component Unit:	Beginning Balance	Increases	(Decreases)	Ending Balance
Capital assets being depreciated:				
EDC Blinn College	\$ 1,288,990	\$ -	\$ -	\$ 1,288,990
Less accumulated depreciation for:				
EDC Blinn College	(716,106)	(71,611)	-	(787,717)
Component Unit Capital Assets, Net	\$ 572,884	\$ (71,611)	\$ -	501,273
			Less associated debt	(601,000)
			Net Investment in Capital Assets	\$ (99,727)

D. Long-Term Debt

The following is a summary of changes in the City's total long-term liabilities for the year. In general, the City uses the general fund to liquidate governmental long-term liabilities.

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
General obligation refunding bonds	\$ 767,000	\$ -	\$ (104,000)	\$ 663,000 *	\$ 107,000
Other liabilities:					
Compensated absences	29,605	67,567	(66,652)	30,520	27,467
Capital leases	44,779	-	(44,779)	-	-
Net pension liability - TESRS	430,091	58,562	-	488,653	-
Net pension liability - TMRS	1,802,030	117,292	-	1,919,322	-
Total Governmental Activities	\$ 3,073,505	\$ 243,421	\$ (215,431)	\$ 3,101,495	\$ 134,467
				\$ 2,967,028	
			* Debt associated with governmental capital assets	\$ 663,000	

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-Type Activities:					
Bonds payable:					
Certificates of obligation	\$ 1,900,000	\$ -	\$ (110,000)	\$ 1,790,000 *	\$ 120,000
Other liabilities:					
Compensated absences	16,272	28,016	(28,368)	15,920	14,328
Net pension liability	888,879	67,247	-	956,126	-
Total Business-Type Activities	\$ 2,805,151	\$ 95,263	\$ (138,368)	\$ 2,762,046	\$ 134,328
Long-term Liabilities Due In More Than One Year				\$ 2,627,718	
* Debt associated with business-type capital assets				\$ 1,790,000	
Component Unit:					
Sales tax revenue bonds	\$ 683,000	\$ -	\$ (82,000)	\$ 601,000 *	\$ 80,000
Total Component Unit	\$ 683,000	\$ -	\$ (82,000)	\$ 601,000	\$ 80,000
Long-term Liabilities Due In More Than One Year				\$ 521,000	
* Debt associated with component unit capital assets				\$ 601,000	

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

Long-term debt at year end was comprised of the following debt issues:

<u>Description</u>	<u>Interest Rates</u>	<u>Balance</u>
Governmental Activities		
General Obligation Refunding Bonds Series 2012	1.93%	\$ 663,000
Total Governmental Activities Long-Term Debt		\$ 663,000
Business-Type Activities		
Tax and Combined Utility System Surplus Revenue Certificates of Obligation Series 2011	4.25%	\$ 1,790,000
Total Business-Type Activities Long-Term Debt		\$ 1,790,000
Component Unit		
Sales Tax Revenue Refunding Bonds, Series 2012	1.98%	\$ 601,000
Total Component Unit Long-Term Debt		\$ 601,000

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

The annual requirements to amortize debt issues outstanding at year end were as follows:

Fiscal Year Ended Sept. 30	Governmental Activities Long-Term Debt		
	General Obligation		
	Principal	Interest	Total
2018	\$ 107,000	\$ 12,795	\$ 119,795
2019	105,000	10,731	115,731
2020	107,000	8,704	115,704
2021	109,000	6,639	115,639
2022	117,000	4,536	121,536
2023	118,000	2,277	120,277
Total	\$ 663,000	\$ 45,682	\$ 708,682

Fiscal Year Ended Sept. 30	Business-Type Activities Long-Term Debt		
	Certificates of Obligation		
	Principal	Interest	Total
2018	\$ 120,000	\$ 78,413	\$ 198,413
2019	125,000	73,525	198,525
2020	125,000	68,319	193,319
2021	135,000	63,007	198,007
2022	140,000	57,482	197,482
2023-2027	785,000	194,970	979,970
2028-2029	360,000	34,426	394,426
Total	\$ 1,790,000	\$ 570,140	\$ 2,360,140

Fiscal Year Ended Sept. 30	Component Unit Long-Term Debt		
	Sales Tax Revenue Bonds		
	Principal	Interest	Total
2018	\$ 80,000	\$ 11,900	\$ 91,900
2019	83,000	10,316	93,316
2020	86,000	8,672	94,672
2021	88,000	6,969	94,969
2022	86,000	5,227	91,227
2023-2024	178,000	5,306	183,306
Total	\$ 601,000	\$ 48,391	\$ 649,391

CITY OF SCHULENBURG, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

E. Interfund Transactions

The composition of due to/from balances as of year end was as follows:

Due To	Due From	Amount
Utility	General	\$ 9,341

Amounts recorded as due to/from are considered to be temporary loans and will generally be repaid in more than one year.

Transfers between the governmental funds during the year were as follows:

Transfer Out	Transfer In	Amount
Utility	General	\$ 1,880,996

This utility fund transfer is used for the general activities since the general fund revenue is not sufficient.

F. Fund Equity

As of September 30, 2017, \$561,606 of the City's total fund balance is restricted by enabling legislation.

G. Restatement of Fund Balance/Net Position

The City has restated beginning fund balance/net position to clear various liability accounts. In addition, the City has also restated the beginning fund balance/net position for the industrial development fund to recognize an outstanding loan receivable and adjust pooled cash for a fiscal year 2014 journal entry posted in error.

Beginning fund balance/net position was restated as follows:

	General	Industrial Development Escrow	Governmental Activities
Prior year ending fund balance/net position as reported	\$ (101,858)	\$ 488,252	\$ 8,135,972
Restatement - accounts payable and other liabilities	18,212	-	18,212
Restatement - loans receivable	-	101,703	101,703
Restatement - pooled cash	-	(45,824)	(45,824)
Current year beginning fund balance/net position as reported	\$ (83,646)	\$ 544,131	\$ 8,210,063

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures that may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Pension Plan

1. Texas Municipal Retirement System

Plan Description

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees (the "Board"). 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 that can be obtained at www.tmr.com.

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

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.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

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.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	2017	2016
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	25
Inactive employees entitled to, but not yet receiving, benefits	19
Active employees	39
Total	83

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 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 22.56%, 21.32%, and 20.86% in calendar years 2017, 2016, and 2015, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2017 were \$380,247, which were equal to the required contributions.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

Net Pension Liability

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

Actuarial Assumptions

The TPL in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3.0% 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 3.0% floor.

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the EAN actuarial cost method. Assumptions are reviewed annually. 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 a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary 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).

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Assets Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	100.00%	

Discount Rate

The discount rate used to measure the TPL 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 TPL.

Changes in the NPL

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (A)</u>	<u>Plan Fiduciary Net Position (B)</u>	<u>Net Pension Liability (A) - (B)</u>
Changes for the year:			
Service cost	\$ 280,316	\$ -	\$ 280,316
Interest	854,698	-	854,698
Difference between expected and actual experience	202,611	-	202,611
Contributions - employer	-	355,711	(355,711)
Contributions - employee	-	117,696	(117,696)
Net investment income	-	687,867	(687,867)
Benefit payments, including refunds of employee contributions	(695,503)	(695,503)	-
Administrative expense	-	(7,769)	7,769
Other changes	-	(418)	418
Net Changes	642,122	457,582	184,538
Balance at December 31, 2015	12,869,792	10,178,883	2,690,909
Balance at December 31, 2016	\$ 13,511,914	\$ 10,636,465	\$ 2,875,448

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

Sensitivity of the NPL to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 4,723,550	\$ 2,875,448	\$ 1,359,528

Pension Plan Fiduciary Net Position

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

Pension Expense and Deferred Outflows/Deferred Inflows of Resources Related to Pensions

For the fiscal year ended September 30, 2017, the City recognized net pension expense of \$578,060.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 182,081	\$ 67,007
Changes in actuarial assumptions	42,414	-
Net difference between projected and actual investment earnings	478,969	-
Contributions subsequent to the measurement date	294,078	-
Total	\$ 997,542	\$ 67,007

\$294,078 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 NPL for the fiscal 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:

Fiscal Year Ended September 30	Pension Expense
2018	\$ 239,628
2019	220,650
2020	176,337
2021	(158)
Thereafter	-
Total	\$ 636,457

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

2. Texas Emergency Services Retirement System

Plan Description

The City participates in a cost-sharing multiple employer pension plan that has a special funding situation. The plan is administered by the Texas Emergency Services Retirement System (TESRS) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2016, there were 199 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2016, the pension system membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,167
Terminated Members Entitled to Benefits, but Not Yet Receiving Them	2,200
Active Participants (Vested and Nonvested)	3,634

Pension Plan Fiduciary Net Position

Detailed information about TESRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and Required Supplementary Information, which can be obtained at www.tesrs.org. The separately issued actuarial valuations which may be of interest are also available at the same link.

Benefits Provided

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees (the "Board") authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by Board rule. The benefit provisions include retirement benefits, as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next 5 years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by 6 times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of TESRS, nor are they allowed. The governing

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the TESRS contribution that directly impacts future retiree annuities.

The State is required to contribute an amount necessary to make TESRS “actuarially sound” each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The Board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the State are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percentage of the Part One portion (not to exceed 15%), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2016, the Part Two contributions were established by the Board to be 2%, if the Part One contributions beginning September 1, 2017.

Additional contributions may be made by governing bodies within 2 years of joining TESRS, to grant up to 10 years of credit for service per member. Prior service purchased must have occurred before the department began participation in TESRS.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into TESRS. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by TESRS.

Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by Board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2016, total contributions (dues, prior service, and interest on prior service financing) of \$76,857 were paid by the City and the volunteer fire department. The State appropriated \$1,583,825 for the fiscal year ending August 31, 2016 to TESRS as a whole.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

Actuarial Assumptions

The Total Pension Liability (TPL) in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date	8/31/2016
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar, Open
Amortization Period	30 years
Asset Valuation Method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value
 Actuarial Assumptions:	
Investment Rate of Return*	7.75%
Projected Salary Increases	N/A
*Includes Inflation At	3.00%
Cost of Living Adjustments	None

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components 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 (currently 4.45%) and by adding expected inflation (3.50%). In addition, the final 7.75% assumption reflected a reduction of 0.20% for adverse deviation.

The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Net Real Rate of Return
Equities		
Large cap domestic	32.00%	5.72%
Small cap domestic	10.00%	5.96%
Developed international	21.00%	6.21%
Emerging markets	6.00%	7.18%
Master limited partnership	5.00%	7.61%
Fixed income		
Domestic	21.00%	1.61%
International	5.00%	1.81%
Cash	0.00%	0.00%
	Total	
	100.00%	
Weighted average		4.97%

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

Discount Rate

The discount rate used to measure the TPL was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2016 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity Analysis

The following presents the Net Pension Liability (NPL) of the City, calculated using the discount rate of 7.75%, as well as what the City's NPL would be if it were calculated using a discount rate that is 1% point lower (6.75%) or 1% point higher (8.75%) than the current rate:

	1% Decrease in Discount Rate (6.75%)	Discount Rate (7.75%)	1% Increase in Discount Rate (8.75%)
City proportionate share of the net pension liability	\$ 827,296	\$ 488,653	\$ 272,885

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

At September 30, 2017, the City reported a liability of \$488,653 for its proportionate share of TESRS's NPL. This liability reflects a reduction for State pension support provided to the City.

The amount recognized by the City as its proportionate share of the NPL, the related State support, and the total portion of the NPL that was associated with the City were as follows:

City's proportionate share of the collective net pension liability	\$ 488,653
State's proportionate share that is associated with the City*	168,932
Total	\$ 657,585

**Calculated using the City's proportionate share of contributions multiplied by the State's share of the collective NPL.*

The TPL used to calculate the NPL was determined by an actuarial valuation as of August 31, 2016. GASB Statement No. 68 requires the NPL to be measured as of a date no earlier than the end of the employer's prior fiscal year. TESRS did not roll forward (nor did they provide the necessary information for the participants to roll forward) the NPL to be measured as of a date no earlier than the end of the City's prior fiscal year. While the City acknowledges that the measurement date does not fall within this 12-month period, the City elected to honor the conservatism principle and report a NPL measured as of August 31, 2016. The City used the assumption that any differences in the NPL measured as of August 31, 2016 versus September 30, 2016 would be immaterial. The employer's proportion of the NPL was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 through August 31, 2016.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

At August 31, 2016, the employer's proportion of the collective NPL was 1.678%, which was a decrease of 0.067% from its proportion as of August 31, 2015.

There were no changes of assumptions or other inputs that affected measurement of the TPL during the measurement period.

There were no changes of benefit terms that affected measurement of the TPL during the measurement period.

For the year ended September 31, 2017, the City recognized pension expense of \$76,101. The City recognized on-behalf revenues of \$26,570 calculated by taking the State's total contributions to TESRS multiplied by the City's proportionate share.

At September 30, 2017, the City reported its proportionate share of the TESRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ 92,528	\$ -
Changes in assumptions	10,406	-
Differences between expected and actual economic experience	756	-
Contributions paid to TESRS subsequent to the measurement date	70,100	-
Total	\$ 173,790	\$ -

The net amount of the City's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended September 30	Pension Expense
2018	\$ 27,124
2019	27,124
2020	42,933
2021	6,509
Total	\$ 103,690

D. Other Post Employment Benefits

TMRS – Supplemental Death Benefit Fund

Plan Description

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

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2017

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended September 30, 2017, the City offered the supplemental death benefit to both active and retired employees.

Contributions

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

The City's contributions to the TMRS SDBF for the fiscal years ended 2017, 2016, and 2015 were \$1,326, \$1,118, and \$876, respectively, which equaled the required contribution. The City's contribution rates for the past three years are shown below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual Req. Contrib. (Rate)	0.08%	0.07%	0.06%
Actual Contribution Made	0.08%	0.07%	0.06%
Percentage of ARC Contrib.	100.0%	100.0%	100.0%

E. Economic Development Agreement

On October 7, 2008 the Schulenburg Economic Development Corporation (the "Corporation") entered into an Economic Development Agreement (the "Agreement") with Blinn College (the "College") in accordance with Section 4-B (a-2) of the Economic Development Act (as supported by Texas Attorney General Opinion GA-0264). The Corporation agreed to allocate a total of 75 percent of all economic development sales tax revenues received annually for the College's campus projects and shall include all debt payments on the College's bonds to be paid annually by the Corporation. Additional College campus projects funded by the remainder of such 75 percent of annual economic development sales tax revenues shall be paid to the College as soon as such funds become available to the Corporation. The College agrees to use the funds only for projects authorized by State law and the language of the ballot approved by the voters. The College further agreed to file with the Corporation at the beginning of each contract term, or prior to the funding of a project, a written request that identifies the purpose for which funds from the Corporation shall be used. The term of the Agreement shall be for a period of one year from its effective dates, but shall renew automatically annually unless either party notifies the other within one year of the end of the current term that it desires to terminate, re-negotiate or otherwise modify any provision thereof. Either party may terminate the Agreement for any cause by providing the other party one year's written notice of its intent to do so.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF SCHULENBURG, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Property taxes	\$ 464,200	\$ 464,200	\$ 470,849	\$ 6,649
Sales taxes	840,000	840,000	543,499	(296,501)
Franchise taxes	70,000	70,000	80,000	10,000
Fines and court costs	160,030	160,030	97,811	(62,219)
Licenses and permits	45,000	45,000	35,507	(9,493)
Charges for services and merchandise	8,100	8,100	30,380	22,280
Donations and grant revenue	97,500	97,500	104,703	7,203
Interest earnings	1,600	1,600	22,341	20,741
Miscellaneous	63,750	63,750	85,703	21,953
Total Revenues	<u>1,750,180</u>	<u>1,750,180</u>	<u>1,470,793</u>	<u>(279,387)</u>
Expenditures				
General government:				
General body	243,450	243,450	158,496	84,954
Office management	453,975	473,975	470,124	3,851
Public safety:				
Fire department	227,700	227,700	129,884	97,816
Police department	921,400	921,400	890,421	30,979
Municipal court	73,400	53,400	42,848	10,552
Parks, recreation, and culture:				
Sports complex	186,350	179,050	173,485	5,565
Parks and recreation	162,050	192,850	198,855	(6,005) *
Swimming pool	27,850	27,850	23,662	4,188
Library	299,050	299,050	296,666	2,384
Civic center	32,850	32,850	23,147	9,703
Community center	9,000	9,000	6,297	2,703
City cemetery	89,700	89,700	80,331	9,369
Public works:				
Street department	905,200	881,700	604,500	277,200
Blinn College	281,000	281,000	1,000	280,000
Debt service:				
Interest	14,804	14,804	15,581	(777) *
Principal	104,000	104,000	148,778	(44,778) *
Total Expenditures	<u>4,031,779</u>	<u>4,031,779</u>	<u>3,264,075</u>	<u>767,704</u>
(Deficiency) of Revenues				
(Under) Expenditures	<u>(2,281,599)</u>	<u>(2,281,599)</u>	<u>(1,793,282)</u>	<u>488,317</u>
Other Financing Sources				
Transfers in	-	-	1,880,996	1,880,996
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>1,880,996</u>	<u>1,880,996</u>
Net Change in Fund Balance	<u>\$ (2,281,599)</u>	<u>\$ (2,281,599)</u>	<u>87,714</u>	<u>\$ 2,369,313</u>
Beginning fund balance			(83,646)	
Ending Fund Balance			<u>\$ 4,068</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. * Expenditures exceeded appropriations at the legal level of control.

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CITY OF SHULENBURG, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2017

	Measurement Year*		
	2014	2015	2016
Total Pension Liability			
Service cost	\$ 263,056	\$ 252,168	\$ 280,316
Interest (on the total pension liability)	820,921	858,360	854,698
Difference between expected and actual experience	115,917	(127,647)	202,611
Changes in assumptions	-	80,798	-
Benefit payments, including refunds of employee contributions	(659,072)	(660,166)	(695,503)
Net Change in Total Pension Liability	<u>540,822</u>	<u>403,513</u>	<u>642,122</u>
Beginning total pension liability	<u>11,925,457</u>	<u>12,466,279</u>	<u>12,869,792</u>
Ending Total Pension Liability	<u><u>\$ 12,466,279</u></u>	<u><u>\$ 12,869,792</u></u>	<u><u>\$ 13,511,914</u></u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 354,508	\$ 312,551	\$ 355,711
Contributions - employee	117,852	104,883	117,696
Net investment income	574,088	15,370	687,867
Benefit payments, including refunds of employee contributions	(659,072)	(660,166)	(695,503)
Administrative expense	(5,994)	(9,362)	(7,769)
Other	(493)	(462)	(419)
Net Change in Plan Fiduciary Net Position	<u>380,889</u>	<u>(237,187)</u>	<u>457,583</u>
Beginning plan fiduciary net position	<u>10,035,181</u>	<u>10,416,070</u>	<u>10,178,883</u>
Ending Plan Fiduciary Net Position	<u><u>\$ 10,416,070</u></u>	<u><u>\$ 10,178,883</u></u>	<u><u>\$ 10,636,466</u></u>
Net Pension Liability	<u><u>\$ 2,050,209</u></u>	<u><u>\$ 2,690,909</u></u>	<u><u>\$ 2,875,448</u></u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	84%	79.09%	78.72%
Covered Employee Payroll	\$ 1,683,601	\$ 1,498,327	\$ 1,647,946
Net Pension Liability as a Percentage of Covered Employee Payroll	121.78%	179.59%	174.49%

*Only three years of information is currently available. The City will build this schedule over the next seven-year period.

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CITY OF SCHULENBURG, TEXAS
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM OF TEXAS (TESRS)
For the Year Ended September 30, 2017

	Measurement Year*		
	2014	2015	2016
City's proportion of the net pension liability	1.544%	1.611%	1.678%
City's proportionate share of the net pension liability	\$ 280,801	\$ 430,091	\$ 488,653
State's proportionate share of the net pension liability	94,864	149,082	168,932
Total	\$ 375,665	\$ 579,173	\$ 657,585
Number of active members**	31	34	31
City's net pension liability per active member	\$ 9,058	\$ 12,650	\$ 15,665
Plan fiduciary net position as a percentage of the total pension liability	83.50%	76.90%	76.30%

*Only three years of information is currently available. The City will build this schedule over the next seven-year period.

**There is no compensation for active members. Number of active members is used instead.

Notes to Required Supplementary Information:

Defined Benefit Pension Plan

Changes in benefit terms

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

Changes in assumptions

There were no changes of assumptions or other input that affected measurement of the total pension liability during the measurement period.

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CITY OF SCHULENBURG, TEXAS

SCHEDULE OF CONTRIBUTIONS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2017

	Fiscal Year*			
	2014	2015	2016	2017
Actuarially determined contribution	\$ 355,817	\$ 323,632	\$ 351,092	\$ 380,247
Contributions in relation to the actuarially determined contribution	355,817	323,632	351,092	380,247
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
 Covered employee payroll	 \$ 1,676,756	 \$ 1,535,066	 \$ 1,655,659	 \$ 1,707,709
 Contributions as a percentage of covered employee payroll	 21.32%	 21.08%	 21.21%	 22.27%

*Only four years of information is currently available. The City will build this schedule over the next six-year period.

Notes to Required Supplementary Information:

1. Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 later

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	29 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	2.5%
Salary increases	3.50% to 10.5% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

3. Other Information:

There were no benefit changes during the year.

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CITY OF SCHULENBURG, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS)
For the Year Ended September 30, 2017

	Fiscal Year*			
	2014	2015	2016	2017
Contractually required contribution	\$ 70,312	\$ 76,109	\$ 70,000	\$ 70,100
Contributions in relation to the contractually required	70,312	76,109	70,000	70,100
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Number of Active members**	31	34	31	31
Contributions per active member	\$ 2,268	\$ 2,239	\$ 2,258	\$ 2,261

*Only four years of information is currently available. The City will build this schedule over the next six-year period.

**There is no compensation for active members. Number of active members is used instead.

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COMBINING STATEMENTS

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CITY OF SCHULENBURG, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

September 30, 2017

	Industrial Development Escrow	Hotel/Motel Occupancy Tax	Grant	Total Nonmajor Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 263,708	\$ 404,160	\$ 5,669	\$ 673,537
Receivables, net	-	54,623	-	54,623
Loans receivable	292,235	-	-	292,235
Total Assets	\$ 555,943	\$ 458,783	\$ 5,669	\$ 1,020,395
<u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 1,489	\$ -	\$ 1,489
Total Liabilities	-	1,489	-	1,489
<u>Fund Balances</u>				
Nonspendable	292,235	-	-	292,235
Restricted for:				
Industrial development	263,708	-	-	263,708
Enabling legislation	-	457,294	-	457,294
Grant activities	-	-	5,669	5,669
Total Fund Balances	555,943	457,294	5,669	1,018,906
Total Liabilities and Fund Balances	\$ 555,943	\$ 458,783	\$ 5,669	\$ 1,020,395

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

	<u>Industrial Development Escrow</u>	<u>Hotel/Motel Occupancy Tax</u>	<u>Grant</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues				
Hotel occupancy tax	\$ -	\$ 220,077	\$ -	\$ 220,077
Interest earnings	1,936	-	-	1,936
Miscellaneous	11,601	-	-	11,601
Total Revenues	<u>13,537</u>	<u>220,077</u>	<u>-</u>	<u>233,614</u>
Expenditures				
Public works:				
Tourism	-	145,139	-	145,139
Industrial development	1,725	-	-	1,725
Total Expenditures	<u>1,725</u>	<u>145,139</u>	<u>-</u>	<u>146,864</u>
Net Change in Fund Balances	<u>11,812</u>	<u>74,938</u>	<u>-</u>	<u>86,750</u>
Beginning fund balances	<u>544,131</u>	<u>382,356</u>	<u>5,669</u>	<u>932,156</u>
Ending Fund Balances	<u>\$ 555,943</u>	<u>\$ 457,294</u>	<u>\$ 5,669</u>	<u>\$ 1,018,906</u>

CITY OF SCHULENBURG, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

For the Year Ended September 30, 2017

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Garbage Utility</u>
<u>Operating Revenues</u>				
Licenses and permits	\$ 236	\$ -	\$ -	\$ -
Sales and services rendered	6,802,900	791,234	739,939	786,441
Customer penalties and connection charges	45,110	27,543	21,105	3,821
Other revenue	32,727	168	-	2,269
Total Operating Revenues	6,880,973	818,945	761,044	792,531
<u>Operating Expenses</u>				
Payroll costs	175,754	251,466	222,192	223,469
Professional services	8,744	29,851	48,724	69
Contracted services	4,010,832	17,703	47,872	23,145
Supplies and materials	330,748	296,471	216,740	85,327
Recurring operating expense	32,603	84,800	146,752	338,875
Depreciation expense	100,291	110,750	199,155	40,445
Miscellaneous expense	2,667	-	-	-
Total Operating Expenses	4,661,639	791,041	881,435	711,330
Operating Income (Loss)	2,219,334	27,904	(120,391)	81,201
<u>Nonoperating Revenues (Expenses)</u>				
Investment income	14,300	-	-	4,876
Interest expense	-	-	(78,830)	-
Total Nonoperating Revenues (Expenses)	14,300	-	(78,830)	4,876
Income (Loss) Before Transfers	2,233,634	27,904	(199,221)	86,077
Transfers (out)	(1,880,996)	-	-	-
Change in Net Position	\$ 352,638	\$ 27,904	\$ (199,221)	\$ 86,077

<u>Warehouse Department</u>	<u>Total Funds</u>
\$ -	\$ 236
-	9,120,514
-	97,579
-	35,164
-	9,253,493
61,681	934,562
-	87,388
3,010	4,102,562
19,032	948,318
22,728	625,758
13,511	464,152
-	2,667
119,962	7,165,407
(119,962)	2,088,086
-	19,176
-	(78,830)
-	(59,654)
(119,962)	2,028,432
-	(1,880,996)
\$ (119,962)	\$ 147,436

