

ANNUAL FINANCIAL REPORT

of the

CITY OF SCHULENBURG, TEXAS

For the Year Ended
September 30, 2018

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CITY OF SCHULENBURG, TEXAS

TABLE OF CONTENTS

September 30, 2018

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis (Required Supplementary Information)	5
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-Wide Financial Statements	
Statement of Net Position	14
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	33
Statement of Changes in Net Position – Fiduciary Funds	35
Notes to Financial Statements	37
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	72
Schedule of Changes in Net Pension Liability and Related Ratios – Texas Municipal Retirement System (TMRS)	75
Schedule of the City's Proportionate Share of the Net Pension Liability – Texas Emergency Services Retirement System (TESRS)	77
Schedule of Contributions – TMRS	78
Schedule of Contributions – TESRS	80
Schedule of Changes in the City's Total Other Postemployment Benefits (OPEB) Liability and Related Ratios - TMRS	83

CITY OF SCHULENBURG, TEXAS

TABLE OF CONTENTS

September 30, 2018

	<u>Page</u>
<u>COMBINING STATEMENTS</u>	
Combining Balance Sheet – Nonmajor Governmental Funds	87
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	89
Combining Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	90



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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2018, and the

respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

In 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of changes in net pension and total other postemployment benefit 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

August 22, 2019

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

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CITY OF SCHULENBURG, TEXAS

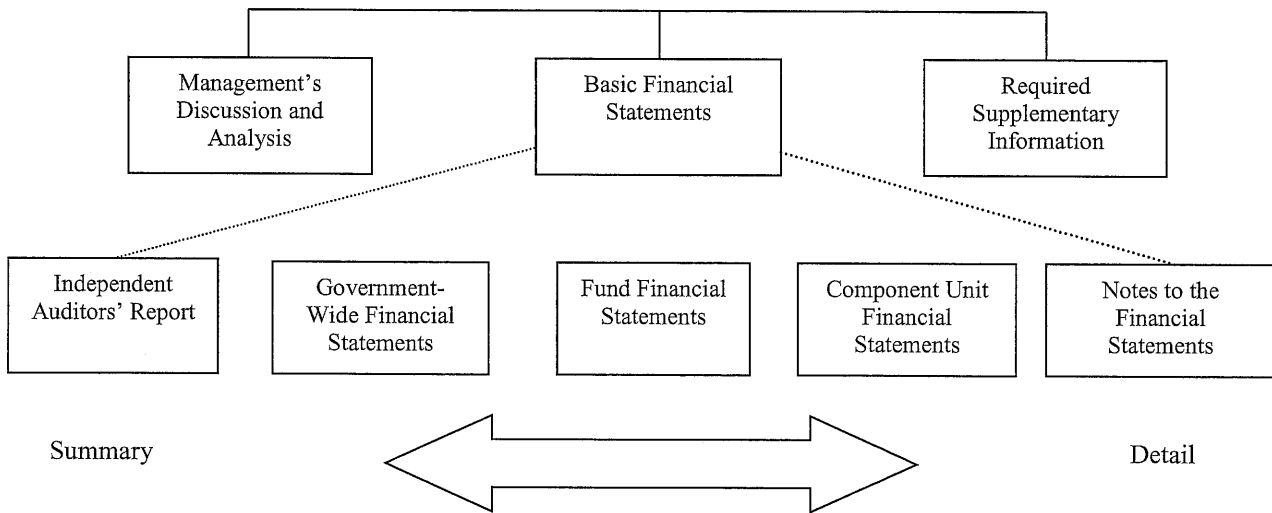
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2018

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, 2018. 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, 2018

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 fees, 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, 2018

Proprietary Funds

The City maintains one type of proprietary fund, an enterprise fund. 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 trust 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, schedules of changes in the net pension and total other postemployment benefit (OPEB) liability and related ratios, schedule of the City's proportionate share of the net pension liability, and the schedules of contributions for the City's pension plans. 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 \$18,053,672 as of year end. The largest portion of the City's net position (74%) 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, 2018

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	September 30, 2018			September 30, 2017		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities	Primary Government	Activities	Activities	Primary Government
Current and other assets	\$ 1,338,341	\$ 6,731,843	\$ 8,070,184	\$ 1,123,855	\$ 5,993,795	\$ 7,117,650
Capital assets, net	8,481,983	7,169,742	15,651,725	9,051,491	6,970,962	16,022,453
Total Assets	<u>9,820,324</u>	<u>13,901,585</u>	<u>23,721,909</u>	<u>10,175,346</u>	<u>12,964,757</u>	<u>23,140,103</u>
Deferred outflows - pensions	389,669	144,171	533,840	834,117	337,215	1,171,332
Deferred outflows - OPEB	5,970	3,071	9,041	697	354	1,051
Deferred charge on refunding	19,118	-	19,118	22,942	-	22,942
Total Deferred Outflows of Resources	<u>414,757</u>	<u>147,242</u>	<u>561,999</u>	<u>857,756</u>	<u>337,569</u>	<u>1,195,325</u>
Long-term liabilities	2,384,783	2,375,185	4,759,968	3,178,237	2,801,881	5,980,118
Other liabilities	125,588	904,807	1,030,395	90,889	769,289	860,178
Total Liabilities	<u>2,510,371</u>	<u>3,279,992</u>	<u>5,790,363</u>	<u>3,269,126</u>	<u>3,571,170</u>	<u>6,840,296</u>
Deferred inflows - pensions	281,887	157,986	439,873	45,906	21,101	67,007
Total Deferred Inflows of Resources	<u>281,887</u>	<u>157,986</u>	<u>439,873</u>	<u>45,906</u>	<u>21,101</u>	<u>67,007</u>
Net Position:						
Net investment in capital assets	7,945,101	5,499,742	13,444,843	8,411,433	5,180,962	13,592,395
Restricted	932,349	198,525	1,130,874	830,983	166,074	997,057
Unrestricted	(1,434,627)	4,912,582	3,477,955	(1,524,346)	4,363,019	2,838,673
Total Net Position	<u>\$ 7,442,823</u>	<u>\$ 10,610,849</u>	<u>\$ 18,053,672</u>	<u>\$ 7,718,070</u>	<u>\$ 9,710,055</u>	<u>\$ 17,428,125</u>

A portion of the primary government's net position, \$1,130,874, represents resources that are subject to external restriction on how they may be used.

The total assets are \$23,721,909, an increase of \$581,806 compared to prior year. The increase is mainly due to an increase in cash due to the increase in revenue in the utility fund and an increase in inventory. The total liabilities are \$5,790,363, a decrease of \$1,049,933 compared to prior year. The decrease is mainly due to the net pension liability decrease and principal payments on bonds. The total deferred outflows of resources are \$561,999, a decrease of \$633,326 compared to prior year. The total deferred inflows of resources are \$439,873, an increase of \$372,866 compared to prior year. The decrease in deferred outflows of resources and increase in deferred inflows of resources are due to investment earnings on pension plan assets.

CITY OF SCHULENBURG, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

Statement of Activities:

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

	For the Year Ended September 30, 2018			For the Year Ended September 30, 2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 240,004	\$ 9,789,297	\$ 10,029,301	\$ 232,237	\$ 9,218,329	\$ 9,450,566
Operating grants and contributions	180,294	-	180,294	141,382	-	141,382
General revenues:						
Property taxes	508,577	-	508,577	470,849	-	470,849
Sales taxes	530,985	-	530,985	543,499	-	543,499
Hotel taxes	199,799	-	199,799	220,077	-	220,077
Franchise fees	63,356	-	63,356	80,000	-	80,000
Investment income	61,293	23,509	84,802	24,277	19,176	43,453
Other revenue	16,504	44,947	61,451	(9,595)	35,164	25,569
Total Revenues	<u>1,800,812</u>	<u>9,857,753</u>	<u>11,658,565</u>	<u>1,702,726</u>	<u>9,272,669</u>	<u>10,975,395</u>
Expenses						
General government	647,857	-	647,857	604,316	-	604,316
Public safety	1,165,747	-	1,165,747	1,212,462	-	1,212,462
Parks, recreation, and culture	931,876	-	931,876	953,210	-	953,210
Public works	1,164,982	-	1,164,982	1,211,636	-	1,211,636
Interest and fees on long-term debt	15,667	73,922	89,589	18,046	78,830	96,876
Utilities	-	7,032,967	7,032,967	-	7,165,407	7,165,407
Total Expenses	<u>3,926,129</u>	<u>7,106,889</u>	<u>11,033,018</u>	<u>3,999,670</u>	<u>7,244,237</u>	<u>11,243,907</u>
Increase (Decrease) in Net Position						
Before Transfers	(2,125,317)	2,750,864	625,547	(2,296,944)	2,028,432	(268,512)
Transfers in (out)	1,850,070	(1,850,070)	-	1,880,996	(1,880,996)	-
Change in Net Position	(275,247)	900,794	625,547	(415,948)	147,436	(268,512)
Beginning net position	7,718,070	9,710,055	17,428,125	8,134,018	9,562,619	17,696,637
Ending Net Position	<u>\$ 7,442,823</u>	<u>\$ 10,610,849</u>	<u>\$ 18,053,672</u>	<u>\$ 7,718,070</u>	<u>\$ 9,710,055</u>	<u>\$ 17,428,125</u>

For the year, revenues from governmental activities totaled \$1,800,812, an increase of \$98,086 compared to the prior year. The increase in revenues was due to increases in operating grants and contributions, property taxes due to an increase in assessed values of properties, and an increase in investment earnings. Governmental expenses totaled \$3,926,129, a decrease of \$73,541 from the prior year mainly due to a decrease in public works and public safety expenses and the decrease in the net pension liability.

CITY OF SCHULENBURG, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

Revenues from business-type activities totaled \$9,857,753, an increase of \$585,084 compared to the prior year. The increase in revenues is largely due to the increases in customer consumption and certain rates. Expenses increased by \$137,348 from the prior year mainly due to an increase in personnel costs, wholesale electricity costs, disposal fees, and utility costs.

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 \$1,198,991, of which \$249,522 is nonspendable for loans receivable, \$318,125 is restricted for industrial development, \$608,555 is restricted for enabling legislation, and \$5,669 is restricted for grant activities.

There was an increase in the combined fund balance of \$176,017 from the prior year, primarily due to an increase in customer consumption, certain utility rates, and property tax revenue from the increase in the assessed values of properties.

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 \$131,617. The general fund's revenue increased by \$93,137 from the prior year mainly due to an increase in the assessed property values and citations issued during the year. The general fund expenditures increased by \$39,197 from the prior year mainly due to an increase in salaries due to the addition of a new payroll position.

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 \$355,237 during the year. This negative variance is mainly due to receiving less property tax, sales tax, and miscellaneous revenues than anticipated. General fund expenditures were under the budget by \$614,307. This was mainly due to positive variances for Blinn College, street department, fire department, and office management.

CITY OF SCHULENBURG, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

CAPITAL ASSETS

At the end of the year, the City's governmental and business-type activities had invested \$15,651,725 in a variety of capital assets (net of accumulated depreciation). This represents a net decrease of \$370,728. New major capital asset events during the current year include the following:

- Vehicle and body cameras for \$56,971
- Water well replacement for a total of \$70,416
- Supervisory Control and Data Acquisition (SCADA) System for a total of \$64,500
- Pole change outs for \$158,197
- Water and sewer improvements for \$256,740

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 \$2,226,000. Certificates of obligation accounted for \$1,670,000 and general obligation refunding bonds accounted for \$556,000.

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, 2019 was approved at \$0.1932 per \$100 assessed property value.

The projected revenue for the 2018-2019 fiscal year in the general fund is \$1,745,730. The projected expenditures for the general fund are \$3,885,818. The City plans to subsidize the general fund deficit with revenues from the utility fund. The projected revenue in the utility fund is \$9,582,138. The projected expenditures for the utility fund are \$7,707,900.

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 Walker, City Administrator/City Secretary, City Hall, 535 N. Main Street, P.O. Box 8, Schulenburg, Texas 78956; telephone 979-743-4126.

BASIC FINANCIAL STATEMENTS

CITY OF SCHULENBURG, TEXAS

STATEMENT OF NET POSITION (Page 1 of 2)

September 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	SEDC
Assets				
Cash and cash equivalents	\$ 944,352	\$ 3,072,818	\$ 4,017,170	\$ 474,898
Investments	-	1,695,000	1,695,000	124,484
Restricted cash and cash equivalents	-	205,010	205,010	-
Receivables (net of allowance for uncollectible)	57,239	1,159,221	1,216,460	-
Due from other governments	96,569	-	96,569	47,825
Due from primary government	-	-	-	25,946
Internal balances	(9,341)	9,341	-	-
Inventory	-	587,434	587,434	-
Other assets	-	3,019	3,019	-
Industrial loans receivable	249,522	-	249,522	112,072
Capital assets:				
Nondepreciable	329,022	462,693	791,715	-
Net depreciable capital assets	8,152,961	6,707,049	14,860,010	429,662
Total Assets	9,820,324	13,901,585	23,721,909	1,214,887
Deferred Outflows of Resources				
Deferred outflows - TMRS	276,322	144,171	420,493	-
Deferred outflows - TESRS	113,347	-	113,347	-
Deferred outflows - OPEB	5,970	3,071	9,041	-
Deferred charge on refunding	19,118	-	19,118	-
Total Deferred Outflows of Resources	414,757	147,242	561,999	-
Liabilities				
Accounts payable	120,635	573,825	694,460	51,776
Customer deposits payable	-	205,010	205,010	-
Payroll deductions payable	-	2,859	2,859	-
Due to state	-	15,808	15,808	-
Due to component unit	-	25,946	25,946	-
Due to fiduciary fund	-	46,247	46,247	-
Accrued interest	4,953	35,112	40,065	1,304
Total Current Liabilities	125,588	904,807	1,030,395	53,080
Noncurrent liabilities:				
Long-term liabilities due within one year	134,707	141,907	276,614	83,000
Long-term liabilities due in more than one year	2,250,076	2,233,278	4,483,354	438,000
Total Noncurrent Liabilities	2,384,783	2,375,185	4,759,968	521,000
Total Liabilities	2,510,371	3,279,992	5,790,363	574,080
Deferred Inflows of Resources				
Deferred inflows - TMRS	281,887	157,986	439,873	-
Total Deferred Inflows of Resources	281,887	157,986	439,873	-

CITY OF SCHULENBURG, TEXAS

STATEMENT OF NET POSITION (Page 2 of 2)

September 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	SEDC
<u>Net Position</u>				
Net investment in capital assets	7,945,101	5,499,742	13,444,843	(91,338)
Restricted for:				
Economic development	-	-	-	732,145
Industrial development	318,125	-	318,125	-
Enabling legislation	608,555	-	608,555	-
Grant activities	5,669	-	5,669	-
Debt service	-	198,525	198,525	-
Unrestricted	(1,434,627)	4,912,582	3,477,955	-
Total Net Position	\$ 7,442,823	\$ 10,610,849	\$ 18,053,672	\$ 640,807

See Notes to Financial Statements.

CITY OF SCHULENBURG, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 647,857	\$ 49,903	\$ -
Public safety	1,165,747	147,821	70,195
Parks, recreation, and culture	931,876	34,921	99,034
Public works	1,164,982	6,968	11,065
Interest and fees on long-term debt	15,667	391	-
Total Governmental Activities	3,926,129	240,004	180,294
Business-Type Activities			
Utilities	7,032,967	9,789,297	-
Interest and fees on long-term debt	73,922	-	-
Total Business-Type Activities	7,106,889	9,789,297	-
Total Primary Government	\$ 11,033,018	\$ 10,029,301	\$ 180,294
Component Unit			
Economic development	\$ 233,634	\$ -	\$ -
Interest and fees on long-term debt	11,900	-	-
Total Component Unit	\$ 245,534	\$ -	\$ -

General Revenues:

- Taxes
- Property taxes
- Sales taxes
- Hotel tax
- Franchise fees
- 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			
Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (597,954)	\$ -	\$ (597,954)	\$ -
(947,731)	-	(947,731)	-
(797,921)	-	(797,921)	-
(1,146,949)	-	(1,146,949)	-
(15,276)	-	(15,276)	-
<u>(3,505,831)</u>	<u>-</u>	<u>(3,505,831)</u>	<u>-</u>
-	2,756,330	2,756,330	-
-	(73,922)	(73,922)	-
-	2,682,408	2,682,408	-
<u>(3,505,831)</u>	<u>2,682,408</u>	<u>(823,423)</u>	<u>-</u>
-	-	-	(233,634)
-	-	-	(11,900)
-	-	-	(245,534)
508,577	-	508,577	-
530,985	-	530,985	267,187
199,799	-	199,799	-
63,356	-	63,356	-
61,293	23,509	84,802	7,457
16,504	44,947	61,451	-
1,850,070	(1,850,070)	-	-
<u>3,230,584</u>	<u>(1,781,614)</u>	<u>1,448,970</u>	<u>274,644</u>
(275,247)	900,794	625,547	29,110
<u>7,718,070</u>	<u>9,710,055</u>	<u>17,428,125</u>	<u>611,697</u>
<u>\$ 7,442,823</u>	<u>\$ 10,610,849</u>	<u>\$ 18,053,672</u>	<u>\$ 640,807</u>

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CITY OF SCHULENBURG, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2018

	General	Nonmajor Governmental	Total Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 164,504	\$ 779,848	\$ 944,352
Receivables, net	18,929	38,310	57,239
Due from state comptroller	96,569	-	96,569
Loans receivable	-	249,522	249,522
Total Assets	\$ 280,002	\$ 1,067,680	\$ 1,347,682
<u>Liabilities</u>			
Accounts payable	\$ 120,329	\$ 306	\$ 120,635
Due to other funds	9,341	-	9,341
Total Liabilities	129,670	306	129,976
<u>Deferred Inflows of Resources</u>			
Unavailable revenue - property taxes	18,715	-	18,715
<u>Fund Balances</u>			
Nonspendable	-	249,522	249,522
Restricted for:			
Industrial development	-	318,125	318,125
Enabling legislation	114,497	494,058	608,555
Grant activities	-	5,669	5,669
Unassigned	17,120	-	17,120
Total Fund Balances	131,617	1,067,374	1,198,991
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 280,002	\$ 1,067,680	\$ 1,347,682

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, 2018

Total fund balances – total governmental funds \$ 1,198,991

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	329,022
Capital assets – net depreciable	8,152,961

Changes in pension and other postemployment benefits (OPEB) 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 and OPEB activity that affect the City's net position are as follows:

Net pension liability - TMRS	(1,306,006)
Net pension liability - TESRS	(400,828)
Total OPEB liability - TMRS	(88,941)
Deferred outflows - TMRS	276,322
Deferred outflows - TESRS	113,347
Deferred outflows - OPEB	5,970
Deferred inflows - TMRS	(281,887)

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds. 18,715

Some liabilities, including bonds payable, OPEB liability and compensated absences, are not reported as liabilities in the governmental funds.

Deferred charge on refunding	19,118
Accrued interest payable	(4,953)
Noncurrent liabilities due in one year	(134,707)
Noncurrent liabilities due in more than one year	(454,301)

Net Position of Governmental Activities \$ 7,442,823

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, 2018

	General	Nonmajor Governmental	Total Governmental Funds
<u>Revenues</u>			
Property taxes	\$ 508,577	\$ -	\$ 508,577
Sales taxes	530,985	-	530,985
Hotel occupancy taxes	-	199,799	199,799
Franchise fees	63,356	-	63,356
Fines and court costs	155,744	-	155,744
Licenses and permits	46,815	-	46,815
Charges for services	12,059	-	12,059
Intergovernmental revenue	146,304	-	146,304
Interest earnings	56,318	4,975	61,293
Miscellaneous	39,885	6,729	46,614
Total Revenues	1,560,043	211,503	1,771,546
<u>Expenditures</u>			
General government:			
General body	264,388	-	264,388
Office management	358,064	-	358,064
Public safety:			
Fire department	127,246	-	127,246
Police department	980,880	-	980,880
Municipal court	38,806	-	38,806
Parks, recreation, and culture:			
Sports complex	185,553	-	185,553
Parks and recreation	191,460	-	191,460
Swimming pool	22,839	-	22,839
Library	316,028	-	316,028
Civic center	23,435	-	23,435
Community center	8,072	-	8,072
City cemetery	80,882	-	80,882
Public works:			
Street department	564,115	-	564,115
Tourism	-	163,035	163,035
Blinn College	1,000	-	1,000
Debt service:			
Principal	107,000	-	107,000
Interest	12,796	-	12,796
Total Expenditures	3,282,564	163,035	3,445,599
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,722,521)	48,468	(1,674,053)
<u>Other Financing Sources</u>			
Transfers in	1,850,070	-	1,850,070
Total Other Financing Sources	1,850,070	-	1,850,070
Net Change in Fund Balances	127,549	48,468	176,017
Beginning fund balances	4,068	1,018,906	1,022,974
Ending Fund Balances	\$ 131,617	\$ 1,067,374	\$ 1,198,991

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, 2018

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

Net changes in fund balances - total governmental funds	\$	176,017
<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		111,833
Depreciation		(681,341)
<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		2,817
<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. The net position liability and total other postemployment benefits (OPEB) liability and deferred outflows and deferred inflows related to the net pension liability and total OPEB liability are not reported in the governmental funds.</p>		
Principal payment on debt		107,000
Amortization of deferred charges		(3,824)
Deferred outflows - TMRS		(384,005)
Deferred outflows - TESRS		(60,443)
Deferred outflows - OPEB		5,273
Deferred inflows - TMRS		(235,981)
Net pension liability - TMRS		613,316
Net pension liability - TESRS		87,825
Total OPEB liability - TMRS		(12,199)
Change in compensated absences		(2,488)
Accrued interest		953
Change in Net Position of Governmental Activities	\$	<u>(275,247)</u>

See Notes to Financial Statements.

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CITY OF SCHULENBURG, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2018

	<u>Business-Type Activities</u>
	<u>Utility</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 3,072,818
Investments	1,695,000
Restricted cash and cash equivalents	205,010
Receivables, net	1,159,221
Due from other funds	9,341
Inventory	587,434
Other assets	3,019
Total Current Assets	<u>6,731,843</u>
Noncurrent Assets	
Capital assets:	
Nondepreciable	462,693
Depreciable capital assets	23,433,677
Less: accumulated depreciation	<u>(16,726,628)</u>
Total Capital Assets, Net of Accumulated	<u>7,169,742</u>
Total Noncurrent Assets	<u>7,169,742</u>
Total Assets	<u>13,901,585</u>
Deferred Outflows of Resources	
Deferred outflows - pension	144,171
Deferred outflows - OPEB	3,071
Total Deferred Outflows of Resources	<u>147,242</u>
Liabilities	
Current Liabilities	
Accounts payable	573,825
Accrued interest payable	35,112
Payroll deduction payable	2,859
Customer deposits	205,010
Due to state	15,808
Due to other units	46,247
Due to component unit	25,946
Total Current Liabilities	<u>904,807</u>
Noncurrent liabilities	
Long-term debt due within one year	141,907
Long-term debt due more than one year	2,233,278
Total Noncurrent Liabilities	<u>2,375,185</u>
Total Liabilities	<u>3,279,992</u>
Deferred Inflows of Resources	
Deferred inflows - pension	157,986
Net Position	
Net investment in capital assets	5,499,742
Restricted for debt service	198,525
Unrestricted	4,912,582
Total Net Position	<u>\$ 10,610,849</u>

See Notes to Financial Statements.

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

For the Year Ended September 30, 2018

	Business-Type Activities
	Utility
<u>Operating Revenues</u>	
Charges for services	\$ 9,698,489
Penalties and interest	90,783
License and permits	25
Other revenue	44,947
Total Operating Revenues	9,834,244
 <u>Operating Expenses</u>	
Payroll costs	977,036
Professional services	140,329
Contracted services	4,270,116
Supplies and materials	461,928
Recurring operating expense	692,628
Depreciation expense	488,965
Miscellaneous expense	1,965
Total Operating Expenses	7,032,967
Operating Income	2,801,277
 <u>Nonoperating Revenues (Expenses)</u>	
Investment income	23,509
Interest expense	(73,922)
Total Nonoperating (Expenses)	(50,413)
Income Before Transfers	2,750,864
Transfers (out)	(1,850,070)
Change in Net Position	900,794
Beginning net position	9,710,055
Ending Net Position	\$ 10,610,849

See Notes to Financial Statements.

CITY OF SCHULENBURG, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 1 of 2)

For the Year Ended September 30, 2018

	<u>Business-Type Activities</u>
	<u>Utility</u>
<u>Cash Flows from Operating Activities</u>	
Cash received for services	\$ 9,820,583
Cash paid for salaries and wages	(962,795)
Inventory decreased	(137,903)
Cash payments for inventory	(5,431,448)
Net Cash Provided by Operating Activities	<u>3,288,437</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfer to other funds	(1,850,070)
Net Cash (Used) by Noncapital Financing Activities	<u>(1,850,070)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition and construction of capital assets	(687,745)
Principal paid on revenue bonds	(120,000)
Interest paid on revenue bonds and capital leases	(73,922)
Net Cash (Used) by Capital and Related Financing Activities	<u>(881,667)</u>
<u>Cash Flows from Investing Activities</u>	
Interest on investments	23,509
Net Cash Provided by Investing Activities	<u>23,509</u>
Net Increase in Cash and Cash Equivalents	<u>580,209</u>
Beginning cash and cash equivalents	<u>2,697,619</u>
Ending Cash and Cash Equivalents	<u>\$ 3,277,828</u>
Ending Cash and Cash Equivalents	
Unrestricted cash and cash equivalents	\$ 3,072,818
Restricted cash and cash equivalents	205,010
	<u>\$ 3,277,828</u>

CITY OF SCHULENBURG, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 2 of 2) For the Year Ended September 30, 2018

	<u>Business-Type Activities</u> <u>Utility</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 2,801,277
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	488,965
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Current Assets:	
Accounts receivable	(13,661)
Inventory	(144,178)
Deferred outflows - pension	193,044
Deferred outflows - OPEB	(3,071)
Increase (Decrease) in Current Liabilities:	
Customer deposits	9,424
Deferred inflows - pension	136,885
Accounts payable and accrued liabilities	125,023
Compensated absences	2,866
Net pension liability	(315,483)
Total OPEB liability	6,275
Amount due to state	1,071
Net Cash Provided by Operating Activities	<u><u>\$ 3,288,437</u></u>

See Notes to Financial Statements.

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CITY OF SCHULENBURG, TEXAS

STATEMENT OF NET POSITION

FIDUCIARY FUNDS

September 30, 2018

	<u>Library Trust</u>	<u>Fire Protection</u>	<u>Perpetual Care Cemetery Trust</u>	<u>Total Fiduciary Funds</u>
Assets:				
Cash and cash equivalents	\$ 260	\$ 307,671	\$ 102,885	\$ 410,816
Investments	22,097	-	175,000	197,097
Accounts receivable	-	2,860	-	2,860
Due from other units	-	42,266	3,981	46,247
Total Assets	\$ 22,357	\$ 352,797	\$ 281,866	\$ 657,020
Net Position:				
Held in trust	\$ 22,357	\$ 352,797	\$ 281,866	\$ 657,020
Total Net Position	\$ 22,357	\$ 352,797	\$ 281,866	\$ 657,020

See Notes to Financial Statements.

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CITY OF SCHULENBURG, TEXAS

STATEMENT OF CHANGES IN NET POSITION

FIDUCIARY FUNDS

For the Year Ended September 30, 2018

	<u>Library Trust</u>	<u>Fire Protection</u>	<u>Perpetual Care Cemetery Trust</u>	<u>Total Fiduciary Funds</u>
Additions				
Public donations	\$ -	\$ 29,781	\$ 5,825	\$ 35,606
Interest earned	262	708	2,348	3,318
Total Revenues	<u>262</u>	<u>30,489</u>	<u>8,173</u>	<u>38,924</u>
Change in Net Position	262	30,489	8,173	38,924
Beginning net position	<u>22,095</u>	<u>322,308</u>	<u>273,693</u>	<u>618,096</u>
Ending Net Position	<u>\$ 22,357</u>	<u>\$ 352,797</u>	<u>\$ 281,866</u>	<u>\$ 657,020</u>

See Notes to Financial Statements.

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CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

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 other nonexchange transactions, are reported separately from *business-type activities*, which rely to

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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 taxes and franchise fees, 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, 2018

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, 2018

Property taxes, sales taxes, franchise fees, 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 pool operates in accordance with appropriate state laws and regulations and is 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, 2018

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. A deferred charge has been recognized for the changes in actuarial assumptions related to the City's defined benefit pension and OPEB plans. These amounts are deferred and amortized over the average of the expected service lives of pension and OPEB plan members. Deferred outflows of resources are recognized for the difference between the projected and actual investment earnings related to the pension plan for TESRS. This amount is deferred and amortized over a period of five years. Deferred outflows of resources are recognized for the differences between the actuarial expectations and the actual economic experience related to the pension plan for TESRS and the City's defined benefit pension plan. This amount is deferred and

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

amortized over the average of the expected service lives of pension plan members. A deferred charge has been recognized for employer pension and OPEB plans contributions that were made subsequent to the measurement date through the end of the City's fiscal year. These amounts are deferred and recognized as a reduction to the net pension and total OPEB 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 two items 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. Deferred inflows 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. 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.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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.

14. Other Postemployment Benefits

The City participates in a single-employer, unfunded, 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 funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. Benefit payments are treated as being equal to the employer's yearly contributions for retirees. Benefit payments and refunds are due and payable in accordance with the benefit terms. Information about the City's total other postemployment benefits (OPEB) liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense is provided by TMRS from reports prepared by their consulting actuary.

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.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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.

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		
General government:		
General body	\$	26,238
Parks, recreation, and culture:		
Sports complex	\$	2,603
Parks and recreation	\$	10,735
Library	\$	12,828

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2018, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
TexPool	\$ 444,081	0.00
Certificates of deposit	1,891,839	0.25
Total Investments	\$ 2,335,920	
Portfolio Weighted Average Maturity		0.21

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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, 2018, 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.

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, TexPool 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.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

B. Receivables

The following comprises receivable balances at year end:

	Nonmajor		
	General	Governmental	Enterprise
Property taxes	\$ 23,110	\$ -	\$ -
Sales taxes	95,650	-	-
Hotel taxes	-	38,310	-
Other taxes	1,133	-	-
Utilities	-	-	1,335,555
Allowance	(4,395)	-	(176,334)
	\$ 115,498	\$ 38,310	\$ 1,159,221

Long-Term Receivables

The loans receivable of \$249,522 for the City and \$112,070 for the SEDC 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.

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
2019	\$ 43,895	\$ 6,789	\$ 25,099	\$ 2,667
2020	45,108	5,574	9,591	2,065
2021	41,402	4,078	9,834	1,822
2022	27,495	3,393	10,083	1,574
2023	28,307	2,581	10,337	1,319
2024-2028	63,315	4,324	25,652	4,348
2029-2033	-	-	21,476	1,046
Total	\$ 249,522	\$ 26,739	\$ 112,072	\$ 14,841

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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
Construction in process	-	6,720	-	6,720
Total capital assets not being depreciated	322,302	6,720	-	329,022
Other capital assets:				
Building	6,263,442	28,012	-	6,291,454
Machinery and equipment	717,838	77,101	-	794,939
Vehicles	2,384,806	-	-	2,384,806
Infrastructure	13,059,095	-	-	13,059,095
Total other capital assets	22,425,181	105,113	-	22,530,294
Less accumulated depreciation for:				
Building	(3,619,798)	(128,132)	-	(3,747,930)
Machinery and equipment	(539,581)	(34,387)	-	(573,968)
Vehicles	(2,047,535)	(83,519)	-	(2,131,054)
Infrastructure	(7,489,078)	(435,303)	-	(7,924,381)
Total accumulated depreciation	(13,695,992)	(681,341)	-	(14,377,333)
Other capital assets, net	8,729,189	(576,228)	-	8,152,961
Governmental Activities				
Capital Assets, Net	\$ 9,051,491	\$ (569,508)	\$ -	8,481,983
			Less associated debt	(556,000)
			Plus deferred charge on refunding	19,118
			Net Investment in Capital Assets	\$ 7,945,101

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

Depreciation was charged to governmental functions as follows:

General government:		
General body	\$	28,164
Building inspector		496
Public safety:		
Fire department		33,815
Police department		36,980
Parks, recreation, and culture:		
Sports complex		29,906
Parks and recreation		66,956
Swimming pool		273
Library		4,621
Civic center		9,848
Community center		2,203
City cemetery		785
Public works:		
Street department		467,294
Total Governmental-Type Activities Depreciation Expense	\$	681,341

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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

	<u>Beginning</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending</u>
Business-Type Activities:	Balance	Increases	(Decreases)	Balance
Capital assets not being depreciated:				
Land	\$ 205,953	\$ -	\$ -	\$ 205,953
Construction in progress	133,850	296,190	(173,300)	256,740
Total capital assets not being depreciated	<u>339,803</u>	<u>296,190</u>	<u>(173,300)</u>	<u>462,693</u>
Other capital assets:				
Building	1,046,944	6,685	-	1,053,629
Machinery and equipment	2,678,211	314,454	-	2,992,665
Furniture and fixtures	133,819	-	-	133,819
Utility system	19,009,848	243,716	-	19,253,564
Total other capital assets	<u>22,868,822</u>	<u>564,855</u>	<u>-</u>	<u>23,433,677</u>
Less accumulated depreciation for:				
Building	(612,306)	(23,888)	-	(636,194)
Machinery and equipment	(2,144,682)	(142,342)	-	(2,287,024)
Furniture and fixtures	(133,819)	(88)	-	(133,907)
Utility system	(13,346,856)	(322,647)	-	(13,669,503)
Total accumulated depreciation	<u>(16,237,663)</u>	<u>(488,965)</u>	<u>-</u>	<u>(16,726,628)</u>
Other capital assets, net	<u>6,631,159</u>	<u>75,890</u>	<u>-</u>	<u>6,707,049</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 6,970,962</u>	<u>\$ 372,080</u>	<u>\$ (173,300)</u>	<u>7,169,742</u>
			Less associated debt	(1,670,000)
			Net Investment in Capital Assets	<u>\$ 5,499,742</u>

Depreciation was charged to business-type functions as follows:

Electric	\$ 107,648
Water	129,951
Sewer	197,410
Warehouse	13,511
Garbage	40,445
Total Business-Type Activities Depreciation Expense	<u>\$ 488,965</u>

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

The following is a summary of changes in capital assets for the SEDC 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	(787,717)	(71,611)	-	(859,328)
Component Unit Capital Assets, Net	\$ 501,273	\$ (71,611)	\$ -	429,662
			Less associated debt	(521,000)
			Net Investment in Capital Assets	\$ (91,338)

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	\$ 663,000	\$ -	\$ (107,000)	\$ 556,000 *	\$ 105,000
Other liabilities:					
Compensated absences	30,520	56,147	(53,659)	33,008	29,707
Net pension liability - TMRS	1,919,322	-	(613,316)	1,306,006	-
Net pension liability - TESRS	488,653	-	(87,825)	400,828	-
Total OPEB liability - TMRS	76,742	12,199	-	88,941	-
Total Governmental Activities	\$ 3,178,237	\$ 68,346	\$ (773,975)	\$ 2,384,783	\$ 134,707
				Long-term liabilities due in more than one year	\$ 2,250,076
				* Debt associated with governmental capital assets	\$ 556,000

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-Type Activities:					
Bonds payable:					
Certificates of obligation	\$ 1,790,000	\$ -	\$ (120,000)	\$ 1,670,000	* \$ 125,000
Other liabilities:					
Compensated absences	15,920	24,238	(21,372)	18,786	16,907
Net pension liability	956,126	-	(315,483)	640,643	-
Total OPEB liability - TMRS	39,481	6,275	-	45,756	-
Total Business-Type Activities	<u>\$ 4,591,527</u>	<u>\$ 30,513</u>	<u>\$ (456,855)</u>	<u>\$ 2,375,185</u>	<u>\$ 141,907</u>

Long-term liabilities due in more than one year \$ 2,233,278

* Debt associated with business-type capital assets \$ 1,670,000

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Component Unit:					
Sales tax revenue bonds	\$ 601,000	\$ -	\$ (80,000)	\$ 521,000	* \$ 83,000
Total Component Unit	<u>\$ 601,000</u>	<u>\$ -</u>	<u>\$ (80,000)</u>	<u>\$ 521,000</u>	<u>\$ 83,000</u>

Long-term liabilities due in more than one year \$ 438,000

* Debt associated with component unit capital assets \$ 521,000

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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

Description	Interest Rates	Balance
Governmental Activities		
General Obligation Refunding Bonds		
Series 2012	1.93%	\$ 556,000
Total Governmental Activities Long-Term Debt		\$ 556,000
 Business-Type Activities		
Tax and Combined Utility System Surplus		
Revenue Certificates of Obligation Series 2011	4.25%	\$ 1,670,000
Total Business-Type Activities Long-Term Debt		\$ 1,670,000
 Component Unit		
Sales Tax Revenue Refunding Bonds, Series 2012	1.98%	\$ 521,000
Total Component Unit Long-Term Debt		\$ 521,000

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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
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	\$ 556,000	\$ 32,887	\$ 588,887

Fiscal Year Ended Sept. 30	Business-Type Activities Long-Term Debt		
	Certificates of Obligation		
	Principal	Interest	Total
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	145,000	51,638	196,638
2024-2028	815,000	162,245	977,245
2029	185,000	7,863	192,863
Total	\$ 1,670,000	\$ 484,078	\$ 2,154,078

Fiscal Year Ended Sept. 30	Component Unit Long-Term Debt		
	Sales Tax Revenue Bonds		
	Principal	Interest	Total
2019	\$ 83,000	\$ 10,316	\$ 93,316
2020	86,000	8,672	94,672
2021	88,000	6,970	94,970
2022	86,000	5,227	91,227
2023	88,000	3,524	91,524
2024	90,000	1,782	91,782
Total	\$ 521,000	\$ 36,491	\$ 557,491

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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
	Total	\$ 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:

Transfers Out	Transfers In	Amount
Utility	General	\$ 1,850,070
		\$ 1,850,070

Amounts transferred between funds related to amounts collected by the utility fund for various governmental expenditures.

F. Fund Equity

As of September 30, 2018, \$608,555 of the City's total fund balance is restricted by enabling legislation.

G. Prior Period Adjustment

Beginning net position for governmental and business-type activities was restated to recognize an OPEB liability for the implementation of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75).

Beginning net position was restated as follows:

	Governmental Activities	Business-Type Activities
Beginning net position - as reported	\$ 7,794,115	\$ 9,749,536
Change in total OPEB liability	(76,742)	(39,835)
Deferred outflows - contributions after measurement date	697	354
Beginning net position - as restated	\$ 7,718,070	\$ 9,710,055

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

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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 Plans

1. Texas Municipal Retirement System

Plan Description

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by 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.

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.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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:

	2018	2017
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, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	26
Inactive employees entitled to, but not yet receiving, benefits	19
Active employees	37
Total	82

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% and 22.07% in calendar years 2017 and 2018 respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2018 were \$388,897, which were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

Actuarial Assumptions

The TPL in the December 31, 2017 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.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and annuity purchase rate are based on the mortality experience investigation study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the EAN actuarial cost method and a one-time change to the amortization policy. 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, 2018

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

Assets Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
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%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	5.00%	7.50%
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

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Changes for the year:			
Service cost	\$ 288,289	\$ -	\$ 288,289
Interest	901,737	-	901,737
Difference between expected and actual experience	(148,001)	-	(148,001)
Contributions - employer	-	385,296	(385,296)
Contributions - employee	-	119,551	(119,551)
Net investment income	-	1,474,004	(1,474,004)
Benefit payments, including refunds of employee contributions	(593,978)	(593,978)	-
Administrative expense	-	(7,640)	7,640
Other changes	-	(387)	387
Net Changes	448,047	1,376,846	(928,799)
Balance at December 31, 2016	13,511,914	10,636,466	2,875,448
Balance at December 31, 2017	\$ 13,959,961	\$ 12,013,312	\$ 1,946,649

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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	\$ 3,841,622	\$ 1,946,649	\$ 390,159

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, 2018, the City recognized net pension expense of \$410,013.

At September 30, 2018, 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	\$ 99,592	\$ 145,740
Changes in actuarial assumptions	23,222	-
Net difference between projected and actual investment earnings	-	294,133
Contributions subsequent to the measurement date	297,679	-
Total	\$ 420,493	\$ 439,873

\$297,679 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, 2019.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended 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	Pension
September 30	Expense
2019	\$ 30,494
2020	(13,820)
2021	(182,526)
2022	(151,207)
Thereafter	-
Total	\$ (317,059)

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 TESRS and established and administered by the State of Texas (the "State") to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2017, there were 235 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, 2017, the pension system membership consisted of:

Retirees and beneficiaries currently receiving benefits	3,104
Terminated members entitled to benefits but not yet receiving them	2,208
Active participants (vested and nonvested)	4,046

Pension Plan Fiduciary Net Position

Detailed information about the TESRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and Required Supplementary Information. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and Required Supplementary Information, which can be obtained at www.tesrs.org. The separately issued actuarial valuations that 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 percentage increasing ten percent for each of the next five years of service so that a member becomes 100 percent vested with 15 years of service.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percentage multiplied by six 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 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% of the Part One contributions beginning September 1, 2017.

Additional contributions may be made by governing bodies within two years of joining TESRS to grant up to ten 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 has a different contribution arrangement that 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.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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, 2017, total contributions (dues, prior service, and interest on prior service financing) of \$70,100 were paid by the City. The State appropriated \$1,583,825 for the fiscal year ending August 31, 2017 to the plan as a whole.

Actuarial Assumptions

The TPL in the August 31, 2017 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 2024 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 4.97%) and by adding expected inflation (3.00%). In addition, the final 7.75% assumption reflected a reduction of 0.22% for adverse deviation.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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	
	<u>100.00%</u>	
Weighted average		4.97%

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 TPL.

Discount Rate Sensitivity Analysis

The following presents the 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's proportionate share of the net pension liability	\$ 823,549	\$ 400,828	\$ 271,649

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

At September 30, 2018, the City reported a liability of \$400,828 for its proportionate share of TESRS's NPL. This liability reflects a reduction for State pension support provided to the City.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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	\$	400,828
State's proportionate share that is associated with the City*		131,256
Total	\$	<u>532,084</u>

**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, 2017. The City used the assumption that any differences in the NPL measured as of August 31, 2017 versus September 30, 2017 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, 2016 through August 31, 2017.

At August 31, 2017, the employer's proportion of the collective NPL was 1.670%, which was a decrease 0.008% of from its proportion measured as of August 31, 2016.

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 30, 2018, the City recognized pension expense of \$84,103. The City recognized on-behalf revenues of \$26,450 calculated by taking the State's total contributions to TESRS multiplied by the City's proportionate share.

At September 30, 2018, 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
Net difference between projected and actual investment earnings	\$	37,379
Changes in assumptions		5,855
Differences between expected and actual economic experience		425
Contributions paid to TESRS subsequent to the measurement date		69,688
Total	\$	<u>113,347</u>

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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:

<u>Years Ended</u> <u>September 30</u>	<u>Pension</u> <u>Expense</u>
2019	\$ 18,861
2020	34,598
2021	(1,661)
2022	(8,140)
Total	\$ 43,659

D. Other Postemployment Benefits

TMRS - Supplemental Death Benefit

Plan Description

The City participates in an OPEB plan administered by TMRS. TMRS administers the defined benefit group-term life insurance plan known as the SDBF. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The member city contributes to the SDBF at a contractually required rate (based on the covered payroll of employee members) 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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75. As such, the SDBF is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contributions for retirees.

The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The TMRS Act requires the PTF to allocate a 5% interest credit from investment income to the SDBF on an annual basis each December 31 based on the mean balance in the SDBF during the year.

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated).

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

Participation in the SDBF as of December 31, 2017 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	20
Inactive employees entitled to, but not yet receiving, benefits	3
Active employees	37
Total	<u><u>60</u></u>

Total OPEB Liability

The City's total OPEB liability of \$134,697 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Discount rate*	3.31%
Retirees' share of benefit-related costs	Zero
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB Statement No. 68.
Mortality - service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality - disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

Changes in the Total OPEB Liability

		<u>Total OPEB Liability</u>
Changes for the year:		
Service cost	\$	4,440
Interest		4,491
Changes of benefit terms		-
Difference between expected and actual experience		-
Changes of assumptions		9,867
Benefit payments*		(1,366)
	Net Changes	<u>17,432</u>
Balance at December 31, 2016		<u>117,265</u>
	Balance at December 31, 2017	<u><u>\$ 134,697</u></u>

* Benefit payments are treated as being equal to the employer's yearly contribution for retirees due to the SDBF being considered an unfunded OPEB plan under GASB 75.

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

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

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	<u>1% Decrease (2.31%)</u>	<u>Discount Rate (3.31%)</u>	<u>1% Increase (4.31%)</u>
City's Total OPEB Liability \$	<u>159,821</u>	<u>\$ 134,697</u>	<u>\$ 114,857</u>

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$10,836. The City reported deferred outflows of resources related to OPEB from the following sources:

		<u>Deferred Outflows of Resources</u>
Changes in actuarial assumptions	\$	7,962
Contributions subsequent to the measurement date		1,079
Total		<u><u>\$ 9,041</u></u>

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

\$1,079 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2019.

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ended September 30	OPEB Expense Amount
2019	\$ 1,905
2020	1,905
2021	1,905
2022	1,905
2023	342
Thereafter	-
Total	\$ 7,962

E. Economic Development Agreement

On October 7, 2008, the Schulenburg Economic Development Corporation (the “SEDC”) 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 SEDC 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 SEDC. 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 SEDC. 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 SEDC 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 SEDC 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.

F. Subsequent Event – Cash Defeasance

On October 15, 2018, the City authorized the advance refunding of the Series 2011 Certificates of Obligation in the amount of \$1,670,000. The City will contribute \$1,778,365 from utility fund investments to an escrow agent. As a result, the City will no longer recognize the contributed investments as assets of the City and the Series 2011 Certificates of Obligation will be considered defeased.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SCHULENBURG, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (Page 1 of 2)

GENERAL FUND

For the Year Ended September 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Property taxes	\$ 554,500	\$ 554,500	\$ 508,577	\$ (45,923)
Sales taxes	825,000	825,000	530,985	(294,015)
Franchise fees	70,000	70,000	63,356	(6,644)
Fines and court costs	160,030	160,030	155,744	(4,286)
Licenses and permits	45,000	45,000	46,815	1,815
Charges for services and merchandise	9,700	9,700	12,059	2,359
Donations and grant revenue	137,500	137,500	146,304	8,804
Interest earnings	2,100	2,100	56,318	54,218
Miscellaneous	111,450	111,450	39,885	(71,565)
Total Revenues	<u>1,915,280</u>	<u>1,915,280</u>	<u>1,560,043</u>	<u>(355,237)</u>
Expenditures				
Current:				
General government:				
General body	238,150	238,150	264,388	(26,238) *
Office management	407,600	407,600	358,064	49,536
Public safety:				
Fire department	201,300	201,300	127,246	74,054
Police department	988,100	988,100	980,880	7,220
Municipal court	71,600	71,600	38,806	32,794
Parks, recreation, and culture:				
Sports complex	182,950	182,950	185,553	(2,603) *
Parks and recreation	180,725	180,725	191,460	(10,735) *
Swimming pool	27,000	27,000	22,839	4,161
Library	303,200	303,200	316,028	(12,828) *
Civic center	32,850	32,850	23,435	9,415
Community center	8,400	8,400	8,072	328
City cemetery	94,900	94,900	80,882	14,018
Public works:				
Street department	764,300	764,300	564,115	200,185
Blinn College	276,000	276,000	1,000	275,000
Debt service:				
Interest	12,796	12,796	12,796	-
Principal	107,000	107,000	107,000	-
Total Expenditures	<u>3,896,871</u>	<u>3,896,871</u>	<u>3,282,564</u>	<u>614,307</u>
(Deficiency) of Revenues				
(Under) Expenditures	<u>(1,981,591)</u>	<u>(1,981,591)</u>	<u>(1,722,521)</u>	<u>259,070</u>

CITY OF SCHULENBURG, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (Page 2 of 2)
GENERAL FUND

For the Year Ended September 30, 2018

Other Financing Sources

Transfers in	\$ -	\$ -	\$ 1,850,070	\$ 1,850,070
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>1,850,070</u>	<u>1,850,070</u>
Net Change in Fund Balance	<u>\$ (1,981,591)</u>	<u>\$ (1,981,591)</u>	127,549	<u>\$ 2,109,140</u>
Beginning fund balance			<u>4,068</u>	
Ending Fund Balance			<u>\$ 131,617</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, 2018

	Measurement Year*			
	2014	2015	2016	2017
Total Pension Liability				
Service cost	\$ 263,056	\$ 252,168	\$ 280,316	\$ 288,289
Interest (on the total pension liability)	820,921	858,360	854,698	901,737
Difference between expected and actual experience	115,917	(127,647)	202,611	(148,001)
Changes in assumptions	-	80,798	-	-
Benefit payments, including refunds of employee contributions	(659,072)	(660,166)	(695,503)	(593,978)
Net Change in Total Pension Liability	<u>540,822</u>	<u>403,513</u>	<u>642,122</u>	<u>448,047</u>
Beginning total pension liability	<u>11,925,457</u>	<u>12,466,279</u>	<u>12,869,792</u>	<u>13,511,914</u>
Ending Total Pension Liability	<u>\$ 12,466,279</u>	<u>\$ 12,869,792</u>	<u>\$ 13,511,914</u>	<u>\$ 13,959,961</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 354,508	\$ 312,551	\$ 355,711	\$ 385,296
Contributions - employee	117,852	104,883	117,696	119,551
Net investment income	574,088	15,370	687,867	1,474,004
Benefit payments, including refunds of employee contributions	(659,072)	(660,166)	(695,503)	(593,978)
Administrative expense	(5,994)	(9,362)	(7,769)	(7,640)
Other	(493)	(462)	(419)	(387)
Net Change in Plan Fiduciary Net Position	<u>380,889</u>	<u>(237,187)</u>	<u>457,583</u>	<u>1,376,846</u>
Beginning plan fiduciary net position	<u>10,035,181</u>	<u>10,416,070</u>	<u>10,178,883</u>	<u>10,636,466</u>
Ending Plan Fiduciary Net Position	<u>\$ 10,416,070</u>	<u>\$ 10,178,883</u>	<u>\$ 10,636,466</u>	<u>\$ 12,013,312</u>
Net Pension Liability	<u>\$ 2,050,209</u>	<u>\$ 2,690,909</u>	<u>\$ 2,875,448</u>	<u>\$ 1,946,649</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability				
	84%	79.09%	78.72%	86.06%
Covered Payroll	\$ 1,683,601	\$ 1,498,327	\$ 1,647,946	\$ 1,707,873
Net Pension Liability as a Percentage of Covered Payroll	121.78%	179.59%	174.49%	113.98%

*Only four years of information is currently available. The City will build this schedule over the next six-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 (TESRS)
For the Year Ended September 30, 2018

	Measurement Year*			
	2014	2015	2016	2017
City's proportion of the net pension liability	1.544%	1.611%	1.678%	1.670%
City's proportionate share of the net pension liability	\$ 280,801	\$ 430,091	\$ 488,653	\$ 400,828
State's proportionate share of the net pension liability	94,864	149,082	168,932	131,256
Total	\$ 375,665	\$ 579,173	\$ 657,585	\$ 532,084
Number of active members**	31	34	31	31
City's net pension liability per active member	\$ 9,058	\$ 12,650	\$ 15,665	\$ 12,930
Plan fiduciary net position as a percentage of the total pension liability	83.50%	76.90%	76.30%	81.40%

*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.

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.

CITY OF SCHULENBURG, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM (Page 1 of 2)
For the Year Ended September 30, 2018

	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)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered payroll	 <u>\$ 1,676,756</u>	 <u>\$ 1,535,066</u>	 <u>\$ 1,655,659</u>	 <u>\$ 1,707,709</u>
 Contributions as a percentage of covered payroll	 21.32%	 21.08%	 21.21%	 22.27%

*Only five years of information is currently available. The City will build this schedule over the next five-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 months 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	28 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.

CITY OF SCHULENBURG, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM (Page 2 of 2)
For the Year Ended September 30, 2018

<u>Fiscal Year*</u>	
<u>2018</u>	
\$	388,897
	<u>388,897</u>
\$	<u>-</u>
\$	<u>1,753,130</u>

22.18%

CITY OF SCHULENBURG, TEXAS

SCHEDULE OF CONTRIBUTIONS

TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS) (Page 1 of 2)

For the Year Ended September 30, 2018

	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)	\$ -	\$ -	\$ -	\$ -
Number of active members**	31	34	31	31
Contributions per active member	\$ 2,268	\$ 2,239	\$ 2,258	\$ 2,261

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

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

CITY OF SCHULENBURG, TEXAS

SCHEDULE OF CONTRIBUTIONS

TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS) (Page 2 of 2)

For the Year Ended September 30, 2018

<u>Fiscal Year*</u>	
<u>2018</u>	
\$	69,688
	<u>69,688</u>
\$	<u>-</u>
	35
\$	1,991

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CITY OF SCHULENBURG, TEXAS

SCHEDULE OF CHANGES IN THE CITY'S TOTAL OPEB LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2018

	Measurement Year*
	2017
Total OPEB Liability	
Service cost	\$ 4,440
Interest (on the total OPEB liability)	4,491
Change of assumptions	9,867
Benefit payments**	(1,366)
Net Change in Total OPEB Liability	17,432
Beginning total OPEB liability	117,265
Ending Total OPEB Liability	\$ 134,697
Covered Payroll	\$ 1,707,873
Total OPEB Liability as a Percentage of Covered Payroll	7.89%

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

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

Notes to Required Supplementary Information:

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Inflation	2.5%
Salary increases	3.50% to 10.5% including inflation
Discount rate	3.31%
Administrative expenses	All administrative expenses are paid through the Pension Trust Fund and accounted for under reporting requirements under GASB Statement No. 68.
Mortality - service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality - disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Other Information:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits.

The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

Changes in assumptions is the annual change in the municipal bond index rate.

There were no benefit changes during the year.

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COMBINING STATEMENTS

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CITY OF SCHULENBURG, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

September 30, 2018

	Industrial Development Escrow	Hotel/Motel Occupancy Tax	Grant	Total Nonmajor Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 318,125	\$ 456,054	\$ 5,669	\$ 779,848
Receivables, net	-	38,310	-	38,310
Loans receivable	249,522	-	-	249,522
Total Assets	\$ 567,647	\$ 494,364	\$ 5,669	\$ 1,067,680
<u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 306	\$ -	\$ 306
Total Liabilities	-	306	-	306
<u>Fund Balances</u>				
Nonspendable	249,522	-	-	249,522
Restricted for:				
Industrial development	318,125	-	-	318,125
Enabling legislation	-	494,058	-	494,058
Grant activities	-	-	5,669	5,669
Total Fund Balances	567,647	494,058	5,669	1,067,374
Total Liabilities and Fund Balances	\$ 567,647	\$ 494,364	\$ 5,669	\$ 1,067,680

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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, 2018

	<u>Industrial Development Escrow</u>	<u>Hotel/Motel Occupancy Tax</u>	<u>Grant</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues				
Hotel occupancy tax	\$ -	\$ 199,799	\$ -	\$ 199,799
Interest earnings	4,975	-	-	4,975
Miscellaneous	6,729	-	-	6,729
Total Revenues	<u>11,704</u>	<u>199,799</u>	<u>-</u>	<u>211,503</u>
Expenditures				
Public works:				
Tourism	-	163,035	-	163,035
Total Expenditures	<u>-</u>	<u>163,035</u>	<u>-</u>	<u>163,035</u>
Net Change in Fund Balances	<u>11,704</u>	<u>36,764</u>	<u>-</u>	<u>48,468</u>
Beginning fund balances	<u>555,943</u>	<u>457,294</u>	<u>5,669</u>	<u>1,018,906</u>
Ending Fund Balances	<u><u>\$ 567,647</u></u>	<u><u>\$ 494,058</u></u>	<u><u>\$ 5,669</u></u>	<u><u>\$ 1,067,374</u></u>

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

For the Year Ended September 30, 2018

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Garbage Utility</u>
<u>Operating Revenues</u>				
Licenses and permits	\$ 25	\$ -	\$ -	\$ -
Sales and services rendered	6,917,593	787,934	1,091,546	901,416
Customer penalties and connection charges	47,745	18,391	20,079	4,568
Other revenue	38,469	864	5,369	245
Total Operating Revenues	<u>7,003,832</u>	<u>807,189</u>	<u>1,116,994</u>	<u>906,229</u>
<u>Operating Expenses</u>				
Payroll costs	180,141	254,217	236,490	225,824
Professional services	24,636	61,637	54,056	-
Contracted services	4,198,010	23,998	39,508	6,978
Supplies and materials	127,091	130,052	129,909	55,026
Recurring operating expense	44,659	86,846	194,460	344,979
Depreciation expense	107,648	129,951	197,410	40,445
Miscellaneous expense	1,965	-	-	-
Total Operating Expenses	<u>4,684,150</u>	<u>686,701</u>	<u>851,833</u>	<u>673,252</u>
Operating Income (Loss)	<u>2,319,682</u>	<u>120,488</u>	<u>265,161</u>	<u>232,977</u>
<u>Nonoperating Revenues (Expenses)</u>				
Investment income	18,066	-	-	5,443
Interest expense	-	-	(73,922)	-
Total Nonoperating Revenues (Expenses)	<u>18,066</u>	<u>-</u>	<u>(73,922)</u>	<u>5,443</u>
Income (Loss) Before Transfers	<u>2,337,748</u>	<u>120,488</u>	<u>191,239</u>	<u>238,420</u>
Transfers (out)	<u>(1,850,070)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>\$ 487,678</u>	<u>\$ 120,488</u>	<u>\$ 191,239</u>	<u>\$ 238,420</u>

See Notes to Financial Statements.

<u>Warehouse Department</u>	<u>Total Funds</u>
\$ -	\$ 25
-	9,698,489
-	90,783
-	44,947
-	9,834,244
80,364	977,036
-	140,329
1,622	4,270,116
19,850	461,928
21,684	692,628
13,511	488,965
-	1,965
137,031	7,032,967
(137,031)	2,801,277
-	23,509
-	(73,922)
-	(50,413)
(137,031)	2,750,864
-	(1,850,070)
\$ (137,031)	\$ 900,794

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