



Comprehensive Annual Financial Report

**For the Fiscal Year Ended
September 30, 2018**

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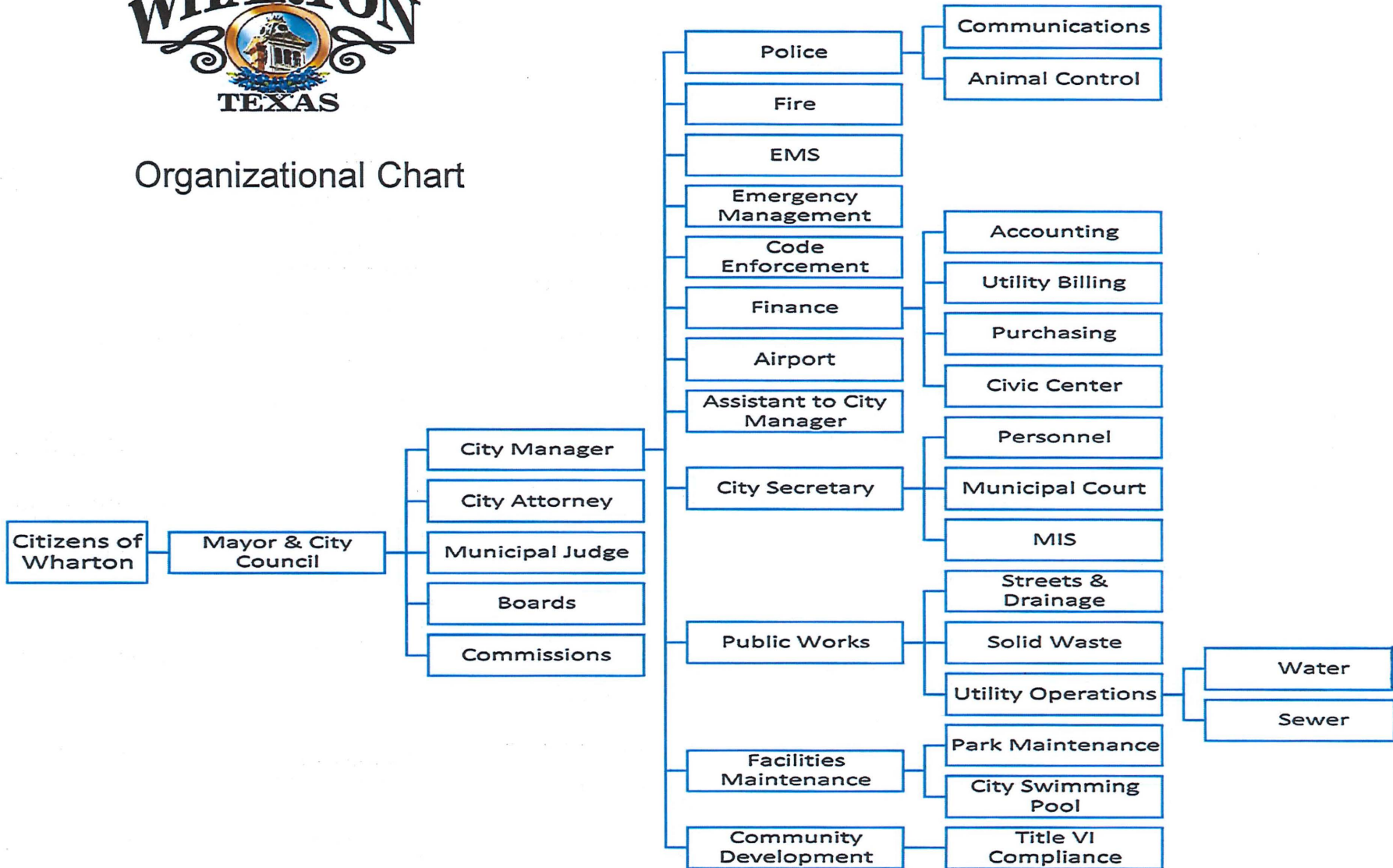
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INTRODUCTORY SECTION



Organizational Chart



Elected Officials

Tim Barker	Mayor
Alfred Bryant	Council Member District 1
Steven Schneider	Council Member District 2
Terry Freese	Council Member District 3
Donald Mueller	Council Member District 4
Russell Machann	Council Member At Large Place 5
Alice Heard-Roberts	Council Member At Large Place 6

Appointed Officials

Andres Garza, Jr.	City Manager
Paul Webb	City Attorney
John Murrile	Municipal Judge
Joan Andel, CPA	Finance Director

Department Heads

Paula Favors	City Secretary
Terry Lynch	Police Chief
Anthony Abbott	Volunteer Fire Chief
Ronnie Bollom	Building Official
Wade Wendt	Public Works Director
John Kowalik	E.M.S. Director
Robert Baker	Facilities Maintenance Director
Makyla Monroe	Community Services Director
Stephen Johnson	Emergency Management Coordinator

FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS
101 S. MAIN, SUITE 400
VICTORIA, TEXAS 77901-8142

STEPHEN W. VAN MANEN, CPA
DENNIS C. CIHAL, CPA
ERIC L. KUCERA, CPA
CLAYTON P. VAN PELT, CPA
ROBERT W. SCHAAR, CPA
MELISSA M. TERRY, CPA

VOICE: (361) 573-3255
FAX: (361) 573-9531

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members
of the City Council
City of Wharton, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Wharton, 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 the accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Wharton Economic Development Corporation were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization'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.

The Honorable Mayor and Members
of the City Council
City of Wharton, Texas

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 aggregate 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

As discussed in Note 16 to the financial statements, in 2018 the City adopted new accounting guidance from Governmental Accounting Standards Board Statement No. 75 related to accounting for other post employment benefit plans. This resulted in a restatement of prior year balances. 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 liability and related ratios, schedule of changes in total OPEB liability and related ratios, and the schedules of employer contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements.

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

The Honorable Mayor and Members
of the City Council
City of Wharton, Texas

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Harrison, Waldrop & Uherek, LLP". The signature is written in a cursive, flowing style.

HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants

November 14, 2019

The discussion and analysis of the City of Wharton's (the "City") financial performance provides an overview of the City's financial activities for the year ended September 30, 2018. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter and the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the fiscal year ended September 30, 2018, by \$21,884,550. Of this amount, \$293,192 of unrestricted net position is available to meet the City's ongoing obligations to citizens and creditors.
- The total cost of all City activities was \$15,842,517 for the fiscal year. The net expense was \$5,767,613.
- During the year, the City's general revenues exceeded net expenses of the governmental activities by \$523,762. This represents a 9% increase in net position from the previous fiscal year as a result of operations.
- At September 30, 2018, the City's governmental funds reported combined ending fund balances of \$5,105,485, a net increase of \$905,356 in comparison with prior year. The net increase in fund balance was mainly due to the increase in the industrial district fee, the decrease in loss reported in the Disaster Relief Fund compared to prior year, and the 2017 tax notes proceeds received during fiscal year 2018.
- At September 30, 2018, unassigned fund balance for the General Fund was \$1,460,523 or 23% of total General Fund expenditures.
- The City's outstanding debt for governmental and business-type activities had a net decrease of \$1,309,563, or 6%, from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of the following components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Organization and Flow of Financial Section Information

Independent Auditors' Report

Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.

Management's Discussion and Analysis

This supplementary information is required for state and local government financial statements and is intended to provide a narrative introduction and analysis.

Pages 4 to 16

Government-wide Financial Statements

Provides information on governmental and business-type activities of the primary government.

Pages 17 to 20

Fund Financial Statements

Provides information on the financial position of specific funds of the primary governments.

Pages 21 to 34

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

Pages 35 to 73

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Government-wide Financial Statements

The government-wide financial statements, which consist of the following two statements, are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two 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.

The *statement of activities* presents information showing how the City's net position changed during fiscal year 2018. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected and earned, but unused vacation leave).

Both of these financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, cultural and recreation, and interest on long-term debt. The business-type activities of the City include water and wastewater services, solid waste disposal, emergency medical services, civic center, and airport operations. The government-wide financial statements can be found immediately following the Management's Discussion and Analysis.

The government-wide financial statements include not only the City itself (known as the primary government) but also the component unit, Wharton Economic Development Corporation (WEDC). The component unit is not included as part of the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary 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 available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to facilitate this comparison between governmental funds and governmental activities.

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Fund Financial Statements - (Continued)

The City maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining and individual statements and schedules following the required supplementary information.

The City adopts an annual appropriated budget for its General and Debt Service Funds. Budgetary comparison schedules have been provided for these funds to demonstrate compliance.

The basic governmental fund financial statements may be found immediately following the government-wide financial statements.

The City maintains one type of *proprietary fund* known as enterprise funds which 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 the fiscal activities relating to water and wastewater services, solid waste disposal, emergency medical services, civic center operations, and airport operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and wastewater services, solid waste disposal, emergency medical services, civic center operations, and airport operations which are all considered to be major funds.

The basic proprietary fund financial statements follow the governmental fund financial statements.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 35 through 73 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, required supplementary information is included which presents a budgetary comparison schedule for the City's General Fund and historical pension and OPEB benefits information. Required supplementary information can be found on pages 74 through 81 of this report.

The combining and individual fund statements and schedules referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 82 through 98 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$21,884,550 at the close of the fiscal year ended September 30, 2018.

At the end of fiscal year 2018, the City is able to report positive balances in all three categories of net position for the government as a whole.

City of Wharton, Texas						
Net Position						
	Governmental Activities		Business-type Activities		Total	
	2018	2017*	2018	2017*	2018	2017*
Current assets	\$ 5,614,481	\$ 5,535,639	\$ 2,275,038	\$ 2,374,900	\$ 7,889,519	\$ 7,910,539
Capital assets (net)	14,269,157	14,470,555	21,401,475	21,701,144	35,670,632	36,171,699
Other noncurrent assets	430,000	430,000	(430,000)	(430,000)	-	-
Total assets	20,313,638	20,436,194	23,246,513	23,646,044	43,560,151	44,082,238
Total deferred out- flows of resources	270,402	646,035	129,002	367,944	399,404	1,013,979
Current and other liabilities	1,495,288	1,869,947	1,475,719	1,517,515	2,971,007	3,387,462
Noncurrent liabilities	10,796,980	11,682,097	7,761,173	8,547,944	18,558,153	20,230,041
Total liabilities	12,292,268	13,552,044	9,236,892	10,065,459	21,529,160	23,617,503
Total deferred in- flows of resources	318,614	80,789	227,231	16,762	545,845	97,551
Net Position:						
Net investment						
in capital assets	6,021,228	5,849,449	14,992,726	15,009,120	21,013,954	20,858,569
Restricted	577,404	626,562	-	-	577,404	626,562
Unrestricted	1,374,526	973,385	(1,081,334)	(1,077,353)	293,192	(103,968)
Total net position	\$ 7,973,158	\$ 7,449,396	\$ 13,911,392	\$ 13,931,767	\$ 21,884,550	\$ 21,381,163

*2017 net position has been restated. See Note 16 of this report.

The largest portion of the City's net position (96%) reflects its investment in capital assets (e.g., land, buildings, streets, and equipment), less any related outstanding debt used to acquire those assets. 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 capital assets themselves cannot be used to liquidate these liabilities.

The City has restricted net position of \$577,404 for debt service and for special projects related to public safety and culture and recreation. The remaining balance of \$293,192 may be used to meet the government's ongoing obligations to citizens and creditors.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

City of Wharton, Texas						
Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	2018	2017*	2018	2017*	2018	2017*
REVENUES						
Program revenues:						
Charges for services	\$ 467,417	\$ 477,459	\$ 6,658,707	\$ 6,287,178	\$ 7,126,124	\$ 6,764,637
Operating grants and contributions	886,952	606,537	1,584,219	1,451,379	2,471,171	2,057,916
Capital grants and contributions	402,609	887,238	75,000	216,716	477,609	1,103,954
General revenues:						
Property taxes	1,920,441	1,905,008	-	-	1,920,441	1,905,008
Sales taxes	1,416,116	1,283,407	-	-	1,416,116	1,283,407
Franchise taxes	1,107,947	1,122,792	-	-	1,107,947	1,122,792
Other taxes	376,852	279,726	-	-	376,852	279,726
Unrestricted investment earnings	26,188	20,409	7,189	4,154	33,377	24,563
Industrial district payment	1,276,673	1,059,353	-	-	1,276,673	1,059,353
Miscellaneous	139,594	104,429	-	-	139,594	104,429
Total revenues	8,020,789	7,746,358	8,325,115	7,959,427	16,345,904	15,705,785
EXPENSES						
General government	1,883,507	1,538,531	-	-	1,883,507	1,538,531
Public safety	3,926,999	3,999,508	-	-	3,926,999	3,999,508
Public works	1,716,963	1,877,799	-	-	1,716,963	1,877,799
Cultural and recreation	281,150	260,815	-	-	281,150	260,815
Interest on long-term debt	416,720	391,646	-	-	416,720	391,646
Water and sewer	-	-	3,239,252	2,989,213	3,239,252	2,989,213
Solid waste	-	-	1,445,264	1,498,067	1,445,264	1,498,067
Emergency medical services	-	-	2,313,208	2,260,933	2,313,208	2,260,933
Civic center	-	-	268,924	263,521	268,924	263,521
Airport	-	-	350,530	319,099	350,530	319,099
Total expenses	8,225,339	8,068,299	7,617,178	7,330,833	15,842,517	15,399,132
Change in net position before transfers	(204,550)	(321,941)	707,937	628,594	503,387	306,653
Transfers	728,312	803,748	(728,312)	(803,748)	-	-
Change in net position	523,762	481,807	(20,375)	(175,154)	503,387	306,653
Net position - October 1, as restated	7,449,396	6,967,589	13,931,767	14,106,921	21,381,163	21,074,510
Net position - September 30	\$ 7,973,158	\$ 7,449,396	\$ 13,911,392	\$ 13,931,767	\$ 21,884,550	\$ 21,381,163

*2017 net position has been restated. See Note 16 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Governmental activities increased the City's net position by \$523,762 which was mainly due to the increase in the industrial district payment and sales tax revenues from the prior year as well as the decrease in public works expenses. There was a net decrease of \$20,375 in net position reported in connection with the City's business-type activities. This decrease is mainly due to the increase in expenses from the prior year. Overall, there was a \$503,387 increase in the net position of the City.

Governmental Activities

Governmental activities increased the City's net position by \$523,762. Key elements of this increase are as follows:

- General government expenses increased \$344,976 or 22% from prior year.
- Operating and capital grants and contributions decreased by \$204,214 or 14% from prior year.
- Sales tax revenues increased \$132,709 or 10% from prior year.
- Industrial district payment increased \$217,320 or 21% from prior year.
- Public works expenses decreased by \$160,836 or 9% from prior year.

City of Wharton, Texas**Expenses and Program Revenues - Governmental Activities**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>% of Total</u>	<u>Revenues</u>	<u>% of Total</u>	<u>Net (Expense) Revenue</u>
General government	\$ 1,883,507	22.90%	\$ 1,053,606	59.97%	\$ (829,901)
Public safety	3,926,999	47.74%	213,938	12.18%	(3,713,061)
Public works	1,716,963	20.87%	479,953	27.32%	(1,237,010)
Cultural and recreation	281,150	3.42%	9,481	0.54%	(271,669)
Interest on long-term debt	416,720	5.08%	-	0.00%	(416,720)
Total	<u>\$ 8,225,339</u>	<u>100.00%</u>	<u>\$ 1,756,978</u>	<u>100.00%</u>	<u>\$ (6,468,361)</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Governmental Activities - (Continued)

City of Wharton, Texas

Revenues by Source - Governmental Activities

Description	Revenues	% of Total
Charges for services	\$ 467,417	5.35%
Operating grants and contributions	886,952	10.14%
Capital grants and contributions	402,609	4.60%
Property taxes	1,920,441	21.95%
Sales taxes	1,416,116	16.19%
Franchise taxes	1,107,947	12.66%
Other taxes	376,852	4.31%
Unrestricted investment earnings	26,188	0.30%
Industrial district payment	1,276,673	14.59%
Miscellaneous	139,594	1.60%
Transfers	<u>728,312</u>	<u>8.32%</u>
	<u>\$ 8,749,101</u>	<u>100.00%</u>

Business-type Activities

Business-type activities decreased the City's net position by \$20,375. Key elements of this decrease are as follows:

- Charges for services increased \$371,529 or 6% from the prior year.
- Water and sewer expenses increased \$250,039 or 8% from the prior year.
- Net transfers to other funds decreased \$75,436 or 9% from the prior year.

City of Wharton, Texas

Expenses and Program Revenues - Business-type Activities

Functions/Programs	Expenses	% of Total	Revenues	% of Total	Net (Expense) Revenue
Water and sewer	\$ 3,239,252	42.53%	\$ 4,145,147	49.83%	\$ 905,895
Solid waste	1,445,264	18.97%	1,465,834	17.62%	20,570
Emergency medical services	2,313,208	30.37%	2,332,982	28.05%	19,774
Civic center	268,924	3.53%	91,518	1.10%	(177,406)
Airport	<u>350,530</u>	<u>4.60%</u>	<u>282,445</u>	<u>3.40%</u>	<u>(68,085)</u>
Total	<u>\$ 7,617,178</u>	<u>100.00%</u>	<u>\$ 8,317,926</u>	<u>100.00%</u>	<u>\$ 700,748</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**Business-type Activities - (Continued)**

City of Wharton, Texas

Revenues by Source - Business-type Activities

<u>Description</u>	<u>Revenues</u>	<u>% of Total</u>
Charges for services	\$ 6,658,707	87.65%
Operating grants and contributions	1,584,219	20.85%
Capital grants and contributions	75,000	0.99%
Unrestricted investment earnings	7,189	0.09%
Transfers	<u>(728,312)</u>	<u>-9.59%</u>
	<u>\$ 7,596,803</u>	<u>100.00%</u>

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate 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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of fiscal year 2018, the City's governmental funds reported combined ending fund balances of \$5,105,485, an increase of \$857,736 in comparison with prior year. The net increase in fund balance was mainly due to the receipt of 2017 tax note proceeds, the increase in the industrial district fee, and the decrease in net loss recognized in the Disaster Relief Fund compared to prior year. The General Fund ended the fiscal year with an increase of \$269,979, the Debt Service Fund had a decrease of \$57,052, and the 2011 Bond Construction Fund decreased \$142,481.

The General Fund is the chief operating fund of the City. At the end of fiscal year 2018, unassigned fund balance of the General Fund was \$1,460,523, while total fund balance was \$1,919,630. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 23% of the total General Fund expenditures, while total fund balance represents 30% of that same amount.

The fund balance of the City's General Fund increased \$269,979 during the current fiscal year. These factors included a \$217,320 increase in the industrial district fee, a \$187,061 increase in intergovernmental revenue, and a \$200,409 decrease in capital outlay. As explained above, the 2011 Bond Construction Fund experienced decreases in fund balance during fiscal year 2018, which was due to the spending of the bond proceeds on capital projects.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS - (Continued)

Proprietary Funds

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

Unrestricted net position of proprietary funds at the end of the year amounted to:

<u>Fund</u>	<u>Unrestricted Net Position</u>
Water and sewer	\$ (1,218,687)
Solid waste	78,755
Emergency medical services	(70,816)
Civic center	64,813
Airport	64,601
	<u>\$ (1,081,334)</u>

This represents a decrease of \$3,981 from the prior year unrestricted net position balances, as restated. Other factors concerning the finances of these funds have been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the General Fund's original budget and final amended budget were a net increase of \$0 to revenues and to expenditures. A few of the changes are briefly summarized as follows:

- An increase of \$82,000 in taxes.
- An increase of \$23,000 in licenses and permits.
- A decrease of \$258,000 in industrial district payment.
- An increase of \$75,000 in interest and miscellaneous.
- An increase of \$135,889 in intergovernmental.
- A decrease of \$11,575 in mayor and council which consisted of a decrease in operational expenses.
- An increase of \$15,370 in city manager which consisted of an increase in personnel and benefits of \$17,270, a decrease in operational expenses of \$1,900.
- An increase of \$22,000 in legal and professional which consisted of an increase in professional fees of \$20,000 and an increase in contracted legal services of \$2,000.
- An increase of \$8,665 in municipal court which consisted of an increase in personnel and benefits of \$3,665 an increase in operational expenses of \$5,000.
- An increase of \$56,503 in central services which consisted of a decrease in personnel and benefits of \$28,497, an increase in building and equipment maintenance of \$70,000, and an increase of operational expenses of \$15,000.
- An increase of \$51,135 in police which consisted of an increase in personnel and benefits of \$47,135, a decrease of supplies of \$2,600, a decrease in building and equipment maintenance of \$1,300, and an increase in operational expenses of \$7,900.
- A decrease of \$62,406 in fire which consisted of a decrease in personnel and benefits of \$85,371, a decrease of \$1,900 in supplies, a increase in building and equipment maintenance of \$20,665, and an increase of \$4,200 in operational expenses .

GENERAL FUND BUDGETARY HIGHLIGHTS - (Continued)

- A decrease of \$38,705 in code enforcement which consisted of a decrease in personnel and benefits of \$34,635, a decrease in supplies of \$2,900, a decrease in operational expenses of \$1,170.
- A decrease of \$13,709 in emergency management which consisted of a decrease in personnel and benefits of \$2,116, a decrease in supplies of \$1,593, a decrease in operational expenses of \$10,000.
- A decrease of \$100,267 in communications which consisted of a decrease in personnel and benefits of \$94,767, a decrease in supplies of \$3,300, a decrease in equipment maintenance of \$50, and a decrease in operational expenses of \$2,150.
- An decrease of \$57,601 in streets and drainage which consisted of a decrease in personnel and benefits of \$36,551, an increase in supplies of \$4,150, a decrease in building and equipment maintenance of \$48,700, an increase operational expenses of \$23,500.
- A decrease of \$15,060 in garage which consisted of an increase in personnel and benefits of \$3,540, a decrease in supplies of \$6,200 , a decrease in building and equipment maintenance of \$10,300, and a decrease in operational expenses of \$2,100.
- A decrease of \$20,326 in facilities maintenance which consisted of a decrease in personnel and benefits of \$25,751, an increase in supplies of \$100, an increase in building and equipment maintenance of \$3,875 and an increase in operational expenses of \$1,450,
- An increase of \$36,250 in recreation, which consists of an increase in parks operational maintenance.
- An increase of \$104,165 in grants for grant expenditures.
- A decrease of \$7,900 in lease payments.
- An increase of \$80,650 in capital outlay for additional equipment and capital improvement program.

For fiscal year 2018, the General Fund's revenues were \$45,580 more than the final budget and expenditures were \$231,638 less than the final budget. There was one significant variance between the General Fund's actual revenues and expenditures compared to the final budget, which was capital outlay expenditures were less than budget by \$147,168. Additional budget information can be found in the General Fund budget comparison schedule on page 74.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2018, amounts to \$35,670,632 (net of accumulated depreciation). This investment in capital assets includes land, machinery and equipment, buildings, infrastructure, and water and wastewater distribution system. The total net decrease in the City's investment in capital assets for the current fiscal year was 1.4% (a 1.4% decrease for governmental activities and a 1.4% decrease for business-type activities).

City of Wharton, Texas

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 1,173,285	\$ 1,173,285	\$ 319,093	\$ 319,093	\$ 1,492,378	\$ 1,492,378
Construction in progress	262,155	262,155	393,518	607,831	655,673	869,986
Machinery and equipment	2,203,976	2,346,791	1,127,227	1,165,190	3,331,203	3,511,981
Land improvements	-	-	997,156	1,020,233	997,156	1,020,233
Bldgs. and improvements	2,816,239	2,797,863	4,666,096	4,764,821	7,482,335	7,562,684
Infrastructure	7,813,502	7,890,461	-	-	7,813,502	7,890,461
Water and sewer system	-	-	13,898,385	13,823,976	13,898,385	13,823,976
Total	<u>\$ 14,269,157</u>	<u>\$ 14,470,555</u>	<u>\$ 21,401,475</u>	<u>\$ 21,701,144</u>	<u>\$ 35,670,632</u>	<u>\$ 36,171,699</u>

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

- The additions to the governmental activities capital assets during the fiscal year ended September 30, 2018, consisted of the following:
 - Infrastructure additions include the street improvement projects in the amount of \$325,431.
 - Building additions include the following: Police station flooring and park restrooms.
- The additions to the business-type activities capital assets during the fiscal year ended September 30, 2018, consisted of the following:
 - Various water and sewer improvement projects were completed in fiscal year in the amount of \$598,759, which includes prior year construction in progress of \$196,313.
 - Airport hanger improvements in the amount of \$41,213.
 - Projects in progress at September 30, 2018 included the following: Water and wastewater projects of \$331,404 and projects paid for from the Qualified Energy Conservation Bonds of \$62,114.
 - Various vehicle additions in the Water and Sewer Fund and EMS Fund were \$43,320 and \$131,769 respectively.

Additional information on the City's capital assets can be found in Note 6 of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION - (Continued)**Long-term Debt**

At the end of fiscal year 2018, the City had total bonded debt outstanding of \$18,977,246 (net of unamortized deferred amounts) of which 100% is backed by the full faith and credit of the government. In addition, the City had outstanding \$326,621 in capital leases, \$237,378 in OPEB liability, \$286,506 in net pension liability and \$437,399 in compensated absences as of September 30, 2018.

City of Wharton, Texas			
Long-term Debt			
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General obligation bonds	\$ 1,949,682	\$ 975,318	\$ 2,925,000
Issuance premiums	240,273	225,257	465,530
Certificates of obligation	7,654,976	5,525,024	13,180,000
Qualified energy cons. bonds	370,873	950,843	1,321,716
Tax notes	737,800	347,200	1,085,000
Capital leases payable	213,704	112,917	326,621
OPEB liability	140,053	97,325	237,378
Net pension liability	163,308	123,198	286,506
Compensated absences	313,564	123,835	437,399
Total	<u>\$ 11,784,233</u>	<u>\$ 8,480,917</u>	<u>\$ 20,265,150</u>

The City's total outstanding debt decreased by \$1,309,563 or 6% from the prior fiscal year. The key factors in this net decrease were:

- City issued tax notes which totaled \$1,220,000.
- Payments made on the certificates and bonds during fiscal year 2018 totaled \$1,315,000.
- Payments made on the tax notes during fiscal year 2018 totaled \$135,000.
- Payments made on the capital leases during fiscal year 2017 totaled \$97,207.

Additional information on the City's debt can be found in Note 10 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

During the 2018 fiscal year, the City's most important initiative was to continue to provide drainage improvements and reduce flooding in the City. Through the Water Resources Development Act of 2007 (WRDA), congressional authorization was received for flooding solution from the Colorado River in the Wharton area. In February 2018 the City received notification that 100% funding was granted thru the FY2018 Supplemental Appropriations Act with the US Army Corp of Engineers. The City will continue to make this project a priority in preparing for the necessary implementation.

The City, thru the effects of Hurricane Harvey, continues to work diligently toward receiving all applicable outstanding reimbursements from FEMA.

The following initiatives are still in progress:

- Farm to Market 102 Relocation or Farm to Market 1301 to U.S. Highway 59 and Railroad Overpass Project.
- Utility cost reduction measures with the 2015 Issuance of the Qualified Energy Conservation Bonds.
- Sustainable future drinking water supply funded through a USDA loan.

Factors affecting the 2018-2019 General Fund budget were as follows:

- Net taxable assessed value before freeze for tax year 2018 decreased by \$6,621,516 or 1.37% to approximately \$475 million.
- The top ten principal taxpayers account for 21% of total assessed valuation as compared to 27% nine years ago.
- The City's General fund projected ending unassigned fund balance for fiscal year 2019 to remain stable.

Requests for Information

This financial report is designed to present users with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions concerning any of the information provided in this report or need additional financial information, contact the Office of the Finance Director, 120 East Caney, Wharton, Texas 77488.

Basic Financial Statements

CITY OF WHARTON, TEXAS
STATEMENT OF NET POSITION
September 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Wharton Economic Development Corporation
ASSETS				
Current assets				
Cash and cash equivalents	\$ 4,708,488	\$ 799,519	\$ 5,508,007	\$ 698,340
Receivables, net	515,877	757,988	1,273,865	130,359
Internal balances	(528,915)	528,915	-	-
Due from component unit	259,964	-	259,964	-
Due from other governments	629,960	112,461	742,421	-
Prepaid items	29,107	-	29,107	869
Inventory	-	76,155	76,155	2,000
Total current assets	5,614,481	2,275,038	7,889,519	831,568
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	1,435,440	712,611	2,148,051	415,335
Buildings, infrastructure, and equipment, net	12,833,717	20,688,864	33,522,581	14,131
Net capital assets	14,269,157	21,401,475	35,670,632	429,466
Noncurrent internal balances	430,000	(430,000)	-	-
Total noncurrent assets	14,699,157	20,971,475	35,670,632	429,466
Total assets	20,313,638	23,246,513	43,560,151	1,261,034
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount on refunding	77,745	28,310	106,055	-
Deferred outflow related to OPEB	14,143	9,829	23,972	-
Deferred outflow related to pension	178,514	90,863	269,377	-
Total deferred outflows of resources	270,402	129,002	399,404	-

The accompanying notes are an integral part of this statement.

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Wharton Economic Development Corporation
LIABILITIES				
Current liabilities				
Accounts payable	\$ 213,902	\$ 346,614	\$ 560,516	\$ 14,478
Accrued expenditures/expenses	135,035	86,124	221,159	-
Due to primary government	-	-	-	259,964
Due to other governments	33,534	5,856	39,390	7,119
Deposits	600	228,536	229,136	-
Accrued interest payable	124,965	88,846	213,811	-
Compensated absences	31,356	12,393	43,749	-
Current portion of long-term obligations	955,896	707,350	1,663,246	-
Total current liabilities	1,495,288	1,475,719	2,971,007	281,561
Noncurrent liabilities				
Compensated absences	282,208	111,442	393,650	-
OPEB liability	140,053	97,325	237,378	-
Net pension liability	163,307	123,197	286,504	-
Noncurrent portion of long-term obligations	10,211,412	7,429,209	17,640,621	-
Total noncurrent liabilities	10,796,980	7,761,173	18,558,153	-
Total liabilities	12,292,268	9,236,892	21,529,160	281,561
DEFERRED OUTFLOWS OF RESOURCES				
Deferred inflow related to pension	318,614	227,231	545,845	-
NET POSITION				
Net investment in capital assets	6,021,228	14,992,726	21,013,954	429,466
Restricted for:				
Debt service	358,189	-	358,189	-
Cultural and recreation	118,783	-	118,783	-
Municipal court	40,614	-	40,614	-
Public safety	59,818	-	59,818	-
Unrestricted net position	1,374,526	(1,081,334)	293,192	550,007
Total net position	\$ 7,973,158	\$ 13,911,392	\$ 21,884,550	\$ 979,473

CITY OF WHARTON, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2018

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 1,883,507	\$ 453,443	\$ 600,163	\$ -
Public safety	3,926,999	5,493	12,539	195,906
Public works	1,716,963	-	273,250	206,703
Cultural and recreation	281,150	8,481	1,000	-
Interest on long-term debt	416,720	-	-	-
Total governmental activities	<u>8,225,339</u>	<u>467,417</u>	<u>886,952</u>	<u>402,609</u>
Business-type activities				
Water and sewer	3,239,252	4,048,367	96,780	-
Solid waste	1,445,264	1,465,834	-	-
Emergency medical services	2,313,208	827,044	1,430,938	75,000
Civic center	268,924	91,518	-	-
Airport	350,530	225,944	56,501	-
Total business-type activities	<u>7,617,178</u>	<u>6,658,707</u>	<u>1,584,219</u>	<u>75,000</u>
Total primary government	<u>\$ 15,842,517</u>	<u>\$ 7,126,124</u>	<u>\$ 2,471,171</u>	<u>\$ 477,609</u>
Component Unit				
Wharton Economic Development Corporation	<u>\$ 1,044,599</u>	<u>\$ 8,640</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Sales taxes
- Franchise taxes
- Other taxes

- Unrestricted investment earnings
- Industrial district payment
- Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning, as restated

Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			Component Unit
Primary Government			Wharton Economic Development Corporation
Governmental Activities	Business- type Activities	Total	
\$ (829,901)	\$ -	\$ (829,901)	\$ -
(3,713,061)	-	(3,713,061)	-
(1,237,010)	-	(1,237,010)	-
(271,669)	-	(271,669)	-
(416,720)	-	(416,720)	-
<u>(6,468,361)</u>	<u>-</u>	<u>(6,468,361)</u>	<u>-</u>
-	905,895	905,895	-
-	20,570	20,570	-
-	19,774	19,774	-
-	(177,406)	(177,406)	-
-	(68,085)	(68,085)	-
-	<u>700,748</u>	<u>700,748</u>	-
<u>(6,468,361)</u>	<u>700,748</u>	<u>(5,767,613)</u>	-
-	-	-	(1,035,959)
796,292	-	796,292	-
1,124,149	-	1,124,149	-
1,416,116	-	1,416,116	790,022
1,107,947	-	1,107,947	-
376,852	-	376,852	-
26,188	7,189	33,377	3,998
1,276,673	-	1,276,673	-
139,594	-	139,594	19,000
<u>728,312</u>	<u>(728,312)</u>	<u>-</u>	<u>-</u>
<u>6,992,123</u>	<u>(721,123)</u>	<u>6,271,000</u>	<u>813,020</u>
523,762	(20,375)	503,387	(222,939)
<u>7,449,396</u>	<u>13,931,767</u>	<u>21,381,163</u>	<u>1,202,412</u>
<u>\$ 7,973,158</u>	<u>\$ 13,911,392</u>	<u>\$ 21,884,550</u>	<u>\$ 979,473</u>

CITY OF WHARTON, TEXAS

BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2018

	<u>General</u>	<u>Debt Service</u>	<u>2011 Bond Construction</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 310,145	\$ 508,580	\$ 1,835,311
Receivables, net	352,600	99,302	-
Due from other funds	1,078,142	-	615,530
Due from component unit	259,964	-	-
Due from other governments	324,117	5,957	-
Advances to other funds	430,000	-	-
Prepaid items	29,107	-	-
Total assets	<u>\$ 2,784,075</u>	<u>\$ 613,839</u>	<u>\$ 2,450,841</u>
LIABILITIES			
Accounts payable	\$ 106,150	\$ -	\$ -
Accrued expenditures	134,481	-	-
Due to other governments	33,534	-	-
Due to other funds	360,742	130,685	146,416
Deposits	600	-	-
Total liabilities	<u>635,507</u>	<u>130,685</u>	<u>146,416</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	228,938	99,302	-
Total deferred inflows of resources	<u>228,938</u>	<u>99,302</u>	<u>-</u>
FUND BALANCES			
Nonspendable	459,107	-	-
Restricted	-	383,852	2,304,425
Unassigned	1,460,523	-	-
Total fund balances	<u>1,919,630</u>	<u>383,852</u>	<u>2,304,425</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 2,784,075</u>	<u>\$ 613,839</u>	<u>\$ 2,450,841</u>

The accompanying notes are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 2,054,452	\$ 4,708,488
63,975	515,877
737,252	2,430,924
-	259,964
299,886	629,960
-	430,000
-	29,107
<u>\$ 3,155,565</u>	<u>\$ 9,004,320</u>
\$ 107,752	\$ 213,902
554	135,035
-	33,534
2,321,996	2,959,839
-	600
<u>2,430,302</u>	<u>3,342,910</u>
<u>227,685</u>	<u>555,925</u>
<u>227,685</u>	<u>555,925</u>
-	459,107
914,144	3,602,421
(416,566)	1,043,957
<u>497,578</u>	<u>5,105,485</u>
<u>\$ 3,155,565</u>	<u>\$ 9,004,320</u>

CITY OF WHARTON, TEXAS

*RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION
OF GOVERNMENTAL ACTIVITIES*

September 30, 2018

Total governmental fund balances		\$ 5,105,485
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as "unavailable" in the funds.		221,100
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets (for example, receivables) are offset by unavailable revenues in the governmental funds and thus are not included in fund balance.		334,825
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:		
Governmental capital assets costs	\$ 28,551,688	
Accumulated depreciation of governmental capital assets	<u>(14,282,531)</u>	14,269,157
Deferred outflows of resources are not reported in the governmental funds:		
Deferred amount on refunding	77,745	
Deferred amount on OPEB	14,143	
Deferred amount on pension	<u>178,514</u>	270,402
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and certificates payable	(9,975,531)	
Bond premiums	(240,273)	
Tax notes	(737,800)	
Capital leases payable	(213,704)	
OPEB liability	(140,053)	
Net pension liability	(163,307)	
Accrued interest payable	(124,965)	
Compensated absences	<u>(313,564)</u>	(11,909,197)
Deferred inflows of resources are not reported in the governmental funds:		
Deferred amount on pension		<u>(318,614)</u>
Net position of governmental activities		\$ <u>7,973,158</u>

The accompanying notes are an integral part of this statement.

CITY OF WHARTON, TEXAS**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****GOVERNMENTAL FUNDS**

For the year ended September 30, 2018

	<u>General</u>	<u>Debt Service</u>	<u>2011 Bond Construction</u>
REVENUES			
Taxes	\$ 3,344,874	\$ 1,139,371	\$ -
Licenses and permits	119,824	-	-
Intergovernmental	482,695	-	-
Charges for services	14,841	-	-
Fines and forfeitures	296,751	-	-
Investment income	3,594	12,139	3,935
Industrial district fee	1,276,673	-	-
Miscellaneous	118,524	-	-
Total revenues	<u>5,657,776</u>	<u>1,151,510</u>	<u>3,935</u>
EXPENDITURES			
Current			
General government	1,128,610	-	-
Public safety	3,577,413	-	-
Public works	1,131,552	-	-
Cultural and recreation	113,749	-	-
Capital outlay	283,482	-	146,416
Debt service			
Principal retirement	64,300	816,190	-
Interest and fiscal charges	8,164	392,372	-
Issuance costs	-	-	-
Total expenditures	<u>6,307,270</u>	<u>1,208,562</u>	<u>146,416</u>
Excess (deficiency) of revenues over expenditures	(649,494)	(57,052)	(142,481)
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	22,261	-	-
Tax note proceeds	-	-	-
Transfers in	897,212	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>919,473</u>	<u>-</u>	<u>-</u>
Net change in fund balances	269,979	(57,052)	(142,481)
Fund balances at beginning of year, as restated	<u>1,649,651</u>	<u>440,904</u>	<u>2,446,906</u>
Fund balances at end of year	<u>\$ 1,919,630</u>	<u>\$ 383,852</u>	<u>\$ 2,304,425</u>

The accompanying notes are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 376,852	\$ 4,861,097
-	119,824
1,054,541	1,537,236
-	14,841
30,018	326,769
6,520	26,188
-	1,276,673
7,937	126,461
<u>1,475,868</u>	<u>8,289,089</u>
718,257	1,846,867
7,588	3,585,001
24,656	1,156,208
90,058	203,807
427,170	857,068
-	880,490
-	400,536
33,929	33,929
<u>1,301,658</u>	<u>8,963,906</u>
174,210	(674,817)
-	22,261
829,600	829,600
125,000	1,022,212
(293,900)	(293,900)
<u>660,700</u>	<u>1,580,173</u>
834,910	905,356
<u>(337,332)</u>	<u>4,200,129</u>
<u>\$ 497,578</u>	<u>\$ 5,105,485</u>

CITY OF WHARTON, TEXAS

*RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the year ended September 30, 2018*

Total net change in fund balances - governmental funds \$ 905,356

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Increase in capital assets	\$ 765,397	
Depreciation expense	<u>(966,795)</u>	(201,398)

Issuance of debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

Tax notes		(829,600)
-----------	--	-----------

Current year payments on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:

Bond and certificates principal retirement	724,390	
Tax notes principal retirement	91,800	
Capital lease principal retirement	<u>64,300</u>	880,490

Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Similarly, other revenues are not currently available at year-end and are not reported as revenue in the governmental funds.

Property taxes	(40,932)	
Other revenues	<u>(249,628)</u>	(290,560)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in compensated absences	12,387	
Decrease in loss on refunding	(9,647)	
Decrease in bond premium	22,720	
Decrease in accrued interest	4,672	
Net OPEB costs	(10,809)	
Net pension costs	<u>40,151</u>	<u>59,474</u>

Change in net position of governmental activities **\$ 523,762**

The accompanying notes are an integral part of this statement.

CITY OF WHARTON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2018

	Business-type Activities		
	Water and Sewer	Solid Waste	Emergency Medical Services
ASSETS			
Current assets			
Cash and cash equivalents	\$ 413,358	\$ 53,610	\$ 269,824
Receivables, net			
Accounts	428,216	172,375	62,105
Due from other funds	1,724,278	882	7,433
Due from other governments	55,960	-	-
Inventory	52,134	-	-
Total current assets	<u>2,673,946</u>	<u>226,867</u>	<u>339,362</u>
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	608,154	-	10,575
Buildings, improvements, and equipment, net	14,250,056	-	738,223
Net capital assets	<u>14,858,210</u>	<u>-</u>	<u>748,798</u>
Total noncurrent assets	<u>14,858,210</u>	<u>-</u>	<u>748,798</u>
Total assets	<u>17,532,156</u>	<u>226,867</u>	<u>1,088,160</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	6,214	-	-
Deferred outflow related to OPEB	3,596	-	6,233
Deferred outflow related to pension	33,236	-	50,508
Total deferred outflows of resources	<u>43,046</u>	<u>-</u>	<u>56,741</u>
LIABILITIES			
Current liabilities			
Accounts payable	196,494	119,568	19,783
Accrued expenses	27,384	1,127	50,899
Due to other governments	-	5,856	-
Deposits	209,816	75	-
Accrued interest payable	79,935	-	-
Due to other funds	1,088,030	21,476	63,926
Compensated absences	5,054	10	7,248
Current portion of long-term obligations	619,966	-	-
Total current liabilities	<u>2,226,679</u>	<u>148,112</u>	<u>141,856</u>
Noncurrent liabilities			
Advances from other funds	430,000	-	-
Compensated absences	45,482	-	65,231
OPEB liability	35,607	-	61,718
Net pension liability	42,976	-	74,491
Noncurrent portion of long-term obligations	6,580,814	-	-
Total noncurrent liabilities	<u>7,134,879</u>	<u>-</u>	<u>201,440</u>
Total liabilities	<u>9,361,558</u>	<u>148,112</u>	<u>343,296</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow related to pension	85,870	-	134,198
NET POSITION			
Net investment in capital assets	9,346,461	-	738,223
Unrestricted net position	(1,218,687)	78,755	(70,816)
Total net position	<u>\$ 8,127,774</u>	<u>\$ 78,755</u>	<u>\$ 667,407</u>

The accompanying notes are an integral part of this statement.

Business-type Activities

<u>Civic Center</u>	<u>Airport</u>	<u>Total</u>
\$ 29,183	\$ 33,544	\$ 799,519
50,055	45,237	757,988
48,248	7,906	1,788,747
-	56,501	112,461
-	24,021	76,155
<u>127,486</u>	<u>167,209</u>	<u>3,534,870</u>
44,682	49,200	712,611
<u>1,341,895</u>	<u>4,358,690</u>	<u>20,688,864</u>
<u>1,386,577</u>	<u>4,407,890</u>	<u>21,401,475</u>
<u>1,386,577</u>	<u>4,407,890</u>	<u>21,401,475</u>
<u>1,514,063</u>	<u>4,575,099</u>	<u>24,936,345</u>
815	21,281	28,310
-	-	9,829
<u>7,119</u>	<u>-</u>	<u>90,863</u>
<u>7,934</u>	<u>21,281</u>	<u>129,002</u>
4,237	6,532	346,614
4,088	2,626	86,124
-	-	5,856
18,345	300	228,536
2,034	6,877	88,846
7,438	78,962	1,259,832
27	54	12,393
<u>45,389</u>	<u>41,995</u>	<u>707,350</u>
<u>81,558</u>	<u>137,346</u>	<u>2,735,551</u>
-	-	430,000
245	484	111,442
-	-	97,325
5,730	-	123,197
<u>250,600</u>	<u>597,795</u>	<u>7,429,209</u>
<u>256,575</u>	<u>598,279</u>	<u>8,191,173</u>
<u>338,133</u>	<u>735,625</u>	<u>10,926,724</u>
<u>7,163</u>	<u>-</u>	<u>227,231</u>
1,111,888	3,796,154	14,992,726
64,813	64,601	(1,081,334)
<u>\$ 1,176,701</u>	<u>\$ 3,860,755</u>	<u>\$ 13,911,392</u>

CITY OF WHARTON, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

For the year ended September 30, 2018

	Business-type Activities		
	Water and Sewer	Solid Waste	Emergency Medical Services
OPERATING REVENUES			
Charges for services	\$ 4,048,367	\$ 1,465,834	\$ 827,044
Total operating revenues	<u>4,048,367</u>	<u>1,465,834</u>	<u>827,044</u>
OPERATING EXPENSES			
Personnel	1,050,994	43,381	1,820,164
Materials and supplies	112,311	59	127,652
Repairs and maintenance	324,570	-	90,755
Other services and charges	896,854	1,401,824	158,163
Depreciation and amortization	623,683	-	116,474
Total operating expenses	<u>3,008,412</u>	<u>1,445,264</u>	<u>2,313,208</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	1,039,955	20,570	(1,486,164)
NONOPERATING REVENUES (EXPENSES)			
Noncapital grants and contributions	96,780	-	1,430,938
Investment income	1,415	383	4,788
Interest and fiscal charges	(230,840)	-	-
Total nonoperating revenues (expenses)	<u>(132,645)</u>	<u>383</u>	<u>1,435,726</u>
Income (loss) before transfers and contributions	907,310	20,953	(50,438)
Contributions and transfers			
Capital grants and contributions	-	-	75,000
Transfers in	-	-	-
Transfers out	(923,800)	-	(98,412)
Total contributions and transfers	<u>(923,800)</u>	<u>-</u>	<u>(23,412)</u>
Change in net position	(16,490)	20,953	(73,850)
Net position at beginning of year, as restated	<u>8,144,264</u>	<u>57,802</u>	<u>741,257</u>
Net position at end of year	<u>\$ 8,127,774</u>	<u>\$ 78,755</u>	<u>\$ 667,407</u>

The accompanying notes are an integral part of this statement.

Business-type Activities

<u>Civic Center</u>	<u>Airport</u>	<u>Total</u>
\$ 91,518	\$ 225,944	\$ 6,658,707
<u>91,518</u>	<u>225,944</u>	<u>6,658,707</u>
131,233	90,208	3,135,980
11,786	2,929	254,737
20,683	71,700	507,708
38,209	39,714	2,534,764
59,668	126,905	926,730
<u>261,579</u>	<u>331,456</u>	<u>7,359,919</u>
(170,061)	(105,512)	(701,212)
-	56,501	1,584,219
159	444	7,189
<u>(7,345)</u>	<u>(19,074)</u>	<u>(257,259)</u>
<u>(7,186)</u>	<u>37,871</u>	<u>1,334,149</u>
(177,247)	(67,641)	632,937
-	-	75,000
293,900	-	293,900
<u>-</u>	<u>-</u>	<u>(1,022,212)</u>
<u>293,900</u>	<u>-</u>	<u>(653,312)</u>
116,653	(67,641)	(20,375)
<u>1,060,048</u>	<u>3,928,396</u>	<u>13,931,767</u>
\$ <u>1,176,701</u>	\$ <u>3,860,755</u>	\$ <u>13,911,392</u>

CITY OF WHARTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2018

	Business-type Activities		
	Water and Sewer	Solid Waste	Emergency Medical Services
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers and users	\$ 4,039,333	\$ 1,471,809	\$ 831,300
Cash paid to suppliers for goods and services	(1,158,471)	(1,508,189)	(410,025)
Cash paid to employees for services	(1,026,349)	(43,499)	(1,789,773)
Net cash provided (used) by operating activities	<u>1,854,513</u>	<u>(79,879)</u>	<u>(1,368,498)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Borrowing (repayments) to other funds	229,967	35,575	1,742
Transfers in from other funds	-	-	-
Transfers out to other funds	(923,800)	-	(98,412)
Grants and contributions	-	-	1,430,938
Net cash provided (used) by noncapital financing activities	<u>(693,833)</u>	<u>35,575</u>	<u>1,334,268</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(427,765)	-	(135,917)
Proceeds from capital grants and contributions	-	-	75,000
Proceeds from issuance of debt	366,000	-	-
Principal paid on long-term debt	(675,326)	-	-
Interest paid on long-term debt	(253,805)	-	-
Net cash provided (used) by capital and related financing activities	<u>(990,896)</u>	<u>-</u>	<u>(60,917)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	1,415	383	4,788
Net cash provided (used) by investing activities	<u>1,415</u>	<u>383</u>	<u>4,788</u>
Net increase (decrease) in cash and cash equivalents	171,199	(43,921)	(90,359)
Cash and cash equivalents at beginning of year	<u>242,159</u>	<u>97,531</u>	<u>360,183</u>
Cash and cash equivalents at end of year	<u>\$ 413,358</u>	<u>\$ 53,610</u>	<u>\$ 269,824</u>

Business-type Activities

<u>Civic Center</u>	<u>Airport</u>	<u>Total</u>
\$ 102,529	\$ 223,640	\$ 6,668,611
(77,250)	(118,511)	(3,272,446)
<u>(144,354)</u>	<u>(90,402)</u>	<u>(3,094,377)</u>
(119,075)	14,727	301,788
(160,303)	(820)	106,161
293,900	-	293,900
-	-	(1,022,212)
-	50,000	1,480,938
<u>133,597</u>	<u>49,180</u>	<u>858,787</u>
-	(41,214)	(604,896)
-	-	75,000
24,400	-	390,400
(42,886)	(39,873)	(758,085)
<u>(8,383)</u>	<u>(21,139)</u>	<u>(283,327)</u>
<u>(26,869)</u>	<u>(102,226)</u>	<u>(1,180,908)</u>
159	444	7,189
<u>159</u>	<u>444</u>	<u>7,189</u>
(12,188)	(37,875)	(13,144)
<u>41,371</u>	<u>71,419</u>	<u>812,663</u>
<u>\$ 29,183</u>	<u>\$ 33,544</u>	<u>\$ 799,519</u>

(continued)

CITY OF WHARTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2018

	Business-type Activities		
	Water and Sewer	Solid Waste	Emergency Medical Services
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 1,039,955	\$ 20,570	\$ (1,486,164)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation and amortization	623,683	-	116,474
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	(3,203)	8,634	4,256
(Increase) decrease in due from other governments	697	-	-
(Increase) decrease in inventory	28,446	-	-
(Increase) decrease in deferred outflow related to OPEB	(2,292)	-	(3,973)
(Increase) decrease in deferred outflow related to pension	75,424	-	142,965
Increase (decrease) in accounts payable	146,818	(106,306)	(33,455)
Increase (decrease) in accrued expenses	(1,413)	130	3,422
Increase (decrease) in deposits	(6,528)	-	-
Increase (decrease) in due to other governments	-	(2,659)	-
Increase (decrease) in compensated absences	2,726	(248)	2,906
Increase (decrease) in OPEB liability	5,040	-	8,736
Increase (decrease) in net pension liability	(133,886)	-	(252,023)
Increase (decrease) in deferred inflow related to pension	79,046	-	128,358
Total adjustments	<u>814,558</u>	<u>(100,449)</u>	<u>117,666</u>
Net cash provided (used) by operating activities	<u>\$ 1,854,513</u>	<u>\$ (79,879)</u>	<u>\$ (1,368,498)</u>

The accompanying notes are an integral part of this statement.

Business-type Activities

<u>Civic Center</u>	<u>Airport</u>	<u>Total</u>
\$ (170,061)	\$ (105,512)	\$ (701,212)
59,668	126,905	926,730
4,040	(2,304)	11,423
1,911	-	2,608
-	25,395	53,841
-	-	(6,265)
20,619	-	239,008
(6,572)	(29,563)	(29,078)
366	(259)	2,246
5,060	-	(1,468)
-	-	(2,659)
(2,087)	65	3,362
-	-	13,776
(35,084)	-	(420,993)
<u>3,065</u>	<u>-</u>	<u>210,469</u>
<u>50,986</u>	<u>120,239</u>	<u>1,003,000</u>
<u>\$ (119,075)</u>	<u>\$ 14,727</u>	<u>\$ 301,788</u>

(concluded)

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Wharton, Texas (the "City"), was organized in 1846 and has adopted a Home Rule Charter. The Charter, as amended, provides for a council-manager form of government. The City Council is the principal legislative body of the City and is composed of a mayor and six council members, two of which are elected at large and four of which are elected by the district, who serve two-year terms. The Mayor presides at City Council meetings and is entitled to vote on all matters considered by the City Council. All powers of the City are vested in the City Council. Such powers include: appointment of the City Manager, boards, and commissions; adoption of the budget; authorization of bond issues; and adoption of ordinances and resolutions as deemed necessary, desirable, and beneficial to the City. The City provides the following services: public safety to include police, fire and emergency medical services, highways and streets, water and wastewater, sanitation, recreation, public improvements, planning and zoning, and general administration.

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, the City's management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Under these guidelines, the reporting entity consists of the primary government (all funds of the City), organizations for which the primary government is financially accountable, organizations for which the primary government is not financially accountable, organizations that raise and hold economic resources for the direct benefit of the primary government, and any other organization for which the nature and significance of their relationship with the primary government is such that exclusion could cause the City's financial statements to be misleading or incomplete. Entities other than the primary government that are included in the primary government's financial statements are called component units. The component units discussed in this note are included in the City's financial statements because of the significance of their financial relationships with the City.

Component Unit

The component unit column in the financial statements includes the financial data from one component unit. This component unit is reported in a separate column to emphasize that it is legally separate from the City.

The component unit column is made of the following:

The Wharton Economic Development Corporation (WEDC) - was created for the purpose of assisting in the promotion, development, and economic growth in the City. This is to be achieved through assistance in the retention of existing businesses and industries and the attraction of new businesses and industries and aid in their development and growth. WEDC was incorporated under the Texas Development Corporation Act of 1979, as amended; Article 5190.6 Vernon's Ann.CIV.ST. Section 4A, as amended, and qualifies as a tax-exempt organization under Code Section 501(c)(4) of the Internal Revenue Code. WEDC's primary source of income is from voter approved sales tax assessed in the City. All powers of WEDC are vested in the Board of Directors appointed by the City Council. The City is also able to impose its will on WEDC, including approving its annual budgets and bonded debt issuance.

The component unit is discretely presented in the financial statements. Complete financial statements of WEDC can be obtained from the WEDC office, 1944 N. Fulton, Wharton, Texas 77488.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Reporting Entity - (Continued)

Other Entities

Other governmental entities operating and providing services within the City's boundaries include the following:

County of Wharton, Texas
Wharton County Central Appraisal District
Wharton County Junior College
Wharton County Rural Fire District #1
Wharton Independent School District
Coastal Bend Groundwater Conservation District

None of these entities have been included in the City's financial reporting entity based on evaluation of the prescribed criteria discussed above.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the City and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from its legally separate component unit.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and discretely presented component units. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. 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.

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. The City considers property taxes as available if they are collected within 60 days after year-end. A 120-day availability period is used for recognition of all other Governmental Fund revenues. 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. Property taxes, franchise taxes, fines, 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The Debt Service Fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for general government debt principal and interest.

The Capital Project Funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities or other capital assets. Capital Project Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments. The City has six Capital Project Funds, one of which has been reported as a major fund. The 2011 Bond Construction Fund accounts for the use of the proceeds from the City's 2011 Certificates of Obligation on various capital improvement projects.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

The City reports the following major proprietary funds:

Enterprise Funds are used to account for operations: 1) that 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 be financed or recovered primarily through user charges, or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Water and Sewer Fund, an enterprise fund, accounts for the activities of the City related to its sewage treatment plant and water distribution system.

The Solid Waste Fund, an enterprise fund, accounts for the operation of the City's garbage collection.

The Emergency Medical Services Fund, an enterprise fund, accounts for the emergency medical services provided to the residents of the City.

The Civic Center Fund, an enterprise fund, accounts for the operation of the City's civic center.

The Airport Fund, an enterprise fund, accounts for the operation of the City's airport.

Additionally, the City reports the following fund types:

The Special Revenue Funds account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The City has seven Special Revenue Funds, none of which is reported as a major fund.

The proprietary funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 City's enterprise fund are charges to customers for sales and services. The Water and Sewer 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 non-operating revenues and expenses.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

D. Budgets and Budgetary Accounting

Procedures in establishing budgetary data reflected in the financial statements are as follows:

1. City department and division leaders shall submit budget requests for the next fiscal year to and as directed by the City Manager for review and consolidation. The City Manager shall submit a proposed annual budget to the City Council before August 31st of each fiscal year. Before taxes are levied, but after a public hearing or hearings, the City Council shall adopt an annual budget. The budget shall be adopted by a majority of all members of the City Council not later than fifteen days prior to the beginning of the fiscal year.
2. At any time during the fiscal year, the City Manager is authorized to transfer unencumbered budgeted amounts between line-items within a department; however, any revisions that alter the total budgeted expenditures of any department must be approved by the City Council.
3. Legally adopted annual budgets for the General Fund, the Debt Service Fund, and all enterprise funds are prepared on a basis consistent with GAAP. They are presented at the departmental level (i.e., City Manager, City Secretary, etc.), which is the legal level of budgetary control.
4. Unencumbered budget appropriations lapse at year-end and do not carry forward to future periods.

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Encumbrances outstanding at year-end lapse and are appropriately provided for in the subsequent year's budget. There are no outstanding encumbrances at September 30, 2017.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Deposits and Investments

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.

The City may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

The City Council has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995. The investments of the City are in compliance with the City Council's investment policies.

Investments for the City and the City's component unit, WEDC, are recorded at amortized cost, which as of September 30, 2018, approximates fair value.

G. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property tax receivables include unpaid property taxes at year-end along with penalties and interest assessed on these unpaid taxes. The allowance on the unpaid property taxes is equal to 10% of the outstanding property taxes and the allowance on the penalties and interest is equal to 50% of the assessed amount.

H. Inventories and Prepaid Items

Inventories of materials and supplies held by the enterprise funds are valued at the lower of cost (first-in, first-out) or market. Estimated cost is used when actual cost figures are not available. Inventories are not maintained in the General Fund since materials and supplies are charged to related expenditure accounts when purchased. As these amounts are not material to the financial statements, the exclusion of inventories does not materially affect their financial position or result of operations of the General Fund.

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are reported as prepaid items in both the fund financial statements and in the government-wide statements and recorded when purchased rather than when consumed.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage systems, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide statement of net position. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred (interest earnings minus interest expense) during the construction phase of capital assets of business-type activities is capitalized as part of the assets constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Water and sewer system	50
Land improvements	50
Infrastructure	50
Machinery and equipment	5-15

J. Compensated Absences

Vacation, compensated time worked, and sick leave are accrued as a liability when earned by the employees since the employees' right to receive this compensation is already rendered and it is probable that the City will compensate the employees for benefits through paid time off or through cash payments at termination.

Employees receive 80 hours of vacation time for the first five years of employment and an additional eight hours for each year beyond the first five up to a maximum of 120 hours. Vacation time is earned on the first day of the fiscal year and must be used by the last day of the fiscal year. However, in some instances vacation time may be carried forward with approval by the City Manager. Upon termination, up to 120 hours of accumulated vacation will be paid.

Employees receive eight hours of sick leave for each month of service. All employees hired after April 12, 1999, will not be eligible for payment for any unused sick leave at termination. Sick leave in excess of 45 days will only be paid upon illness while in the employment of the City.

Employees may accumulate unlimited compensated time for overtime at one and one-half times each hour earned; however, department heads may only accumulate compensated time at a straight-time rate. Employees may choose to be either paid for compensated time earned or use it as time off in the future. Upon termination, an employee will be paid for all unused compensated time.

All compensated absence pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**K. Long-term Obligations**

In the government-wide financial statements, and in 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, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. 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.

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet reports 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 the following items that qualify for reporting in this category.

- Deferred charges on refunding – 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.
- Pension/OPEB contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Differences between actuarial assumptions used and actual experience for determination of pension or OPEB liability – These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred and amortized over the estimated average remaining lives of all members determined as of the measurement date.

In addition to liabilities, the statement of financial position and/or balance sheet 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. This year, the City has the following items that qualify for reporting in this category.

- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.
- Difference in expected and actual pension or OPEB experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred and amortized over the estimated average remaining lives of all members determined as of the measurement date.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's pension liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with GASB No. 68.

N. Fund Equity

GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," (the "Statement") was issued in February 2009. This Statement eliminates the requirement to report governmental fund balances as reserved, unreserved, or designated. It replaces those categories with five possible classifications of governmental fund balances - nonspendable, restricted, committed, assigned, and unassigned. This Statement also redefines the governmental funds for clarity and to be consistent with these new fund balance classifications. The provisions of this Statement are effective for periods beginning after June 15, 2010. The City did not adopt a new fund balance policy in accordance with GASB Statement No. 54 during fiscal year 2018. This Statement did not have an impact on the City's functions, financial position or results of operations.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available.

O. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with generally accepted accounting principles requires the City to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Compliance

Budgetary compliance is monitored at the departmental level in the funds. There were two situations of expenditures exceeding the amounts appropriated during the fiscal year 2017-2018.

<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
Debt Service Fund			
Principal retirement	\$ 743,242	\$ 816,190	\$ (72,948)
Interest and fiscal charges	380,984	392,372	(11,388)

B. Deficit Fund Equity

As of September 30, 2018, the following funds had deficit equity balances:

<u>Fund</u>	<u>Fund Balance/ Net Position</u>
Nonmajor Governmental	
Municipal Court Technology	\$ 6,864
Railroad Depot Restoration	1,551
Disaster Relief	244,490
2013 Bond Construction	147,820
Capital Improvement	15,841

Steps will be taken to eliminate these deficits in the upcoming fiscal year.

NOTE 3: 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 (Days)</u>
Public Funds Investment Pool		
TexPool	\$ 315,011	28

The investment pool operates in a manner consistent with the Securities and Exchange Commission's (SEC) Rule 2(a)(7) of the Investment Company Act of 1940 but is not registered with the SEC as an investment company. Instead, the regulatory oversight for the pool is the State of Texas. The pool uses amortized cost rather than fair value to report net position to compute share prices. Accordingly, the fair value of the position in the pool is the same as the value of the shares in the pool.

As previously discussed in Note 1, the investments are reported in the accompanying statements at amortized cost.

NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)

A. Interest Rate Risk

In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments in non-operating funds to less than five years from the time of purchase. The weighted average maturity of investments of the City's operating funds cannot exceed one year from the time of purchase. TexPool's weighted average maturity cannot exceed 60 days.

B. Credit Risk

It is the City's policy to limit its investments to those with ratings of not less than A or its equivalent. The City's investments in the public funds investment pools include those with TexPool. The pool operates in full compliance with the Public Funds Investment Act. TexPool is rated AAAM by Standard & Poor's.

C. Concentration of Credit Risk

The City's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the City was not exposed to concentration of credit risk.

D. 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 that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 102% of the carrying value of deposits held. During the fiscal year and at year-end, all deposits held in the depository bank were fully collateralized.

E. Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that securities be held in the name of the City or held on behalf of the City and that all securities are purchased using the delivery versus payment method. As of September 30, 2018, and for the year then ended, the City was not exposed to any custodial credit risk.

Please see Note 17 for discussions relative to the investments of the City's component unit.

NOTE 4: RECEIVABLES

Receivables at September 30, 2018, consisted of the following:

	<u>General</u>	<u>Debt Service</u>	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Emergency Medical Services</u>	<u>Civic Center</u>	<u>Airport</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Gross receivables:									
Accounts	\$ 387,416	\$ -	\$ 428,216	\$ 172,375	\$ 3,655,262	\$ 50,055	\$ 45,237	\$ 63,975	\$ 4,802,536
Ad valorem taxes	203,866	145,794	-	-	-	-	-	-	349,660
Franchise taxes	79,074	-	-	-	-	-	-	-	79,074
Fines	265,967	-	-	-	-	-	-	-	265,967
Other	<u>41,994</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,994</u>
Total gross receivables	978,317	145,794	428,216	172,375	3,655,262	50,055	45,237	63,975	5,539,231
Less: Allowances	<u>625,717</u>	<u>46,492</u>	<u>-</u>	<u>-</u>	<u>3,593,157</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,265,366</u>
Total net receivables	<u>\$ 352,600</u>	<u>\$ 99,302</u>	<u>\$ 428,216</u>	<u>\$ 172,375</u>	<u>\$ 62,105</u>	<u>\$ 50,055</u>	<u>\$ 45,237</u>	<u>\$ 63,975</u>	<u>\$ 1,273,865</u>

The City's governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem receivable	\$ 121,798	\$ -	\$ 121,798
Fines	106,387	-	106,387
Other	753	-	753
Debt Service Fund			
Ad valorem receivable	99,302	-	99,302
Disaster Relief Fund			
Grants	<u>227,685</u>	<u>-</u>	<u>227,685</u>
	<u>\$ 555,925</u>	<u>\$ -</u>	<u>\$ 555,925</u>

NOTE 4: RECEIVABLES - (Continued)

The City's property taxes are levied annually on October 1st on the basis of the Appraisal District's assessed values as of January 1st of that calendar year. Appraised values are established by the Appraisal District at market value and assessed at 100% of appraised value. The City's property taxes are billed and collected by the Wharton County Tax Assessor-Collector and are due and payable on January 31st. Such taxes are applicable to the fiscal year in which they are levied and become delinquent with an enforceable lien on the property on February 1st of the subsequent calendar year.

The City provides an exemption from property taxes of \$10,000 of the assessed value of residential homesteads for persons 65 years of age or older. An exemption from \$1,500 to \$3,000 is allowed to disabled veterans on any one piece of property. Additionally, the market value of agricultural land is reduced to agricultural value for purposes of the City's tax levy calculation.

The City, under Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000 population and by City Home Rule Charter, is limited to levy ad valorem tax at a rate up to \$2.50 per \$100 assessed valuation for general government services. Within the \$2.50 maximum levy, there is no legal limit on the amount of property taxes that can be levied for debt service.

Property taxes are prorated between operations and debt service for the current year roll. Delinquent taxes collected are used for maintenance and operations. For the current year, the City levied property taxes of \$0.41008 per \$100 of assessed valuation, which were prorated between operations and debt service in the amounts of \$0.14575 and \$0.26433, respectively. The resulting adjusted total tax levy was \$1,966,387 on the total adjusted taxable valuation of \$479,513,050 for the 2017 tax year.

NOTE 5: DUE FROM OTHER GOVERNMENTS

The City has amounts due from other governments as of the end of the current fiscal year. Amounts due from federal, state, and local governments as of September 30, 2018, are summarized as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Water and Sewer</u>	<u>Airport</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Sales taxes	\$ 259,744	\$ -	\$ -	\$ -	\$ -	\$ 259,744
Federal and state grants	52,723	-	55,960	56,501	299,886	465,070
Property taxes	3,946	5,957	-	-	-	9,903
Other	7,704	-	-	-	-	7,704
	<u>\$ 324,117</u>	<u>\$ 5,957</u>	<u>\$ 55,960</u>	<u>\$ 56,501</u>	<u>\$ 299,886</u>	<u>\$ 742,421</u>

NOTE 6: CAPITAL ASSETS

The City's capital asset activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 1,173,285	\$ -	\$ -	\$ 1,173,285
Construction in progress	262,155	-	-	262,155
Total capital assets not being depreciated	<u>1,435,440</u>	<u>-</u>	<u>-</u>	<u>1,435,440</u>
Capital assets, being depreciated				
Machinery and equipment	6,777,265	285,061	77,259	6,985,067
Buildings and improvements	4,860,850	152,216	-	5,013,066
Infrastructure	14,789,995	328,120	-	15,118,115
Total capital assets being depreciated	<u>26,428,110</u>	<u>765,397</u>	<u>77,259</u>	<u>27,116,248</u>
Less accumulated depreciation for				
Machinery and equipment	4,430,474	427,876	77,259	4,781,091
Buildings and improvements	2,062,987	133,840	-	2,196,827
Infrastructure	6,899,534	405,079	-	7,304,613
Total accumulated depreciation	<u>13,392,995</u>	<u>966,795</u>	<u>77,259</u>	<u>14,282,531</u>
Total capital assets being depreciated, net	<u>13,035,115</u>	<u>(201,398)</u>	<u>-</u>	<u>12,833,717</u>
Governmental activities capital assets, net	<u>\$ 14,470,555</u>	<u>\$ (201,398)</u>	<u>\$ -</u>	<u>\$ 14,269,157</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 319,093	\$ -	\$ -	\$ 319,093
Construction in progress	607,831	10,000	224,313	393,518
Total capital assets not being depreciated	<u>926,924</u>	<u>10,000</u>	<u>224,313</u>	<u>712,611</u>
Capital assets, being depreciated				
Machinery and equipment	3,981,493	179,237	7,200	4,153,530
Land improvements	1,153,850	-	-	1,153,850
Buildings and improvements	6,672,644	41,213	-	6,713,857
Water and sewer system	24,545,446	598,758	-	25,144,204
Total capital assets being depreciated	<u>36,353,433</u>	<u>819,208</u>	<u>7,200</u>	<u>37,165,441</u>
Less accumulated depreciation for				
Machinery and equipment	2,816,303	217,200	7,200	3,026,303
Land improvements	133,617	23,077	-	156,694
Buildings and improvements	1,907,823	139,938	-	2,047,761
Water and sewer system	10,721,470	524,349	-	11,245,819
Total accumulated depreciation	<u>15,579,213</u>	<u>904,564</u>	<u>7,200</u>	<u>16,476,577</u>
Total capital assets being depreciated, net	<u>20,774,220</u>	<u>(85,356)</u>	<u>-</u>	<u>20,688,864</u>
Business-type activities capital assets, net	<u>\$ 21,701,144</u>	<u>\$ (75,356)</u>	<u>\$ 224,313</u>	<u>\$ 21,401,475</u>

NOTE 6: CAPITAL ASSETS - (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities	
General government	\$ 48,340
Public safety	367,382
Public works	473,730
Cultural and recreation	<u>77,343</u>
Total depreciation expense - governmental activities	<u>\$ 966,795</u>
 Business-type activities	
Water and sewer	\$ 605,325
Emergency medical services	116,474
Civic center	58,225
Airport	<u>124,540</u>
Total depreciation expense - business-type activities	<u>\$ 904,564</u>

At September 30, 2018, the City had temporarily impaired idle assets in the business-type activities (the Airport Fund) that amounted to \$86,061. The assets relate to costs incurred on the airport terminal building project that has been temporarily suspended.

NOTE 7: DEFINED BENEFIT PENSION PLANPlan Description

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the TMRS with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

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 payments 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.

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)

Benefits Provided - (Continued)

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions of the City for plan year 2017 were as follows:

Employee deposit rate	5.0%
Matching ratio (City to employee)	1.5 to 1
Years required for vesting	10
Service retirement eligibility (expressed as age/years of service)	60/10, 0/20
Updated service credit	100.0 repeating
Annuity increase (to retirees)	70.0% of CPI

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	39
Inactive employees entitled to but not yet receiving benefits	56
Active employees	<u>103</u>
	<u>198</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees for the City were required to contribute 5.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 6.17% and 6.15% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2019 were \$329,837, and were equal to the required contributions.

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)

Net Pension Liability

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

Actuarial Assumptions

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%

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 disables annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2017, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. 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, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)

Net Pension Liability - (Continued)

Actuarial Assumptions - (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	<u>5.00%</u>	7.50%
Total	<u>100.00%</u>	

Discount Rate

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

	<u>Total Pension Liability</u>	<u>Increase (Decrease) Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
	(a)	(b)	(a) - (b)
Balance at 12/31/2017	\$ 15,206,527	\$ 13,846,053	\$ 1,360,474
Changes for the year:			
Service cost	530,477	-	530,477
Interest	1,026,605	-	1,026,605
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(117,320)	-	(117,320)
Change of assumptions	-	-	-
Contributions - Employer	-	335,008	(335,008)
Contributions - Employee	-	271,482	(271,482)
Net investment income	-	1,917,689	(1,917,689)
Benefit payments, including refunds of employee contributions	(525,617)	(525,617)	-
Administrative expense	-	(9,945)	9,945
Other changes	-	(502)	502
Net changes	<u>914,145</u>	<u>1,988,115</u>	<u>(1,073,970)</u>
Balance at 12/31/2018	<u>\$ 16,120,672</u>	<u>\$ 15,834,168</u>	<u>\$ 286,504</u>

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)

Net Pension Liability - (Continued)

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

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

	1.0% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1.0% Increase in Discount Rate (7.75%)
City's Net Pension Liability:	\$2,483,463	\$286,504	\$(1,516,307)

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 of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2018 the City recognized pension expense of \$318,171.

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	\$ -	\$ 142,442
Changes in actuarial assumptions	30,767	-
Difference between projected and actual investment earnings	-	403,403
Contributions subsequent to the measurement date	238,610	-
Total	\$ 269,377	\$ 545,845

\$238,610 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2018	\$ (36,654)
2019	(44,556)
2020	(222,624)
2021	(211,248)
2022	-
Thereafter	-
Total	(515,082)

NOTE 8: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB)

Plan Description and Benefits Provided

TMRS administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (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. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit (OPEB) and is a fixed amount of \$7,500. 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).

Membership

At the December 31, 2017 valuation and measurement date, the following is the number of members in the plan:

Inactive employees currently receiving benefits	27
Inactive employees entitled to but not yet receiving benefits	9
Active employees	<u>103</u>
Total	<u>139</u>

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retired term life insurance during employees' entire careers. Therefore, there are no assets that are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits. The SDBF is considered an unfunded OPEB plan and benefit payments made by the City are treated as being equal to the City's yearly contribution for retirees.

The City's contribution rates for the program are as follows:

Plan/Calendar Year	Total SDB Contribution (Rate)	Retiree Portion of SDB Contribution (Rate)
2017	0.22%	0.03%
2018	0.21%	0.03%

NOTE 8: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)

Total OPEB Liability

The City's total OPEB liability and the OPEB expense is recognized on the City's financial statements. The OPEB expense recognized each fiscal year is equal to the change in the total OPEB liability from the beginning of the year to the end of the year, adjusted for deferred recognition of certain changes in the liability.

Actuarial Assumptions

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.

Inflation	2.5%
Salary increases	3.5% to 10.5 % including inflation
Discount rate	3.31%; based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates-service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB
Mortality rates-disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Implementing GASB Statement No. 75

In the year of implementation (fiscal year ended September 30, 2018), the City made a prior period adjustment for the Total OPEB Liability as of the 12/31/16 measurement date and recorded a deferred outflow of resources for contributions recorded by the City (retiree portion of SDB rate only) from December 31, 2016 to September 30, 2017. TMRS elected not to calculate other deferrals as of the December 31, 2016 measurement date.

NOTE 8: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)

Total OPEB Liability - (Continued)

Changes in Total OPEB Liability

The following details the changes in the Total OPEB liability:

Balance at 12/31/16	\$ 203,778
Changes for the year:	
Service cost	8,687
Interest	7,836
Change of benefit terms	-
Difference between expected and actual experience	-
Change of assumptions	18,706
Benefit payments	<u>(1,629)</u>
Net changes	<u>33,600</u>
Balance at 12/31/17	<u>\$ 237,378</u>

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

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

	1.0% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1.0% Increase in Discount Rate (4.31%)
City's Total OPEB Liability:	\$285,651	\$237,378	\$200,139

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

For the year ended September 30, 2018, the City recognized OPEB expense of \$19,405.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in actuarial assumptions	15,824	-
Contributions subsequent to the measurement date	8,148	-
Total	<u>\$ 23,972</u>	<u>\$ -</u>

NOTE 9: RISK MANAGEMENT

The City is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management program encompasses obtaining property, workers compensation, and health and liability insurance through commercial insurance carriers. The City has not retained any risks other than the deductible and is covered up to the limits of coverage after the deductible. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

NOTE 10: LONG-TERM DEBTA. Changes In Long-term Liabilities

Long-term liability activity for the year ended September 30, 2018, was as follows:

	Beginning			Ending	Due Within
	Balance	Additions	Reductions	Balance	One Year
Governmental activities					
Bonds and certificates payable					
Certificates of obligation	\$ 8,049,128	\$ -	\$ 394,152	\$ 7,654,976	\$ 429,750
General obligation bonds	2,254,282	-	304,600	1,949,682	318,050
Qualified energy cons. bonds	396,511	-	25,638	370,873	26,026
Plus deferred amounts:					
Issuance premiums	262,993	-	22,720	240,273	-
Total bonds and certificates payable	10,962,914	-	747,110	10,215,804	773,826
Tax notes	-	829,600	91,800	737,800	115,600
Capital leases payable	278,004	-	64,300	213,704	66,470
Net pension liability	816,284	-	652,977	163,307	-
OPEB liability	120,229	19,824	-	140,053	-
Compensated absences	325,951	342,890	355,277	313,564	31,356
Total governmental activity long-term liabilities	<u>\$ 12,503,382</u>	<u>\$ 1,192,314</u>	<u>\$ 1,911,464</u>	<u>\$ 11,784,232</u>	<u>\$ 987,252</u>
Business-type activities					
Bonds and certificates payable					
Certificates of obligation	\$ 5,905,872	\$ -	\$ 380,848	\$ 5,525,024	\$ 300,250
General obligation bonds	1,210,718	-	235,400	975,318	251,950
Qualified energy cons. bonds	1,016,573	-	65,730	950,843	66,728
Plus deferred amounts:					
Issuance premiums	247,908	-	22,651	225,257	-
Total bonds and certificates payable	8,381,071	-	704,629	7,676,442	618,928
Tax notes	-	390,400	43,200	347,200	54,400
Capital leases payable	145,824	-	32,907	112,917	34,022
Net pension liability	544,190	-	420,993	123,197	-
OPEB liability	83,549	13,776	-	97,325	-
Compensated absences	120,475	172,915	169,555	123,835	12,393
Total business-type activity long-term liabilities	<u>\$ 9,275,109</u>	<u>\$ 577,091</u>	<u>\$ 1,371,284</u>	<u>\$ 8,480,916</u>	<u>\$ 719,743</u>

NOTE 10: LONG-TERM DEBT - (Continued)

A. Changes In Long-term Liabilities - (Continued)

The City has defeased certain outstanding bonds and certificates by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the old bonds and certificates. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2018, \$2,995,000 of bonds and certificates outstanding was considered defeased.

Compensated absences are generally liquidated by the General Fund for the governmental activities. Please see Note 16 for discussions relative to the notes payable of the City's component unit.

B. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The bonds have been issued for both governmental and business-type activities.

General obligation bonds currently outstanding are as follows:

	<u>Term</u>	<u>Interest Rates</u>	<u>Original Amount</u>
Refunding Series 2010	6/11 - 6/21	2.00 - 4.00%	\$ 2,680,000
Refunding Series 2013	12/13 - 12/26	3.00 - 4.00%	3,600,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2019	\$ 318,050	\$ 60,433	\$ 251,950	\$ 35,417	\$ 665,850
2020	330,250	50,512	259,750	25,913	666,425
2021	346,882	40,166	268,118	16,109	671,275
2022	141,100	32,370	28,900	6,630	209,000
2023	149,400	28,013	30,600	5,738	213,751
2024-2027	<u>664,000</u>	<u>53,887</u>	<u>136,000</u>	<u>11,037</u>	<u>864,924</u>
	<u>\$ 1,949,682</u>	<u>\$ 265,381</u>	<u>\$ 975,318</u>	<u>\$ 100,844</u>	<u>\$ 3,291,225</u>

NOTE 10: LONG-TERM DEBT - (Continued)

C. Combination Tax and Revenue Certificates of Obligation

The City also issues combination tax and revenue certificates of obligation (C.O.'s) to provide funds for the acquisition and construction of major capital facilities payable from the proceeds of an annual ad valorem tax and further payable from a junior and subordinate pledge of the net revenues of the City's water and sewer system. The C.O.'s have been issued for both governmental and business-type activities. C.O.'s currently outstanding are as follows:

	<u>Term</u>	<u>Interest Rates</u>	<u>Original Amount</u>
Series 2009	12/10 - 12/29	2.00 - 4.50%	\$ 4,000,000
Series 2011	07/11 - 06/30	2.00 - 4.00%	4,600,000
Series 2013	06/14 - 06/33	3.00 - 4.125%	5,000,000
Series 2015	10/15 - 12/32	2.00 - 3.50%	2,705,000
			<u>\$ 16,305,000</u>

Annual debt service requirements to maturity for C.O.'s are as follows:

<u>Year</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2019	\$ 429,750	\$ 293,881	\$ 300,250	\$ 201,269	\$ 1,225,150
2020	462,638	279,721	302,362	191,367	1,236,088
2021	454,136	264,184	330,864	181,691	1,230,875
2022	542,874	247,502	342,126	171,173	1,303,675
2023	559,122	227,345	350,878	160,268	1,297,613
2024-2028	3,149,084	784,889	1,975,916	590,430	6,500,319
2029-2033	<u>2,057,372</u>	<u>176,162</u>	<u>1,922,628</u>	<u>193,941</u>	<u>4,350,103</u>
	<u>\$ 7,654,976</u>	<u>\$ 2,273,684</u>	<u>\$ 5,525,024</u>	<u>\$ 1,690,139</u>	<u>\$ 17,143,823</u>

NOTE 10: LONG-TERM DEBT - (Continued)

D. Qualified Energy Conservation Bonds

On August 25, 2016 the City issued the taxable 2015 Series Public Property Finance Contract, Qualified Energy Conservation Bonds (QECCB), in the amount of \$1,596,383. The Bonds were issued to finance the City's energy savings project that they have subsequently contracted with Pepco Energy Services for various energy savings measures for City buildings and facilities. Pepco Energy Services has guaranteed payment of the bonds should actual energy savings be insufficient for the entire term of the bonds.

QECCBs are a form of taxable bonds which receive a direct subsidy payment from the Federal government to help offset the cost of the borrowing. The subsidy is intended to promote qualified energy products. The federal subsidy equates to approximately 70% of the interest cost of the financing. The actual savings will depend on the actual reduction in future utility costs as a result of the energy savings project.

Annual debt service requirements to maturity for QECCB.'s are as follows:

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2019	\$ 26,026	\$ 5,619	\$ 66,728	\$ 14,405	\$ 112,778
2020	26,421	5,224	67,737	13,394	112,776
2021	26,821	4,824	68,763	12,368	112,776
2022	27,227	4,418	69,805	11,326	112,776
2023	27,640	4,005	70,862	10,269	112,776
2024-2028	144,609	13,617	370,747	34,912	563,885
2029-2031	92,129	2,806	236,201	7,193	338,329
	<u>\$ 370,873</u>	<u>\$ 40,513</u>	<u>\$ 950,843</u>	<u>\$ 103,867</u>	<u>\$ 1,466,096</u>

E. Tax Notes

The City also issues tax notes to provide funds for the acquisition, repair, replacement and construction of facilities and equipment. The tax notes have been issued for both governmental and business-type activities. Tax notes currently outstanding are as follows:

	Term	Interest Rates	Original Amount
Series 2017	06/18 - 06/24	2.09%	\$ 1,220,000

Annual debt service requirements to maturity for the tax notes are as follows:

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2019	\$ 115,600	\$ 15,420	\$ 54,400	\$ 7,257	\$ 192,677
2020	119,000	13,004	56,000	6,119	194,123
2021	122,400	10,517	57,600	4,949	195,466
2022	125,800	7,959	59,200	3,745	196,704
2023	125,800	5,330	59,200	2,508	192,838
2024	129,200	2,700	60,800	1,270	193,970
	<u>\$ 737,800</u>	<u>\$ 54,930</u>	<u>\$ 347,200</u>	<u>\$ 25,848</u>	<u>\$ 1,165,778</u>

NOTE 10: LONG-TERM DEBT - (Continued)

F. Capital Leases

Lease purchase agreement on various equipment. The original amount of the lease, entered into in fiscal year 2015, was \$143,343. The lease is payable in semi-annual installments of \$15,569 and bears interest at a rate of 3.50%. \$ 30,198

Lease purchase agreement on various equipment. The original amount of the lease, entered into in fiscal year 2017, was \$364,319. The lease is payable in semi-annual installments of \$40,030 and bears interest at a rate of 3.50%. 296,423

\$ 326,621

The present value of the capital leases after deduction of imputed interest is \$326,620.

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2019	\$ 66,470	\$ 6,902	\$ 34,022	\$ 3,657	\$ 111,051
2020	47,385	4,742	25,391	2,541	80,059
2021	49,058	3,069	26,288	1,645	80,060
2022	50,791	1,337	27,216	716	80,060
	<u>\$ 213,704</u>	<u>\$ 16,050</u>	<u>\$ 112,917</u>	<u>\$ 8,559</u>	<u>\$ 351,230</u>

NOTE 11: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Interfund Receivables and Payables

Due To/From Other Funds

At times during the fiscal year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund. Interfund receivable and payable balances as of September 30, 2018, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Debt Service	\$ 115,946
	2011 Bond Construction	146,416
	Nonmajor Governmental	404,218
	Water and Sewer	318,674
	Solid Waste	21,466
	Emergency Medical Services	63,926
	Civic Center	7,438
	Airport	58
		<u>1,078,142</u>
2011 Bond Construction	General	165,530
	Water and Sewer	450,000
		<u>615,530</u>
Nonmajor Governmental	General	195,037
	Nonmajor Governmental	143,955
	Water and Sewer	319,356
	Airport	78,904
		<u>737,252</u>
Water and Sewer	Debt Service	14,739
	Solid Waste	10
	Nonmajor Governmental	1,709,529
		<u>1,724,278</u>
Solid Waste	Nonmajor Governmental	<u>882</u>
Emergency Medical Services	Nonmajor Governmental	<u>7,433</u>
Civic Center	Nonmajor Governmental	<u>48,248</u>
Airport	General	175
	Nonmajor Governmental	7,731
		<u>7,906</u>

NOTE 11: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS - (Continued)

A. Interfund Receivables and Payables - (Continued)

Advances To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water and Sewer	<u>\$ 430,000</u>

The amount payable to the General Fund relates to working capital loans made to the Water and Sewer Fund. \$50,000 of the balance is scheduled to be collected in the subsequent year.

B. Interfund Transfers

Each year various funds of the City transfer funds to other funds. The most significant of these are the planned transfers from the City's enterprise funds to specified governmental funds. These transfers are intended to provide the necessary resources to meet the operating and debt service obligations of the receiving funds.

During the current fiscal year, transfers between funds consisted of the following:

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Total</u>
	<u>General</u>	<u>Civic Center</u>	<u>Nonmajor Governmental</u>	
Nonmajor Governmental	\$ -	\$ 293,900	\$ -	\$ 293,900
Water and Sewer	798,800	-	125,000	923,800
Emergency Medical Services	<u>98,412</u>	<u>-</u>	<u>-</u>	<u>98,412</u>
	<u>\$ 897,212</u>	<u>\$ 293,900</u>	<u>\$ 125,000</u>	<u>\$ 1,316,112</u>

NOTE 12: COMMITMENTS AND CONTINGENCIES

Grant Programs

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at September 30, 2018, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 12: COMMITMENTS AND CONTINGENCIES - (Continued)

Construction and Acquisition Commitments

As of September 30, 2018, the City had entered into contractual commitments with contractors for various City projects. The commitments with contractors were as follows:

<u>Project</u>	<u>Remaining Commitment</u>
Sanitary sewer line improvements	\$ 89,041
Energy savings project	811,416
Total	<u>\$ 900,457</u>

The commitments are being funded by various federal grants, bond proceeds, and service revenues.

NOTE 13: FUND BALANCES

The following is a detail of the governmental fund balances as of September 30, 2018:

	<u>Governmental Fund Balances</u>				
	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Unassigned</u>	<u>Total</u>
General					
Prepaid items	\$ 29,107	\$ -	\$ -	\$ -	\$ 29,107
Long-term interfund advances	430,000	-	-	-	430,000
Unassigned	-	-	-	1,460,523	1,460,523
Debt Service					
Long-term debt	-	383,852	-	-	383,852
2011 Bond Construction					
Various capital projects	-	2,304,425	-	-	2,304,425
Nonmajor Governmental					
Various capital projects	-	694,929	-	-	694,929
Arts and tourism	-	118,783	-	-	118,783
Municipal court security and technology	-	40,614	-	-	40,614
Law enforcement	-	38,668	-	-	38,668
Fire department	-	21,150	-	-	21,150
Unassigned	-	-	-	(416,566)	(416,566)
	<u>\$ 459,107</u>	<u>\$ 3,602,421</u>	<u>\$ -</u>	<u>\$ 1,043,957</u>	<u>\$ 5,105,485</u>

NOTE 14: SALES TAX REBATE AGREEMENT

The City, along with the Wharton Economic Development Corporation (WEDC), and as part of a business development plan to bring in new businesses to the City, entered into a ten year agreement effective August 16, 2008 with Buc-ee's, Ltd. (Buc-ee's) whereby, collectively, the City and WEDC rebate Buc-ee's monthly 1.5% of the sales tax collected as a result of Buc-ee's taxable sales. During the year ended September 30, 2018, tax rebate expenditures of \$163,928 were incurred.

NOTE 15: SUBSEQUENT EVENT

On March 28, 2018 the City received a Letter of Conditions for the loan with the USDA Rural Development for the construction of a new well, ground storage tank and a distribution pump station. The loan is for \$4,872,000 to be closed within a 12 month period at a rate of the lower of the rate in effect at the time of loan approval (2.75%) or the current interest rate, if it is lower for a period of 40 years.

NOTE 16: RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

The GASB has issued the following statement which became effective for fiscal year 2018:

GASB Statement No. 75: Accounting and Financial Reporting for Post-employment Benefits Other than Pensions replaces previous authoritative literature. For plans that do not have formal trusts, GASB Statement No. 75 requires state and local government employers to recognize the total OPEB liability and the related OPEB expense on their financial statements along with the related deferred outflows and inflows of resources. In addition to the deferred outflows/inflows associated with plan experience and assumption changes, the standard requires the benefit payments and administrative costs incurred subsequent to the measurement date and before the end of the employer's reporting period to be reported as a deferred outflow of resources.

The implementation of GASB No. 75 resulted in the restatement of beginning net position for the recording of the beginning OPEB liability and the beginning deferred outflow for contributions made after the measurement date. Prospectively applying the change results in the adjustments below.

In addition, there were restatements to the General Fund fund balance as well as the net position in the Governmental activities and Business-type activities net position at September 30, 2017 to properly report expenditures/expenses in the year.

	Fund Level							
	Government-wide Statement of Activities		Statement of Revenues, Expenditures/Expenses and Changes in Fund Balance/Net Position					
	Govern- mental Activities	Business- type Activities	General	Water and Sewer	Solid Waste	Emergency Medical Services	Civic Center	Airport
Net position/Fund balance at September 30, 2017, as previously reported	\$7,612,116	\$14,044,015	\$1,697,271	\$8,186,200	\$58,560	\$808,526	\$1,061,565	\$3,929,164
Restatement for prior year expenditures/ expenses	(47,620)	(32,263)	(47,620)	(12,673)	(758)	(16,547)	(1,517)	(768)
Recording of Total OPEB - SDB liability as of September 30, 2017	(120,229)	(83,549)	-	(30,567)	-	(52,982)	-	-
Deferral for OPEB - SDB contributions made after the measurement date	5,129	3,564	-	1,304	-	2,260	-	-
Net position/Fund balance at September 30, 2017, as restated	<u>\$7,449,396</u>	<u>\$13,931,767</u>	<u>\$1,649,651</u>	<u>\$8,144,264</u>	<u>\$57,802</u>	<u>\$741,257</u>	<u>\$1,060,048</u>	<u>\$3,928,396</u>

NOTE 17: WHARTON ECONOMIC DEVELOPMENT CORPORATION

As described in Note 1, the Wharton Economic Development Corporation (WEDC) is a component unit of the City. It is reported in a separate column to emphasize that it is legally separate for accounting purposes from the City. Following are note disclosures relating to this component unit:

A. Organization

WEDC, a public instrumentality and nonprofit corporation, under Section 501(c)(4) was created under Section 4B of the Development Corporation Act of 1979, Article 5190.6 of the Revised Civil Statutes of Texas (the "Act") on March 13, 1998. Under the Act, the Board of Directors consists of seven members appointed by and who serve at the pleasure of the City Council of the City for two-year terms.

WEDC may enter into any project authorized by the Act including, but not limited to, such projects as promotion and development of new and expanded business enterprises, job training centers, infrastructure improvements, public safety, municipal buildings, civic centers, recreation facilities, and other related facilities.

WEDC prepares annual financial statements as of September 30th of each year. WEDC reports its financial results as a governmental type of entity.

B. Summary of Significant Accounting Policies

The accounting and reporting policies of WEDC conform to GAAP, as applicable to governmental units. For inclusion in this report, WEDC's operations are reported as a governmental fund type.

Budgets and Budgetary Accounting

The Board of Directors submits an annual budget to the City for approval in accordance with the Texas Municipal Budget Act. In September of each year, the Board of Directors, with approval by the City, adopts an annual fiscal year appropriated budget for the General Fund. Once approved, the Board of Directors may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

The appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by functions and departments. This constitutes the legal level of control. Expenditures may not exceed appropriations and beginning fund balances. Budget revisions at this level are subject to final review by the Board of Directors. Within these above control levels, the Board of Directors may transfer appropriations without approval by the City.

The budget of WEDC is prepared on a basis consistent with GAAP. Revenues are budgeted in the year receipts are expected, and expenditures are budgeted in the year that the applicable purchase occurs. Any unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

For the year ended September 30, 2018, the final budget anticipated \$1,294,311 more in expenditures than revenues. WEDC did not over-expend any budgeted expenditures for the year ended September 30, 2018.

Deposits and Investments

WEDC'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.

NOTE 17: WHARTON ECONOMIC DEVELOPMENT CORPORATION - (Continued)

B. Summary of Significant Accounting Policies - (Continued)

WEDC has adopted a written investment policy regarding the investments of its funds as defined in the Public Investment Act (Chapter 2256.001 Texas Government Code). The investments of WEDC are in compliance with the Board of Directors investment policy and the Public Funds Investment Act. WEDC is authorized to invest in obligations and instruments as follows: 1) obligations of the United States and its agencies, 2) direct obligations of the State of Texas or its agencies, 3) repurchase agreements and revenue repurchase agreements as defined by the Public Funds Investment Act, 4) No-load Securities Exchange Commission registered money market funds, 5) Constant Dollar Texas Local Government Investments Pools as defined by the Public Funds Investment Act, 6) certificates of deposits, and 7) other instruments and obligations authorized by statute.

Inventory

WEDC inventory, consisting of materials and supplies, is recorded using the purchases method.

Capital Assets

WEDC's capital assets, which consist of real estate held for development, furniture, fixtures, and equipment, are recorded at cost. Real estate held for development is not subject to depreciation. Depreciation has been charged against these assets using a straight-line method from 5 to 7 years.

Compensated Absences and Retirement Plans

WEDC follows the City's policies for compensated absences, retirement, and other benefits for its employees. Accumulated benefits payable is not considered material to the accompanying financial statements. As such, no liability for these benefits has been reported as of September 30, 2018.

Fund Equity

Fund balances of WEDC classified as nonspendable are balances that are not in spendable form, such as inventories or prepaid items. Fund balances classified as restricted are balances with constraints placed on the use of resources by grantors, creditors, contributors, or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by WEDC's Board of Directors. These amounts cannot be used for other purposes unless the Board removes or changes the constraints through the same type of action used to initially commit them. Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. The intent can be expressed by the Board of Directors or by a Board designee.

For the classification of Governmental Fund balances, when more than one classification is available, WEDC will typically use restricted, committed, and/or assigned fund balances, in that order, prior to using unassigned resources.

WEDC generally aims to maintain an unassigned fund balance of approximately 10 - 15% of budgeted expenditures for the fiscal year to be used for unanticipated needs.

Federal Income Taxes

WEDC is exempt from Federal income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code.

NOTE 17: WHARTON ECONOMIC DEVELOPMENT CORPORATION - (Continued)

C. Deposits and Investments

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

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>
Public Funds Investment Pool		
TexPool	\$ 1,681	28
Certificate of Deposit	249,874	180

The investment pool operates in a manner consistent with SEC Rule 2(a)(7) of the Investment Company Act of 1940 but is not registered with the SEC as an investment company. Instead, the regulatory oversight for the pool is the State of Texas. The pool uses amortized cost rather than fair value to report net position to compute share prices. Accordingly, the fair value of the position in the pool is the same as the value of the shares in the pool.

As previously discussed, since the investments in the pool is a short-term investment with original maturity of less than three months, and the certificate of deposit is a demand deposit, these investments are included with cash and cash equivalents in the accompanying statements at amortized cost.

Interest Rate Risk

In accordance with WEDC's investment policy, WEDC manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments in non-operating funds to less than five years from the time of purchase. The maximum weighted average maturity of the overall portfolio of WEDC's operating funds cannot exceed six months.

Credit Risk

It is WEDC's policy to limit its investments to those with ratings of not less than A or its equivalent. WEDC's investments in the public funds investment pools include those with TexPool. The pool operates in full compliance with the Public Funds Investment Act. TexPool is rated AAAM by Standard & Poor's.

Concentration of Credit Risk

WEDC's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, WEDC was not exposed to concentration of credit risk.

NOTE 17: WHARTON ECONOMIC DEVELOPMENT CORPORATION - (Continued)

C. Deposits and Investments - (Continued)

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, WEDC's deposits may not be returned to it. WEDC's investment policy requires that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to WEDC by the depository in an amount equal to at least 102% of the carrying value of deposits held.

As of September 30, 2018, WEDC had deposits in six financial institutions and the deposits were FDIC or NCUA insured at each institution up to \$250,000. WEDC had no pledged collateral agreements in place during the year. At September 30, 2018, WEDC's uninsured cash balances total \$6,088.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, WEDC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. WEDC's investment policy requires that securities be held in the name of WEDC or held on behalf of WEDC and that all securities are purchased using the delivery versus payment method. As of September 30, 2018, and for the year then ended, WEDC was not exposed to any custodial credit risk.

D. Sales Taxes

WEDC, by law, is to receive one-third of the sales tax earned by the City and paid monthly to the City by the State of Texas. WEDC's outstanding receivable of the sales tax earned by the City for the year ended September 30, 2018, was \$129,872. The City collects the sales tax from the State of Texas and then pays WEDC's portion monthly when collected.

E. Sales Tax Rebate Agreement

WEDC, along with the City, and as part of a business development plan to bring in new businesses to the City, entered into a ten year agreement effective August 16, 2008 with Buc-ee's, Ltd. (Buc-ee's) whereby, collectively, WEDC and the City rebate Buc-ee's monthly 1.5% of the sales tax collected as a result of Buc-ee's taxable sales. During the year ended September 30, 2018, tax rebate expenditures of \$77,485 were incurred.

WEDC entered into a rebate agreement with King Ranch Turfgrass L.P. (King Ranch) effective January 1, 2009 until December 18, 2018 (10 years) whereby WEDC would rebate King Ranch a percentage of sales tax collected as a result of King Ranch's sales. For the year ended September 30, 2018, tax rebate expenditures of \$9,407 were incurred.

The companies collect sales tax on each taxable transaction and then pay that tax on a monthly basis to the Texas Comptroller's Office. WEDC's portion will be reimbursed based on the twelve month accumulation of Comptroller sales tax receipts. Recapture is not applicable.

NOTE 17: WHARTON ECONOMIC DEVELOPMENT CORPORATION - (Continued)F. Capital Assets

WEDC's capital asset activity for the year ended September 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated				
Real estate held for development	<u>\$ 385,335</u>	<u>\$ 30,000</u>	<u>\$ -</u>	<u>\$ 415,335</u>
Total capital assets not being depreciated	<u>385,335</u>	<u>30,000</u>	<u>-</u>	<u>415,335</u>
Capital assets, being depreciated				
Leasehold improvements	<u>8,975</u>	<u>2,045</u>	<u>-</u>	<u>11,020</u>
Furniture and fixtures	<u>37,002</u>	<u>5,151</u>	<u>-</u>	<u>42,153</u>
Total capital assets being depreciated	<u>45,977</u>	<u>7,196</u>	<u>-</u>	<u>53,173</u>
Less accumulated depreciation for				
Furniture and fixtures	<u>36,296</u>	<u>2,746</u>	<u>-</u>	<u>39,042</u>
Total accumulated depreciation	<u>36,296</u>	<u>2,746</u>	<u>-</u>	<u>39,042</u>
Total capital assets being depreciated, net	<u>9,681</u>	<u>4,450</u>	<u>-</u>	<u>14,131</u>
Governmental activities capital assets, net	<u>\$ 395,016</u>	<u>\$ 34,450</u>	<u>\$ -</u>	<u>\$ 429,466</u>

NOTE 17: WHARTON ECONOMIC DEVELOPMENT CORPORATION - (Continued)

G. Operating Lease Agreements

Lease Expense Agreements

WEDC leases its office facilities from the City on an annual lease agreement that requires \$1,154 per month for office space and \$1,000 per year for administrative support. Either WEDC or the City can terminate this lease by giving 30 days notice. For the year ended September 30, 2018, \$14,851 was paid under this agreement.

Lease Income Agreements

WEDC leases real estate to a manufacturing company for \$720 per month under the terms of the one-year lease effective August 1, 2018. The lease has an extension option where the landlord and tenant can agree to renew and extend the lease for an additional month with no expiration. The manufacturing company is currently working on purchasing the property from WEDC.

H. Related Party Transactions

During the normal course of business, WEDC purchased goods and services from businesses in and around the City. On occasion, there are companies that WEDC conducted business with that are owned wholly by, partially owned by, or employers of members of the Board of Directors of WEDC. WEDC has established conflict of interest policies, as are outlined in WEDC's by-laws, which provide procedures when a business transaction involves a conflict of interest and/or the appearance of self-dealing with employees, officers, or board members of WEDC.

The City pays WEDC's payroll each month from City funds, and WEDC generally reimburses the City the following month. At September 30, 2018, WEDC owed the City \$19,964 for wages and benefits previously paid by the City. WEDC also owed the City \$240,000 for parks and pool maintenance.

I. Commitments

As of September 30, 2018, WEDC had approved but not yet paid \$405,154 for business restoration grants and other various construction projects. WEDC has committed to paying \$29,631 in business restoration grants, \$185,523 in business disaster loans, and \$190,000 for various construction projects. These commitments are being funded by the sales tax revenues received from the City.

J. Employees' Retirement Plan

WEDC provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional, defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The employees of WEDC are treated as employees of the City of Wharton for retirement plan purposes. Please see Note 7 for discussions relative to the funding arrangements.

Required Supplementary Information

CITY OF WHARTON, TEXAS

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2018

With comparative totals for the year ended September 30, 2017

	2018			Variance Positive (Negative)	2017
	Original Budget	Final Budget	Actual		Actual
REVENUES					
Taxes	\$ 3,248,564	\$ 3,329,064	\$ 3,344,874	\$ 15,810	\$ 3,211,953
Licenses and permits	86,157	109,157	119,824	10,667	107,737
Intergovernmental	354,750	490,639	482,695	(7,944)	295,634
Charges for services	9,350	9,350	14,841	5,491	7,736
Fines and forfeitures	294,950	291,950	296,751	4,801	309,722
Investment income	1,500	1,500	3,594	2,094	4,101
Industrial district fee	1,533,990	1,275,990	1,276,673	683	1,059,353
Miscellaneous	29,546	104,546	118,524	13,978	39,002
Total revenues	5,558,807	5,612,196	5,657,776	45,580	5,035,238
EXPENDITURES					
Current					
General government	1,041,426	1,145,538	1,128,610	16,928	940,095
Public safety	3,679,398	3,606,787	3,577,413	29,374	3,524,462
Public works	1,247,144	1,154,157	1,131,552	22,605	1,184,220
Cultural and recreation	75,051	118,676	113,749	4,927	113,367
Capital outlay	357,000	436,150	283,482	152,668	483,891
Debt service	91,000	83,100	72,464	10,636	21,346
Total expenditures	6,491,019	6,544,408	6,307,270	237,138	6,267,381
Excess (deficiency) of revenues over expenditures	(932,212)	(932,212)	(649,494)	282,718	(1,232,143)
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	35,000	35,000	22,261	(12,739)	28,084
Capital lease proceeds	-	-	-	-	237,211
Transfers in	897,212	897,212	897,212	-	902,147
Total other financing sources (uses)	932,212	932,212	919,473	(12,739)	1,167,442
Net change in fund balance	-	-	269,979	269,979	(64,701)
Fund balance at beginning of year, as restated	1,649,651	1,649,651	1,649,651	-	1,761,972
Fund balance at end of year	\$ 1,649,651	\$ 1,649,651	\$ 1,919,630	\$ 269,979	\$ 1,697,271

The accompanying notes to required supplementary information are an integral part of this schedule.

CITY OF WHARTON, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

TEXAS MUNICIPAL RETIREMENT SYSTEM - PENSION

Last ten years

	Measurement Year		
	2014	2015	2016
Total Pension Liability			
Service cost	\$ 392,673	\$ 467,271	\$ 486,516
Interest (on the total pension liability)	883,991	935,232	964,799
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(148,089)	(69,977)	(3,204)
Change of assumptions	-	87,049	-
Benefit payments, including refunds of employee contributions	<u>(458,381)</u>	<u>(409,355)</u>	<u>(583,296)</u>
Net Change in Total Pension Liability	670,194	1,010,220	864,815
Total Pension Liability - Beginning	<u>12,661,298</u>	<u>13,331,492</u>	<u>14,341,712</u>
Total Pension Liability - Ending (a)	<u>\$ 13,331,492</u>	<u>\$ 14,341,712</u>	<u>\$ 15,206,527</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 329,560	\$ 319,404	\$ 299,573
Contributions - Employee	224,191	241,608	247,717
Net Investment Income	690,883	18,970	878,757
Benefit payments, including refunds of employee contributions	(458,381)	(409,355)	(583,296)
Administrative expense	(7,213)	(11,554)	(9,933)
Other	<u>(593)</u>	<u>(570)</u>	<u>(536)</u>
Net Change in Plan Fiduciary Net Position	778,447	158,503	832,282
Plan Fiduciary Net Position - Beginning	<u>12,076,821</u>	<u>12,855,268</u>	<u>13,013,771</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 12,855,268</u>	<u>\$ 13,013,771</u>	<u>\$ 13,846,053</u>
Net Pension Liability - Ending (a) - (b)	\$ 476,224	\$ 1,327,941	\$ 1,360,474
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	96.43%	90.74%	91.05%
Covered Payroll	\$ 4,483,820	\$ 4,832,168	\$ 4,954,339
Net Pension Liability as a Percentage of Covered Payroll	10.62%	27.48%	27.46%

NOTE: Information for the prior six years was not readily available. The City will compile the respective information over the next six years as provided by TMRS on a "measurement date" basis.

The accompanying notes to required supplementary information are an integral part of this schedule.

Measurement Year

2017

\$ 530,477
1,026,605
-
(117,320)
-
(525,617)

914,145
15,206,527

\$ 16,120,672

\$ 335,008
271,482
1,917,689

(525,617)
(9,945)
(502)

1,988,115
13,846,053

\$ 15,834,168

\$ 286,504

98.22%

\$ 5,429,650

5.28%

CITY OF WHARTON, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM - PENSION
Last ten fiscal years

	Fiscal Year		
	2015	2016	2017
Actuarially Determined Contribution	\$ 313,995	\$ 298,670	\$ 327,765
Contribution in relation to the actuarially determined contribution	<u>(317,405)</u>	<u>(308,435)</u>	<u>(339,250)</u>
Contribution deficiency (excess)	<u>\$ (3,410)</u>	<u>\$ (9,765)</u>	<u>\$ (11,485)</u>
Covered employee payroll	\$ 4,629,029	\$ 4,817,630	\$ 5,339,237
Contributions as a percentage of covered employee payroll	6.86%	6.40%	6.35%

NOTE: Information for the prior six fiscal years was not readily available. The City will compile the respective information over the next six fiscal years.

Fiscal Year

2018

\$ 329,837

(341,254)

\$ (11,417)

\$ 5,358,388

6.37%

CITY OF WHARTON, TEXAS

*SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFIT
Last ten years*

	<u>Measurement Year</u>
	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 8,687
Interest (on the total OPEB liability)	7,836
Change of benefit terms	-
Difference between expected and actual experience	-
Change of assumptions	18,706
Benefit payments	<u>(1,629)</u>
Net Change in Total OPEB Liability	33,600
Total OPEB Liability - Beginning	<u>203,778</u>
Total OPEB Liability - Ending	<u>\$ 237,378</u>
Covered Payroll	\$ 5,429,650
Total OPEB Liability as a Percentage of Covered Payroll	4.37%

NOTE: Information for the prior nine years was not readily available. The City will compile the respective information over the next nine years as provided by TMRS on a "measurement date" basis.

CITY OF WHARTON, TEXAS

SCHEDULE OF EMPLOYER CONTRIBUTIONS

TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFIT

Last ten fiscal years

	<u>Fiscal Year</u>
	<u>2018</u>
Actuarially Determined Contribution	\$ 1,608
Contribution in relation to the actuarially determined contribution	<u>(1,608)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered payroll	\$ 5,358,388
Contributions as a percentage of covered payroll	0.0300%

NOTE: Information for the prior nine years was not readily available. The City will compile the respective information over the next nine years.

CITY OF WHARTON, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2018

NOTE 1: BUDGETARY INFORMATION

The City annually adopts budgets that are prepared using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

NOTE 2: BUDGETARY LEGAL COMPLIANCE

For the year ended September 30, 2018, the City complied with budgetary restrictions at all departmental levels in the General Fund.

NOTE 3: DEFINED BENEFIT PENSION PLAN

Valuation Date

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

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 year Smoothed Market; 15% Soft Corridor
Inflation	2.5%
Overall Payroll Growth	3.00%
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.

Other Information

There were no benefit changes during the year.

NOTE 4: SUPPLEMENTAL DEATH BENEFIT PLAN - OPEB

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

There were no changes in plan provisions or assumptions during the year.

Combining and Individual Fund Statements and Schedules

CITY OF WHARTON, TEXAS
ALL NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
 September 30, 2018

	Total Nonmajor Special Revenue Funds	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
ASSETS			
Current assets			
Cash and cash equivalents	\$ 163,742	\$ 1,890,710	\$ 2,054,452
Receivables, net	63,975	-	63,975
Due from other funds	118,719	618,533	737,252
Due from other governments	299,886	-	299,886
Total assets	\$ 646,322	\$ 2,509,243	\$ 3,155,565
LIABILITIES			
Accounts payable	\$ 23,656	\$ 84,096	\$ 107,752
Accrued expenditures	-	554	554
Due to other funds	428,671	1,893,325	2,321,996
Total liabilities	452,327	1,977,975	2,430,302
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	227,685	-	227,685
Total deferred inflows of resources	227,685	-	227,685
FUND BALANCES			
Restricted			
Cultural and recreation	118,783	-	118,783
Municipal court	40,614	-	40,614
Public safety	59,818	-	59,818
Various capital projects	-	694,929	694,929
Unassigned	(252,905)	(163,661)	(416,566)
Total fund balances	(33,690)	531,268	497,578
Total liabilities, deferred inflows and fund balances	\$ 646,322	\$ 2,509,243	\$ 3,155,565

CITY OF WHARTON, TEXAS

ALL NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the year ended September 30, 2018

	Total Nonmajor Special Revenue Funds	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
REVENUES			
Taxes	\$ 376,852	\$ -	\$ 376,852
Intergovernmental	847,838	206,703	1,054,541
Fines and forfeitures	30,018	-	30,018
Investment income	819	5,701	6,520
Miscellaneous	7,937	-	7,937
Total revenues	<u>1,263,464</u>	<u>212,404</u>	<u>1,475,868</u>
EXPENDITURES			
Current			
General government	615,010	103,247	718,257
Public safety	7,588	-	7,588
Public works	-	24,656	24,656
Cultural and recreation	90,058	-	90,058
Capital outlay	-	427,170	427,170
Debt service			
Issuance costs	-	33,929	33,929
Total expenditures	<u>712,656</u>	<u>589,002</u>	<u>1,301,658</u>
Excess (deficiency) of revenues over expenditures	550,808	(376,598)	174,210
OTHER FINANCING SOURCES (USES)			
Tax note proceeds	-	829,600	829,600
Transfers in	-	125,000	125,000
Transfers out	(293,900)	-	(293,900)
Total other financing sources (uses)	<u>(293,900)</u>	<u>954,600</u>	<u>660,700</u>
Net change in fund balances	256,908	578,002	834,910
Fund balances at beginning of year	(290,598)	(46,734)	(337,332)
Fund balances at end of year	<u>\$ (33,690)</u>	<u>\$ 531,268</u>	<u>\$ 497,578</u>

SPECIAL REVENUE FUNDS

The City maintains seven Special Revenue Funds. Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The Disaster Relief Fund is reported as a major fund.

Hotel/Motel Tax Fund - Accounts for the collection of hotel and motel taxes collected within the City.

Municipal Court Technology and Building Security Funds - Account for funds received in addition to municipal court fines to enhance these specific areas.

Narcotics Control Fund - Accounts for the funds received from narcotics contraband seized within the City as a result of a final conviction or forfeiture by the federal government and the State of Texas. The funds are to be used solely for law enforcement purposes and for matching funds for LLEBG and other law enforcement grants.

Fire Department Special Fund - Accounts for funds received from services rendered by the Wharton Volunteer Fire Department and used for the purchase of fire department equipment and supplies.

Railroad Depot Restoration Fund - Accounts for the railroad restoration project financed by grant proceeds and local contributions.

Disaster Relief Fund - Accounts for the activities of the City associated with disasters such as floods, hurricanes, etc.

CITY OF WHARTON, TEXAS

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

September 30, 2018

	Hotel/Motel Tax	Municipal Court Technology	Narcotics Control	Fire Department Special
ASSETS				
Current assets				
Cash and cash equivalents	\$ 58,506	\$ 1,326	\$ 38,668	\$ 21,150
Receivables, net				
Accounts	63,975	-	-	-
Due from other funds	5,000	50	-	-
Due from other governments	-	-	-	-
Total assets	<u>\$ 127,481</u>	<u>\$ 1,376</u>	<u>\$ 38,668</u>	<u>\$ 21,150</u>
LIABILITIES				
Accounts payable	\$ 8,698	\$ -	\$ -	\$ -
Due to other funds	-	8,240	-	-
Total liabilities	<u>8,698</u>	<u>8,240</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted				
Cultural and recreation	118,783	-	-	-
Municipal court	-	-	-	-
Public safety	-	-	38,668	21,150
Unassigned	-	(6,864)	-	-
Total fund balances	<u>118,783</u>	<u>(6,864)</u>	<u>38,668</u>	<u>21,150</u>
Total liabilities and fund balances	<u>\$ 127,481</u>	<u>\$ 1,376</u>	<u>\$ 38,668</u>	<u>\$ 21,150</u>

<u>Municipal Court Building Security</u>	<u>Railroad Depot Restoration</u>	<u>Disaster Relief</u>	<u>Total</u>
\$ 40,580	\$ 3,512	\$ -	\$ 163,742
-	-	-	63,975
34	-	113,635	118,719
<u>-</u>	<u>-</u>	<u>299,886</u>	<u>299,886</u>
<u>\$ 40,614</u>	<u>\$ 3,512</u>	<u>\$ 413,521</u>	<u>\$ 646,322</u>
\$ -	\$ 63	\$ 14,895	\$ 23,656
-	<u>5,000</u>	<u>415,431</u>	<u>428,671</u>
<u>-</u>	<u>5,063</u>	<u>430,326</u>	<u>452,327</u>
<u>-</u>	<u>-</u>	<u>227,685</u>	<u>227,685</u>
<u>-</u>	<u>-</u>	<u>227,685</u>	<u>227,685</u>
-	-	-	118,783
40,614	-	-	40,614
-	-	-	59,818
<u>-</u>	<u>(1,551)</u>	<u>(244,490)</u>	<u>(252,905)</u>
<u>40,614</u>	<u>(1,551)</u>	<u>(244,490)</u>	<u>(33,690)</u>
<u>\$ 40,614</u>	<u>\$ 3,512</u>	<u>\$ 413,521</u>	<u>\$ 646,322</u>

CITY OF WHARTON, TEXAS

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the year ended September 30, 2018

	Hotel/Motel Tax	Municipal Court Technology	Narcotics Control	Fire Department Special
REVENUES				
Taxes	\$ 376,852	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Fines and forfeitures	-	10,310	12,314	-
Investment income	408	7	176	53
Miscellaneous	-	-	5,517	-
Total revenues	<u>377,260</u>	<u>10,317</u>	<u>18,007</u>	<u>53</u>
EXPENDITURES				
Current				
General government	-	14,173	-	-
Public safety	-	-	7,588	-
Cultural and recreation	88,287	-	-	-
Total expenditures	<u>88,287</u>	<u>14,173</u>	<u>7,588</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	288,973	(3,856)	10,419	53
OTHER FINANCING SOURCES (USES)				
Transfers out	(293,900)	-	-	-
Total other financing sources (uses)	<u>(293,900)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(4,927)	(3,856)	10,419	53
Fund balances at beginning of year	123,710	(3,008)	28,249	21,097
Fund balances at end of year	<u>\$ 118,783</u>	<u>\$ (6,864)</u>	<u>\$ 38,668</u>	<u>\$ 21,150</u>

<u>Municipal Court Building Security</u>	<u>Railroad Depot Restoration</u>	<u>Disaster Relief</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 376,852
-	-	847,838	847,838
7,394	-	-	30,018
174	1	-	819
-	2,420	-	7,937
<u>7,568</u>	<u>2,421</u>	<u>847,838</u>	<u>1,263,464</u>
-	-	600,837	615,010
-	-	-	7,588
-	1,771	-	90,058
-	1,771	600,837	712,656
7,568	650	247,001	550,808
-	-	-	(293,900)
-	-	-	(293,900)
7,568	650	247,001	256,908
<u>33,046</u>	<u>(2,201)</u>	<u>(491,491)</u>	<u>(290,598)</u>
<u>\$ 40,614</u>	<u>\$ (1,551)</u>	<u>\$ (244,490)</u>	<u>\$ (33,690)</u>

CAPITAL PROJECT FUNDS

The City maintains six Capital Project Funds: 2011 Bond Construction Fund, the 2013 Bond Construction Fund, the Qualified Energy Conservation Bonds Fund, the Capital Improvement Fund, the 2015 Bond Construction Fund, and the 2017 Tax Notes Fund. The purpose of these funds is to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities or other capital assets. Capital Project Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments. The 2011 Bond Construction Fund is reported as a major fund.

2011 Bond Construction Fund - Accounts for the use of the proceeds from the City's 2011 Certificates of Obligation.

2013 Bond Construction Fund - Accounts for the use of the proceeds from the City's 2013 Certificates of Obligation.

Qualified Energy Conservation Bonds Fund - Accounts for the use of the proceeds from the bonds for utility cost reduction measures in City buildings and facilities.

Capital Improvement Fund - Accounts for monies transferred from other City funds for the improvement and construction of the City's streets.

2015 Bond Construction Fund - Accounts for the use of the proceeds from the City's 2015 Certificates of Obligation.

2017 Tax Notes Fund - Accounts for the use of the proceeds from the City's 2017 Tax Notes.

CITY OF WHARTON, TEXAS**NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS****COMBINING BALANCE SHEET**

September 30, 2018

	<u>Capital Improvement</u>	<u>2013 Bond Construction</u>	<u>2015 Bond Construction</u>	<u>Qualified Energy Cons. Bonds</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 31,748	\$ 227,023	\$ 105,123	\$ 826,091
Due from other funds	<u>-</u>	<u>27,907</u>	<u>410,330</u>	<u>-</u>
Total assets	<u>\$ 31,748</u>	<u>\$ 254,930</u>	<u>\$ 515,453</u>	<u>\$ 826,091</u>
LIABILITIES				
Accounts payable	\$ 180	\$ 175	\$ -	\$ 83,741
Accrued expenditures	-	554	-	-
Due to other funds	<u>47,409</u>	<u>402,021</u>	<u>357,733</u>	<u>653,908</u>
Total liabilities	<u>47,589</u>	<u>402,750</u>	<u>357,733</u>	<u>737,649</u>
FUND BALANCES				
Restricted				
Various capital projects	-	-	157,720	88,442
Unassigned	<u>(15,841)</u>	<u>(147,820)</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>(15,841)</u>	<u>(147,820)</u>	<u>157,720</u>	<u>88,442</u>
Total liabilities and fund balances	<u>\$ 31,748</u>	<u>\$ 254,930</u>	<u>\$ 515,453</u>	<u>\$ 826,091</u>

<u>2017 Tax Notes</u>	<u>Total</u>
\$ 700,725	\$ 1,890,710
<u>180,296</u>	<u>618,533</u>
<u>\$ 881,021</u>	<u>\$ 2,509,243</u>
\$ -	\$ 84,096
-	554
<u>432,254</u>	<u>1,893,325</u>
<u>432,254</u>	<u>1,977,975</u>
448,767	694,929
<u>-</u>	<u>(163,661)</u>
<u>448,767</u>	<u>531,268</u>
<u>\$ 881,021</u>	<u>\$ 2,509,243</u>

CITY OF WHARTON, TEXAS

NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

For the year ended September 30, 2018

	<u>Capital Improvement</u>	<u>2013 Bond Construction</u>	<u>2015 Bond Construction</u>	<u>Qualified Energy Cons. Bonds</u>
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 206,703	\$ -
Investment income	<u>86</u>	<u>312</u>	<u>567</u>	<u>2,928</u>
Total revenues	<u>86</u>	<u>312</u>	<u>207,270</u>	<u>2,928</u>
EXPENDITURES				
Current				
General government	-	-	-	-
Public works	-	24,656	-	-
Capital outlay	179,014	2,613	78	-
Debt service				
Issuance costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>179,014</u>	<u>27,269</u>	<u>78</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	(178,928)	(26,957)	207,192	2,928
OTHER FINANCING SOURCES (USES)				
Tax note proceeds	-	-	-	-
Transfers in	<u>125,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>125,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(53,928)	(26,957)	207,192	2,928
Fund balances at beginning of year	<u>38,087</u>	<u>(120,863)</u>	<u>(49,472)</u>	<u>85,514</u>
Fund balances at end of year	<u>\$ (15,841)</u>	<u>\$ (147,820)</u>	<u>\$ 157,720</u>	<u>\$ 88,442</u>

<u>2017 Tax Notes</u>	<u>Total</u>
\$ -	\$ 206,703
1,808	5,701
<u>1,808</u>	<u>212,404</u>
103,247	103,247
-	24,656
245,465	427,170
<u>33,929</u>	<u>33,929</u>
<u>382,641</u>	<u>589,002</u>
(380,833)	(376,598)
829,600	829,600
<u>-</u>	<u>125,000</u>
<u>829,600</u>	<u>954,600</u>
448,767	578,002
<u>-</u>	<u>(46,734)</u>
<u>\$ 448,767</u>	<u>\$ 531,268</u>

GENERAL FUND

The General Fund is a constitutional fund and is utilized to account for all of the City's revenues and expenditures except those which are required to be classed in other constitutional funds and such other funds that are presented separately to facilitate proper accountability.

CITY OF WHARTON TEXAS

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2018

With comparative totals for the year ended September 30, 2017

	2018		Variance Positive (Negative)	2017
	Final Budget	Actual		Actual
REVENUES				
Taxes				
Ad valorem	\$ 814,155	\$ 820,811	\$ 6,656	\$ 805,754
Sales	1,407,840	1,416,116	8,276	1,283,407
Franchise	1,107,069	1,107,947	878	1,122,792
Licenses and permits	109,157	119,824	10,667	107,737
Intergovernmental	490,639	482,695	(7,944)	295,634
Charges for services	9,350	14,841	5,491	7,736
Fines and forfeitures	291,950	296,751	4,801	309,722
Investment income	1,500	3,594	2,094	4,101
Industrial district fee	1,275,990	1,276,673	683	1,059,353
Miscellaneous	104,546	118,524	13,978	39,002
Total revenues	5,612,196	5,657,776	45,580	5,035,238
EXPENDITURES				
Current				
General government				
Mayor and council	40,910	37,287	3,623	27,054
City manager	281,011	277,588	3,423	261,022
City secretary	114,955	114,215	740	105,935
Legal and professional	96,000	93,259	2,741	75,510
Finance	300,677	299,143	1,534	260,609
Municipal court	160,485	157,388	3,097	134,413
Central services	151,500	149,730	1,770	75,552
Total general government	1,145,538	1,128,610	16,928	940,095
Public safety				
Police	2,353,042	2,348,274	4,768	2,227,378
Fire	341,133	330,399	10,734	369,400
Code enforcement	258,225	254,479	3,746	265,628
Emergency management	107,995	102,944	5,051	100,559
Animal control	60,905	60,054	851	58,585
Communications	485,487	481,263	4,224	502,912
Total public safety	3,606,787	3,577,413	29,374	3,524,462
Public works				
Streets and drainage	783,573	769,970	13,603	786,994
Garage	135,565	132,133	3,432	160,337
Facilities maintenance	235,019	229,449	5,570	236,889
Total public works	1,154,157	1,131,552	22,605	1,184,220

(continued)

CITY OF WHARTON TEXAS

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2018

With comparative totals for the year ended September 30, 2017

	2018		Variance	2017
	Final Budget	Actual	Positive (Negative)	Actual
EXPENDITURES - (Continued)				
Current - (continued)				
Cultural and recreation				
Recreation	\$ 59,250	\$ 57,709	\$ 1,541	\$ 64,543
Community pool	59,426	56,040	3,386	48,824
Total cultural and recreation	118,676	113,749	4,927	113,367
Capital outlay	430,650	283,482	147,168	483,891
Debt service				
Principal retirement	73,500	64,300	9,200	19,407
Interest and fiscal charges	9,600	8,164	1,436	1,939
Total debt service	83,100	72,464	10,636	21,346
Total expenditures	6,538,908	6,307,270	231,638	6,267,381
Excess (deficiency) of revenues over expenditures	(926,712)	(649,494)	277,218	(1,232,143)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	35,000	22,261	(12,739)	28,084
Capital lease proceeds	-	-	-	237,211
Transfers in	897,212	897,212	-	902,147
Total other financing sources (uses)	932,212	919,473	(12,739)	1,167,442
Net change in fund balance	\$ 5,500	269,979	\$ 264,479	(64,701)
Fund balance at beginning of year, as restated		1,649,651		1,714,352
Fund balance at end of year		\$ 1,919,630		\$ 1,649,651

(concluded)

DEBT SERVICE FUND

The Debt Service Fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for general government debt principal and interest.

CITY OF WHARTON, TEXAS**MAJOR GOVERNMENTAL FUNDS - DEBT SERVICE FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET (GAAP BASIS) AND ACTUAL**

For the year ended September 30, 2018

With comparative totals for the year ended September 30, 2017

	2018			2017
	Final Budget	Actual	Variance Positive (Negative)	Actual
REVENUES				
Ad valorem taxes	\$ 1,123,226	\$ 1,139,371	\$ 16,145	\$ 1,138,900
Investment income	1,000	12,139	11,139	1,900
Total revenues	<u>1,124,226</u>	<u>1,151,510</u>	<u>27,284</u>	<u>1,140,800</u>
EXPENDITURES				
Debt service				
Principal retirement	743,242	816,190	(72,948)	718,170
Interest and fiscal charges	<u>380,984</u>	<u>392,372</u>	<u>(11,388)</u>	<u>407,918</u>
Total expenditures	<u>1,124,226</u>	<u>1,208,562</u>	<u>(84,336)</u>	<u>1,126,088</u>
Excess (deficiency) of revenues over expenditures	-	(57,052)	(57,052)	14,712
OTHER FINANCING SOURCES (USES)	-	-	-	-
Net change in fund balance	-	(57,052)	(57,052)	14,712
Fund balance at beginning of year	<u>14,712</u>	<u>440,904</u>	<u>(426,192)</u>	<u>426,192</u>
Fund balance at end of year	<u>\$ 14,712</u>	<u>\$ 383,852</u>	<u>\$ (483,244)</u>	<u>\$ 440,904</u>

SINGLE AUDIT SECTION



CERTIFIED PUBLIC ACCOUNTANTS
101 S. MAIN, SUITE 400
WHARTON, TEXAS 77901-8142

STEPHEN W. VAN MANEN, CPA
DENNIS C. CIHAL, CPA
ERIC L. KUCERA, CPA
CLAYTON P. VAN PELT, CPA
ROBERT W. SCHAAR, CPA
MELISSA M. TERRY, CPA

VOICE: (361) 573-3255
FAX: (361) 573-9531

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

The Honorable Mayor and Members
of the City Council
City of Wharton, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Wharton, 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 and have issued our report thereon dated November 14, 2019. The financial statements of the Wharton Economic Development Corporation were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs as 2018-1 and 2018-2, to be significant deficiencies.

The Honorable Mayor and Members
of the City Council
City of Wharton, Texas

Compliance and Other Matters

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

Purpose of this Report

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



HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants

November 14, 2019



CERTIFIED PUBLIC ACCOUNTANTS
101 S. MAIN, SUITE 400
WHARTON, TEXAS 77901-8142

STEPHEN W. VAN MANEN, CPA
DENNIS C. CIHAL, CPA
ERIC L. KUCERA, CPA
CLAYTON P. VAN PELT, CPA
ROBERT W. SCHAAR, CPA
MELISSA M. TERRY, CPA

VOICE: (361) 573-3255
FAX: (361) 573-9531

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Honorable Mayor and Members
of the City Council
City of Wharton, Texas

Report on Compliance for Each Major Federal Program

We have audited the City of Wharton, Texas (the "City") compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

The Honorable Mayor and Members
of the City Council
City of Wharton, Texas

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants

November 14, 2019

CITY OF WHARTON, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended September 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Other Award Number
FEDERAL EXPENDITURES		
U. S. Department of Housing and Urban Development		
<i>Passed Through the Texas Department of Agriculture - Office of Rural Affairs</i>		
Community Development Block Grant	14.228	7216489
Community Development Block Grant	14.228	7216124
Total U.S. Department of Housing and Urban Development		
U. S. Department of Transportation		
<i>Passed Through the Texas Department of Transportation</i>		
Airport Improvement Program	20.106	M1813WHRT
National Priority Safety Program	20.616	N/A
Sidewalk Accessibility and Historic Streetscape Project	20.205	CSJ:0913-09-079
<i>Total for Highway Planning and Construction Cluster</i>		
Total U.S. Department of Transportation		
U. S. Department of Justice		
<i>Passed Through the Office of the Governor</i>		
<i>Criminal Justice Division</i>		
Bulletproof Vest Partnership Program	16.607	N/A
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DJ15PY18
Crime Victim Assistance	16.575	VA16-PY18/19
Total U.S. Department of Justice		
U. S. Department of Homeland Security		
<i>Passed Through the Texas Department of Public Safety's</i>		
<i>Division of Emergency Management</i>		
Disaster Grant - Public Assistance (Presidentially Declared Disasters)	97.036	4332-DR-TX
Disaster Grant - Public Assistance (Presidentially Declared Disasters)	97.036	4269 DR-TX
Homeland Security Grant	97.067	SHSP FY17
Total U.S. Department of Homeland Security		
TOTAL FEDERAL EXPENDITURES		

See accompanying notes to schedule of expenditures of federal awards.

Expenditures			Passed through to Subrecipients	Name of Cluster (if applicable)	Note
From Pass-Through Awards	From Direct Awards	Total			
\$ 202,640	\$ -	\$ 202,640	\$ -		
53,460	-	53,460	-		
<u>256,100</u>	<u>-</u>	<u>256,100</u>	<u>-</u>		
42,318	-	42,318	-		
7,181	-	7,181	-		
<u>49,499</u>	<u>-</u>	<u>49,499</u>	<u>-</u>		
1,158	-	1,158	-	<i>Highway Planning and Construction Cluster</i>	
<u>1,158</u>	<u>-</u>	<u>1,158</u>	<u>-</u>		
<u>50,657</u>	<u>-</u>	<u>50,657</u>	<u>-</u>		
7,650	-	7,650	-		
23,125	-	23,125	-		
<u>52,122</u>	<u>-</u>	<u>52,122</u>	<u>-</u>		
<u>82,897</u>	<u>-</u>	<u>82,897</u>	<u>-</u>		
734,814	-	734,814	-		4
71,059	-	71,059	-		4
<u>805,873</u>	<u>-</u>	<u>805,873</u>	<u>-</u>		
5,763	-	5,763	-		
<u>811,636</u>	<u>-</u>	<u>811,636</u>	<u>-</u>		
<u>\$ 1,201,290</u>	<u>\$ -</u>	<u>\$ 1,201,290</u>	<u>\$ -</u>		

CITY OF WHARTON, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended September 30, 2018

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of the City, under programs of the federal government for the year ended September 30, 2018 in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable; except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal and state grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally unused balances are returned to the grantor at the close of specified project periods.

NOTE 3: INDIRECT COST RATE

The City has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4: FEMA DISASTER ASSISTANCE - CFDA 97.036

In accordance with the Uniform Guidance, expenditures of federal Disaster Grants (CFDA 97.036) must be recorded as expenditures on the SEFA when: (1) FEMA has approved the entity's Project Worksheet (PW), and (2) the entity has incurred the eligible expenditures. Expenditures reported on the accompanying schedule of expenditures of federal awards that were incurred in a prior fiscal year total \$517,917.

CITY OF WHARTON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended September 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?

yes no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
97.036	Disaster Grants – Public Assistance

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes no

Section II - Financial Statement Findings

Finding 2018-1

Condition: Various general ledger accounts were not completely reconciled on a regular basis.

Criteria: Controls should be in place to ensure the general ledger accurately reflects all of the transactions of the City at the proper amounts, in the proper funds and in the proper period.

Effect: Material adjustments were needed in multiple funds of the City to accurately reflect the activity for the year in compliance with GAAP.

Section II - Financial Statement Findings - (Continued)

Finding 2018-1 - (Continued)

Recommendation: The City should place into effect procedures that will ensure general ledger accounts are reconciled on a regular basis.

Finding 2018-2

Condition: The City did not submit the required Single Audit package to the Federal Audit Clearinghouse in the required time period.

Criteria: The delay was a result of Finding 2018-1 in which the controls over the general ledger were not functioning properly.

Effect: The effect of filing the Single Audit package late could cause a delay in the award and funding of future grant programs.

Recommendation: In future years all Single Audit filing should be completed within the allotted time period.

Section III - Federal Award Findings and Questioned Costs

None noted.

CITY OF WHARTON, TEXAS
CORRECTIVE ACTION PLAN
For the year ended September 30, 2018

The City will implement procedures to ensure that all general ledger accounts are reconciled on a regular basis in order to provide management with accurate financial data. As a result of timely general ledger account reconciliations, future submissions to the Single Audit Clearinghouse will be timely.

CITY OF WHARTON, TEXAS
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
For the year ended September 30, 2018

2017-1 Bank Reconciliations

Condition: The finding was a significant deficiency stating that cash was not reconciled at year end and at various times during the year.

Recommendation: The City should implement procedures to ensure that all bank reconciliations are completed in a timely manner.

Current Status: The City has made progress on timely bank reconciliations.

2017-2 Submission of Single Audit Package

Condition: The finding was a significant deficiency stating that the City did not submit the required Single Audit package to the Federal Audit Clearinghouse in the required time period.

Recommendation: The City should submit the package within the allotted time period.

Current Status: Remediation of the condition is still in progress.