



Annual Financial Report

**For the Fiscal Year Ended
September 30, 2017**

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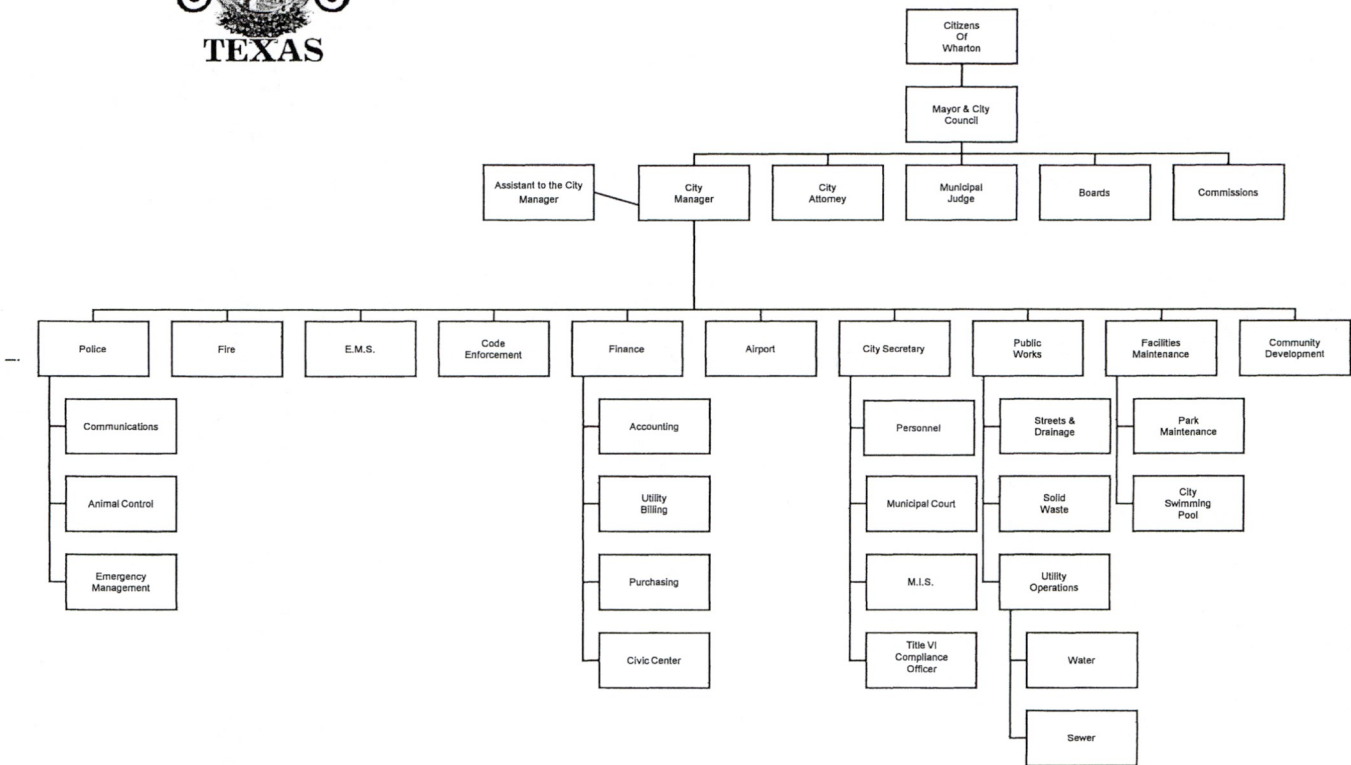
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Organizational Chart



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
vacant	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
Jessica Dunn	Community Services Director
Stephen Johnson	Emergency Management Coordinator

FINANCIAL SECTION



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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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and schedule 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 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2018, 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.

Harrison, Waldrop & Uherek, LLP

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

October 3, 2018

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, 2017. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the 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, 2017, by \$21,656,131. Of this amount, \$171,000 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 \$15,399,132 for the fiscal year. The net expense was \$5,472,625.
- During the year, the City's general revenues exceeded net expenses of the governmental activities by \$481,807. This represents a 7% increase in net position from the previous fiscal year as a result of operations.
- At September 30, 2017, the City's governmental funds reported combined ending fund balances of \$4,247,749, a net decrease of \$830,366 in comparison with prior year. The net decrease in fund balance was mainly due to the loss reported in the Disaster Relief Fund and the spending of the 2011 debt proceeds during fiscal year 2017.
- At September 30, 2017, unassigned fund balance for the General Fund was \$1,251,623 or 20% of total General Fund expenditures.
- The City's outstanding debt for governmental and business-type activities had a net decrease of \$983,029, or 4%, 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 15

Government-wide Financial Statements

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

Pages 16 to 19

Fund Financial Statements

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

Pages 20 to 33

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

Pages 34 to 69

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 2017. 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 34 through 65 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, a schedule of changes in net pension liability and related ratios, and a schedule of employer contributions. Required supplementary information can be found on pages 70 through 73 of this report.

The combining and individual fund statements and schedules referred to earlier in connection with nonmajor governmental funds and nonmajor enterprise funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 74 through 103 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 \$21,656,131 at the close of the fiscal year ended September 30, 2017.

At the end of fiscal year 2017, 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	
	2017	2016	2017	2016	2017	2016
Current assets	\$ 5,583,259	\$ 6,404,934	\$ 2,407,163	\$ 3,328,821	\$ 7,990,422	\$ 9,733,755
Capital assets (net)	14,470,555	14,012,903	21,701,144	21,238,332	36,171,699	35,251,235
Other noncurrent assets	430,000	430,000	(430,000)	(430,000)	-	-
Total assets	<u>20,483,814</u>	<u>20,847,837</u>	<u>23,678,307</u>	<u>24,137,153</u>	<u>44,162,121</u>	<u>44,984,990</u>
Total deferred out- flows of resources	<u>640,906</u>	<u>768,128</u>	<u>364,380</u>	<u>448,962</u>	<u>1,005,286</u>	<u>1,217,090</u>
Current and other liabilities	1,869,947	2,285,886	1,517,515	1,308,947	3,387,462	3,594,833
Noncurrent liabilities	11,561,868	12,092,850	8,464,395	9,023,815	20,026,263	21,116,665
Total liabilities	<u>13,431,815</u>	<u>14,378,736</u>	<u>9,981,910</u>	<u>10,332,762</u>	<u>23,413,725</u>	<u>24,711,498</u>
Total deferred in- flows of resources	<u>80,789</u>	<u>106,920</u>	<u>16,762</u>	<u>34,184</u>	<u>97,551</u>	<u>141,104</u>
Net Position:						
Net investment						
in capital assets	5,849,449	5,049,412	15,009,120	14,570,164	20,858,569	19,619,576
Restricted	626,562	560,730	-	-	626,562	560,730
Unrestricted	1,136,105	1,520,167	(965,105)	(350,995)	171,000	1,169,172
Total net position	<u>\$ 7,612,116</u>	<u>\$ 7,130,309</u>	<u>\$ 14,044,015</u>	<u>\$ 14,219,169</u>	<u>\$ 21,656,131</u>	<u>\$ 21,349,478</u>

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 \$626,562 for debt service and for special projects related to public safety and culture and recreation. The remaining balance of \$171,000 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	
	2017	2016	2017	2016	2017	2016
REVENUES						
Program revenues:						
Charges for services	\$ 477,459	\$ 405,483	\$ 6,287,178	\$ 6,100,321	\$ 6,764,637	\$ 6,505,804
Operating grants and contributions	606,537	159,932	1,451,379	1,036,169	2,057,916	1,196,101
Capital grants and contributions	887,238	497,778	216,716	99,446	1,103,954	597,224
General revenues:						
Property taxes	1,905,008	1,929,445	-	-	1,905,008	1,929,445
Sales taxes	1,283,407	1,391,868	-	-	1,283,407	1,391,868
Franchise taxes	1,122,792	1,101,070	-	-	1,122,792	1,101,070
Other taxes	279,726	252,562	-	-	279,726	252,562
Unrestricted investment earnings	20,409	15,218	4,154	1,779	24,563	16,997
Industrial district payment	1,059,353	830,603	-	-	1,059,353	830,603
Miscellaneous	104,429	76,199	-	-	104,429	76,199
Total revenues	7,746,358	6,660,158	7,959,427	7,237,715	15,705,785	13,897,873
EXPENSES						
General government	1,538,531	1,033,645	-	-	1,538,531	1,033,645
Public safety	3,999,508	3,732,614	-	-	3,999,508	3,732,614
Public works	1,877,799	1,925,823	-	-	1,877,799	1,925,823
Cultural and recreation	260,815	247,724	-	-	260,815	247,724
Interest on long-term debt	391,646	437,013	-	-	391,646	437,013
Water and sewer	-	-	2,989,213	2,886,182	2,989,213	2,886,182
Solid waste	-	-	1,498,067	1,332,985	1,498,067	1,332,985
Emergency medical services	-	-	2,260,933	2,067,077	2,260,933	2,067,077
Civic center	-	-	263,521	285,146	263,521	285,146
Airport	-	-	319,099	296,475	319,099	296,475
Total expenses	8,068,299	7,376,819	7,330,833	6,867,865	15,399,132	14,244,684
Change in net position before transfers	(321,941)	(716,661)	628,594	369,850	306,653	(346,811)
Transfers	803,748	700,892	(803,748)	(700,892)	-	-
Change in net position	481,807	(15,769)	(175,154)	(331,042)	306,653	(346,811)
Net position - October 1	7,130,309	7,146,078	14,219,169	14,550,211	21,349,478	21,696,289
Net position - September 30	\$ 7,612,116	\$ 7,130,309	\$ 14,044,015	\$ 14,219,169	\$ 21,656,131	\$ 21,349,478

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Governmental activities increased the City's net position by \$481,807 which was mainly due to the increase in the operating and capital grants and contributions as well as the industrial district payment from the prior year. There was a net decrease of \$175,154 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 \$306,653 increase in the net position of the City.

Governmental Activities

Governmental activities increased the City's net position by \$481,807. Key elements of this increase are as follows:

- General government expenses increased \$504,886 or 49% from prior year.
- Operating and capital grants and contributions increased by \$836,065 or 127% from prior year.
- Net transfers from other funds increased by \$102,856 or 15% 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	\$ 1,538,531	19.07%	\$ 932,525	47.31%	\$ (606,006)
Public safety	3,999,508	49.57%	274,017	13.90%	(3,725,491)
Public works	1,877,799	23.27%	756,031	38.35%	(1,121,768)
Cultural and recreation	260,815	3.23%	8,661	0.44%	(252,154)
Interest on long-term debt	391,646	4.86%	-	0.00%	(391,646)
Total	<u>\$ 8,068,299</u>	<u>100.00%</u>	<u>\$ 1,971,234</u>	<u>100.00%</u>	<u>\$ (6,097,065)</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	\$ 477,459	5.59%
Operating grants and contributions	606,537	7.09%
Capital grants and contributions	887,238	10.38%
Property taxes	1,905,008	22.28%
Sales taxes	1,283,407	15.01%
Franchise taxes	1,122,792	13.13%
Other taxes	279,726	3.27%
Unrestricted investment earnings	20,409	0.24%
Industrial district payment	1,059,353	12.39%
Miscellaneous	104,429	1.22%
Transfers	803,748	9.40%
	<u>\$ 8,550,106</u>	<u>100.00%</u>

Business-type Activities

Business-type activities decreased the City's net position by \$175,154. Key elements of this decrease are as follows:

- Operating grants and contributions increased \$415,210 or 40% from the prior year.
- Water and sewer expenses increased \$103,031 or 4% from the prior year.
- Emergency medical services expenses increased \$193,856 or 9% from the prior year.
- Net transfers to other funds increased \$102,856 or 15% 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	\$ 2,989,213	40.78%	\$ 3,888,820	48.88%	\$ 899,607
Solid waste	1,498,067	20.44%	1,475,518	18.55%	(22,549)
Emergency medical services	2,260,933	30.84%	2,245,735	28.23%	(15,198)
Civic center	263,521	3.59%	84,736	1.07%	(178,785)
Airport	319,099	4.35%	260,464	3.27%	(58,635)
Total	<u>\$ 7,330,833</u>	<u>100.00%</u>	<u>\$ 7,955,273</u>	<u>100.00%</u>	<u>\$ 624,440</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	\$ 6,287,178	87.86%
Operating grants and contributions	1,451,379	20.28%
Capital grants and contributions	216,716	3.03%
Unrestricted investment earnings	4,154	0.06%
Transfers	(803,748)	-11.23%
	<u>\$ 7,155,679</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 2017, the City's governmental funds reported combined ending fund balances of \$4,247,749, a decrease of \$830,366 in comparison with prior year. The net decrease in fund balance was mainly due to the spending of the debt monies during fiscal year 2017 out of the Capital Project Funds and the net loss recognized in the Disaster Relief Fund. The General Fund ended the fiscal year with a decrease of \$64,701, the Disaster Relief Fund had a decrease of \$491,491, the Debt Service Fund had an increase of \$14,712, the 2011 Bond Construction Fund decreased \$157,910, and the 2015 Bond Construction Fund decreased \$67,560.

The General Fund is the chief operating fund of the City. At the end of fiscal year 2017, unassigned fund balance of the General Fund was \$1,251,623, while total fund balance was \$1,697,271. 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 20% of the total General Fund expenditures, while total fund balance represents 27% of that same amount.

The fund balance of the City's General Fund decreased \$64,701 during the current fiscal year. These factors included revenues coming in less than the final budget in the amount of \$228,187, other financing sources were \$265,965 more than the final budget, and expenditures came in \$102,479 more than the final budget. As explained above, the Capital Project Funds experienced decreases in fund balance during fiscal year 2017, which was due to the spending of the respective bond proceeds on various 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	\$ (1,113,018)
Solid waste	58,560
Emergency medical services	89,746
Civic center	(89,276)
Airport	88,883
	<u>\$ (965,105)</u>

This represents a decrease of \$653,075 from the prior year unrestricted net position balances. 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:

- A decrease of \$118,799 in taxes.
- An increase of \$20,000 in licenses and permits.
- An increase of \$148,000 in intergovernmental.
- An increase of \$27,000 in fines and forfeitures.
- A decrease of \$20,922 in finance which consisted of a decrease in personnel and benefits of \$8,659, a decrease in supplies of \$2,275, a decrease in continuing education of \$2,700, a decrease in professional fees of \$4,450, and a decrease in appraisal district fees of \$2,838.
- A decrease of \$12,197 in central services which consisted of a decrease in personnel and benefits of \$25,747 and an increase of building and equipment maintenance of \$13,550.
- A decrease of \$60,175 in police which consisted of a decrease in personnel and benefits of \$28,175, a decrease of \$27,500 in supplies, a decrease of \$11,000 in utilities, a decrease of \$6,500 in building and equipment maintenance, an increase of \$22,000 in insurance, and a decrease in prisoner jail expense of \$9,000.
- An increase of \$30,419 in fire which consisted of an increase in personnel and benefits of \$18,419, an increase in equipment maintenance of \$7,000, an increase in insurance of \$5,000.
- A decrease of \$19,235 in code enforcement which consisted of a decrease in personnel and benefits of \$13,485 and a decrease in supplies of \$5,750.
- A decrease of \$12,166 in emergency management which consisted of a decrease in personnel and benefits of \$4,666, a decrease in supplies of \$1,800, a decrease in equipment maintenance of \$1,200, and a decrease in professional fees of \$4,500.
- A decrease of \$38,681 in communications for personnel and benefits.
- An increase of \$7,699 in streets and drainage which consisted of an increase in personnel and benefits of \$7,384, a decrease in building and equipment maintenance of \$18,000, an increase in utility for street lights of \$10,000, and an increase in insurance of \$8,315.
- A decrease of \$17,269 in facilities maintenance which consisted of a decrease in personnel and benefits of \$10,169, a decrease in supplies of \$10,100, and an increase in building and equipment maintenance of \$3,000.

GENERAL FUND BUDGETARY HIGHLIGHTS - (Continued)

- A decrease of \$22,067 in grant administration which consists of a decrease in personnel and benefits of \$16,267, a decrease in supplies of \$1,100, a decrease in equipment maintenance of \$200, a decrease in continuing education and fees of \$1,500, and a decrease in demolition expense of \$3,000.
- An increase of \$42,450 in recreation, which consists of an increase in parks maintenance.
- An increase of \$155,000 in grants for grant expenditures.
- A decrease of \$78,737 in lease payments.
- An increase of \$110,000 in capital outlay for additional equipment.

For fiscal year 2017, the General Fund's revenues were \$228,187 less than the final budget and expenditures were \$102,479 more than the final budget. There were four significant variances between the General Fund's actual revenues and expenditures compared to the final budget. These included the following: Sales tax revenues were less than budget by \$57,356, intergovernmental revenues were less than budget by \$172,116, capital outlay expenditures exceeded budget by \$102,479, and capital lease proceeds were greater than budget by \$237,211. Additional budget information can be found in the General Fund budget comparison schedule on page 70.

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, 2017, amounts to \$36,171,699 (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 increase in the City's investment in capital assets for the current fiscal year was 2.6% (a 3.3% increase for governmental activities and a 2.2% increase for business-type activities).

City of Wharton, Texas

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,173,285	\$ 1,173,285	\$ 319,093	\$ 319,093	\$ 1,492,378	\$ 1,492,378
Construction in progress	262,155	730,422	607,831	2,811,407	869,986	3,541,829
Machinery and equipment	2,346,791	2,351,709	1,165,190	1,083,697	3,511,981	3,435,406
Land improvements	-	-	1,020,233	1,043,310	1,020,233	1,043,310
Bldgs. and improvements	2,797,863	2,913,753	4,764,821	4,370,858	7,562,684	7,284,611
Infrastructure	7,890,461	6,843,734	-	-	7,890,461	6,843,734
Water and sewer system	-	-	13,823,976	11,609,967	13,823,976	11,609,967
Total	\$ 14,470,555	\$ 14,012,903	\$ 21,701,144	\$ 21,238,332	\$ 36,171,699	\$ 35,251,235

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, 2017, consisted of the following:
 - Construction in progress of \$262,155 includes drainage improvements and projects paid for from the Qualified Energy Conservation Bonds.
 - Infrastructure additions include the sidewalk project in the amount of \$1,235,964 and street improvement projects in the amount of \$168,996.
 - Machinery and equipment additions include the following: Police vehicles, playground equipment, and street equipment.

CAPITAL ASSET AND DEBT ADMINISTRATION - (Continued)**Capital Assets - (Continued)**

- The additions to the business-type activities capital assets during the fiscal year ended September 30, 2017, consisted of the following:
 - Various water and sewer improvement projects were completed in fiscal year (\$2,297,850).
 - Airport hanger improvements in the amount of \$484,709.
 - Projects in progress at September 30, 2017 included the following: Water and wastewater projects of \$299,703 and projects paid for from the Qualified Energy Conservation Bonds of \$308,128.
 - Various machinery and equipment additions in the Water and Sewer Fund, EMS Fund, and the Civic Center Fund were \$120,728, \$191,123, and \$11,510 respectively.

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

Long-term Debt

At the end of fiscal year 2017, the City had total bonded debt outstanding of \$19,343,985 (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 \$423,828 in capital leases, \$1,360,474 in net pension liability and \$446,426 in compensated absences as of September 30, 2017.

City of Wharton, Texas			
Long-term Debt			
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General obligation bonds	\$ 2,254,282	\$ 1,210,718	\$ 3,465,000
Issuance premiums	262,993	247,908	510,901
Certificates of obligation	8,049,128	5,905,872	13,955,000
Qualified energy cons. bonds	396,511	1,016,573	1,413,084
Capital leases payable	278,004	145,824	423,828
Net pension liability	816,284	544,190	1,360,474
Compensated absences	<u>325,951</u>	<u>120,475</u>	<u>446,426</u>
Total	<u>\$ 12,383,153</u>	<u>\$ 9,191,560</u>	<u>\$ 21,574,713</u>

The City's total outstanding debt decreased by \$983,029 or 4% from the prior fiscal year. The key factors in this net decrease were:

- City entered into a new capital lease which totaled \$364,319.
- Payments made on the certificates and bonds during fiscal year 2017 totaled \$1,285,000.
- Payments made on the capital leases during fiscal year 2017 totaled \$28,312.

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 2017 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 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, encountered a major challenge during the FY2017 along with the citizens of the City. While the citizens have encountered slow reimbursement from FEMA and other outside agencies, the City has also encountered this same challenge but is working diligently toward receiving all applicable reimbursements.

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 thru a USDA loan.

Factors affecting the 2017-2018 General Fund budget were as follows:

- Net taxable assessed value before freeze for tax year 2017 increased by \$17,081,663 or 3.7% to approximately \$481 million.
- The top ten principal taxpayers account for 24% of the total assessed valuation as compared to 31% nine years ago.
- The City's General Fund projected ending unassigned fund balance for fiscal year 2018 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, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Wharton Economic Development Corporation
ASSETS				
Current assets				
Cash and cash equivalents	\$ 4,508,202	\$ 812,663	\$ 5,320,865	\$ 742,909
Receivables, net	606,549	769,411	1,375,960	123,067
Internal balances	(639,985)	639,985	-	-
Due from component unit	53,384	-	53,384	-
Due from other governments	1,039,461	55,108	1,094,569	-
Prepaid items	15,648	-	15,648	-
Inventory	-	129,996	129,996	2,000
Total current assets	5,583,259	2,407,163	7,990,422	867,976
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	1,435,440	926,924	2,362,364	385,335
Buildings, infrastructure, and equipment, net	13,035,115	20,774,220	33,809,335	9,681
Net capital assets	14,470,555	21,701,144	36,171,699	395,016
Noncurrent internal balances	430,000	(430,000)	-	-
Total noncurrent assets	14,900,555	21,271,144	36,171,699	395,016
Total assets	20,483,814	23,678,307	44,162,121	1,262,992
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount on refunding	87,392	34,509	121,901	-
Deferred outflow related to TMRS	553,514	329,871	883,385	-
Total deferred outflows of resources	640,906	364,380	1,005,286	-

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	\$ 768,751	\$ 375,692	\$ 1,144,443	\$ 1,868
Accrued expenditures/expenses	118,565	83,878	202,443	-
Due to primary government	-	-	-	53,384
Due to other governments	31,399	8,515	39,914	5,328
Deposits	310	230,004	230,314	-
Accrued interest payable	129,637	92,261	221,898	-
Compensated absences	32,595	12,280	44,875	-
Current portion of long-term obligations	788,690	714,885	1,503,575	-
Total current liabilities	1,869,947	1,517,515	3,387,462	60,580
Noncurrent liabilities				
Compensated absences	293,356	108,195	401,551	-
Net pension liability	816,284	544,190	1,360,474	-
Noncurrent portion of long-term obligations	10,452,228	7,812,010	18,264,238	-
Total noncurrent liabilities	11,561,868	8,464,395	20,026,263	-
Total liabilities	13,431,815	9,981,910	23,413,725	60,580
DEFERRED OUTFLOWS OF RESOURCES				
Deferred inflow related to TMRS	80,789	16,762	97,551	-
NET POSITION				
Net investment in capital assets	5,849,449	15,009,120	20,858,569	395,016
Restricted for:				
Debt service	420,460	-	420,460	-
Cultural and recreation	123,710	-	123,710	-
Municipal court	33,046	-	33,046	-
Public safety	49,346	-	49,346	-
Unrestricted net position	1,136,105	(965,105)	171,000	807,396
Total net position	\$ 7,612,116	\$ 14,044,015	\$ 21,656,131	\$ 1,202,412

CITY OF WHARTON, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2017

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 1,538,531	\$ 457,165	\$ 475,360	\$ -
Public safety	3,999,508	12,633	14,427	246,957
Public works	1,877,799	-	115,750	640,281
Cultural and recreation	260,815	7,661	1,000	-
Interest on long-term debt	391,646	-	-	-
Total governmental activities	<u>8,068,299</u>	<u>477,459</u>	<u>606,537</u>	<u>887,238</u>
Business-type activities				
Water and sewer	2,989,213	3,742,104	30,000	116,716
Solid waste	1,498,067	1,475,518	-	-
Emergency medical services	2,260,933	774,356	1,371,379	100,000
Civic center	263,521	84,736	-	-
Airport	319,099	210,464	50,000	-
Total business-type activities	<u>7,330,833</u>	<u>6,287,178</u>	<u>1,451,379</u>	<u>216,716</u>
Total primary government	<u>\$ 15,399,132</u>	<u>\$ 6,764,637</u>	<u>\$ 2,057,916</u>	<u>\$ 1,103,954</u>
Component Unit				
Wharton Economic Development Corporation	<u>\$ 733,019</u>	<u>\$ 11,745</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

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	
\$ (606,006)	\$ -	\$ (606,006)	\$ -
(3,725,491)	-	(3,725,491)	-
(1,121,768)	-	(1,121,768)	-
(252,154)	-	(252,154)	-
(391,646)	-	(391,646)	-
<u>(6,097,065)</u>	<u>-</u>	<u>(6,097,065)</u>	<u>-</u>
-	899,607	899,607	-
-	(22,549)	(22,549)	-
-	(15,198)	(15,198)	-
-	(178,785)	(178,785)	-
-	(58,635)	(58,635)	-
-	624,440	624,440	-
<u>(6,097,065)</u>	<u>624,440</u>	<u>(5,472,625)</u>	<u>-</u>
-	-	-	(721,274)
773,348	-	773,348	-
1,131,660	-	1,131,660	-
1,283,407	-	1,283,407	727,127
1,122,792	-	1,122,792	-
279,726	-	279,726	-
20,409	4,154	24,563	3,927
1,059,353	-	1,059,353	-
104,429	-	104,429	5,000
803,748	(803,748)	-	-
<u>6,578,872</u>	<u>(799,594)</u>	<u>5,779,278</u>	<u>736,054</u>
481,807	(175,154)	306,653	14,780
<u>7,130,309</u>	<u>14,219,169</u>	<u>21,349,478</u>	<u>1,187,632</u>
<u>\$ 7,612,116</u>	<u>\$ 14,044,015</u>	<u>\$ 21,656,131</u>	<u>\$ 1,202,412</u>

CITY OF WHARTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2017

	<u>General</u>	<u>Disaster Relief</u>	<u>Debt Service</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 525,966	\$ -	\$ 199,134
Receivables, net	421,351	-	109,193
Due from other funds	1,152,356	-	241,817
Due from component unit	53,384	-	-
Due from other governments	291,977	475,360	2,461
Advances to other funds	430,000	-	-
Prepaid items	15,648	-	-
Total assets	<u>\$ 2,890,682</u>	<u>\$ 475,360</u>	<u>\$ 552,605</u>
LIABILITIES			
Accounts payable	\$ 351,979	\$ 167,574	\$ 500
Accrued expenditures	117,495	-	-
Due to other governments	31,399	-	-
Due to other funds	430,296	323,917	2,008
Deposits	310	-	-
Total liabilities	<u>931,479</u>	<u>491,491</u>	<u>2,508</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	261,932	475,360	109,193
Total deferred inflows of resources	<u>261,932</u>	<u>475,360</u>	<u>109,193</u>
FUND BALANCES			
Nonspendable	445,648	-	-
Restricted	-	-	440,904
Committed	-	-	-
Unassigned	1,251,623	(491,491)	-
Total fund balances	<u>1,697,271</u>	<u>(491,491)</u>	<u>440,904</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 2,890,682</u>	<u>\$ 475,360</u>	<u>\$ 552,605</u>

The accompanying notes are an integral part of this statement.

<u>2011 Bond Construction</u>	<u>2015 Bond Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,115,846	\$ 558,605	\$ 1,108,651	\$ 4,508,202
-	-	76,005	606,549
331,060	80,974	231,482	2,037,689
-	-	-	53,384
-	269,663	-	1,039,461
-	-	-	430,000
-	-	-	15,648
<u>\$ 2,446,906</u>	<u>\$ 909,242</u>	<u>\$ 1,416,138</u>	<u>\$ 8,690,933</u>
\$ -	\$ 158,568	\$ 90,130	\$ 768,751
-	-	1,070	118,565
-	-	-	31,399
-	800,146	1,121,307	2,677,674
-	-	-	310
<u>-</u>	<u>958,714</u>	<u>1,212,507</u>	<u>3,596,699</u>
-	-	-	846,485
-	-	-	846,485
-	-	-	445,648
2,446,906	-	206,102	3,093,912
-	-	123,601	123,601
-	(49,472)	(126,072)	584,588
<u>2,446,906</u>	<u>(49,472)</u>	<u>203,631</u>	<u>4,247,749</u>
<u>\$ 2,446,906</u>	<u>\$ 909,242</u>	<u>\$ 1,416,138</u>	<u>\$ 8,690,933</u>

CITY OF WHARTON, TEXAS

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

September 30, 2017

Total governmental fund balances		\$ 4,247,749
<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.		262,030
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.		584,455
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	\$ 27,863,550	
Accumulated depreciation of governmental capital assets	<u>(13,392,995)</u>	14,470,555
Deferred outflows of resources are not reported in the governmental funds:		
Deferred amount on refunding	87,392	
Deferred amount on pension	<u>553,514</u>	640,906
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	(10,699,921)	
Bond premiums	(262,993)	
Capital leases payable	(278,004)	
Net pension liability	(816,284)	
Accrued interest payable	(129,637)	
Compensated absences	<u>(325,951)</u>	(12,512,790)
Deferred inflows of resources are not reported in the governmental funds:		
Deferred amount on pension		<u>(80,789)</u>
Net position of governmental activities		\$ <u>7,612,116</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, 2017

	General	Disaster Relief	Debt Service
REVENUES			
Taxes	\$ 3,211,953	\$ -	\$ 1,138,900
Licenses and permits	107,737	-	-
Intergovernmental	295,634	-	-
Charges for services	7,736	-	-
Fines and forfeitures	309,722	-	-
Investment income	4,101	-	1,900
Industrial district fee	1,059,353	-	-
Miscellaneous	39,002	-	-
Total revenues	<u>5,035,238</u>	<u>-</u>	<u>1,140,800</u>
EXPENDITURES			
Current			
General government	940,095	491,491	-
Public safety	3,524,462	-	-
Public works	1,184,220	-	-
Cultural and recreation	113,367	-	-
Capital outlay	483,891	-	-
Debt service			
Principal retirement	19,407	-	718,170
Interest and fiscal charges	1,939	-	407,918
Total expenditures	<u>6,267,381</u>	<u>491,491</u>	<u>1,126,088</u>
Excess (deficiency) of revenues over expenditures	(1,232,143)	(491,491)	14,712
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	28,084	-	-
Capital lease proceeds	237,211	-	-
Transfers in	902,147	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>1,167,442</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(64,701)	(491,491)	14,712
Fund balances at beginning of year	<u>1,761,972</u>	<u>-</u>	<u>426,192</u>
Fund balances at end of year	<u>\$ 1,697,271</u>	<u>\$ (491,491)</u>	<u>\$ 440,904</u>

The accompanying notes are an integral part of this statement.

<u>2011 Bond Construction</u>	<u>2015 Bond Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 279,726	\$ 4,630,579
-	-	-	107,737
-	722,781	-	1,018,415
-	-	-	7,736
-	-	25,544	335,266
5,696	2,761	5,951	20,409
-	-	-	1,059,353
-	-	23,123	62,125
<u>5,696</u>	<u>725,542</u>	<u>334,344</u>	<u>7,241,620</u>
-	-	21,282	1,452,868
-	-	24,060	3,548,522
-	-	85,631	1,269,851
-	-	71,687	185,054
163,606	793,102	96,701	1,537,300
-	-	-	737,577
-	-	-	409,857
<u>163,606</u>	<u>793,102</u>	<u>299,361</u>	<u>9,141,029</u>
(157,910)	(67,560)	34,983	(1,899,409)
-	-	-	28,084
-	-	-	237,211
-	-	75,000	977,147
-	-	(173,399)	(173,399)
-	-	(98,399)	1,069,043
(157,910)	(67,560)	(63,416)	(830,366)
<u>2,604,816</u>	<u>18,088</u>	<u>267,047</u>	<u>5,078,115</u>
<u>\$ 2,446,906</u>	<u>\$ (49,472)</u>	<u>\$ 203,631</u>	<u>\$ 4,247,749</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, 2017*

Total net change in fund balances - governmental funds \$ (830,366)

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	\$ 1,409,868	
Depreciation expense	<u>(947,008)</u>	462,860

The net effect of various transactions involving capital assets (i.e., transfers, contributions, adjustments and dispositions) is to increase (decrease) net position. (5,208)

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

Capital lease		(237,211)
---------------	--	-----------

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	718,170	
Capital lease principal retirement	<u>19,407</u>	737,577

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	(6,585)	
Other revenues	<u>488,445</u>	481,860

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:

Increase in compensated absences	(34,955)	
Decrease in loss on refunding	(9,647)	
Decrease in bond premium	22,721	
Decrease in accrued interest	5,138	
Net pension costs	<u>(110,962)</u>	(127,705)

Change in net position of governmental activities \$ 481,807

The accompanying notes are an integral part of this statement.

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

	Business-type Activities		
	Water and Sewer	Solid Waste	Emergency Medical Services
ASSETS			
Current assets			
Cash and cash equivalents	\$ 242,159	\$ 97,531	\$ 360,183
Receivables, net			
Accounts	425,013	181,009	66,361
Due from other funds	1,809,762	20,267	7,433
Due from other governments	3,197	-	-
Inventory	80,580	-	-
Total current assets	<u>2,560,711</u>	<u>298,807</u>	<u>433,977</u>
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	822,467	-	10,575
Buildings, improvements, and equipment, net	14,213,303	-	718,780
Net capital assets	<u>15,035,770</u>	<u>-</u>	<u>729,355</u>
Total noncurrent assets	<u>15,035,770</u>	<u>-</u>	<u>729,355</u>
Total assets	<u>17,596,481</u>	<u>298,807</u>	<u>1,163,332</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	9,603	-	-
Deferred outflow related to TMRS	108,660	-	193,473
Total deferred outflows of resources	<u>118,263</u>	<u>-</u>	<u>193,473</u>
LIABILITIES			
Current liabilities			
Accounts payable	49,676	225,874	53,238
Accrued expenses	28,797	997	47,477
Due to other governments	-	8,515	-
Deposits	216,344	75	-
Accrued interest payable	82,753	-	-
Due to other funds	959,225	4,528	45,637
Compensated absences	4,781	258	6,957
Current portion of long-term obligations	634,826	-	-
Total current liabilities	<u>1,976,402</u>	<u>240,247</u>	<u>153,309</u>
Noncurrent liabilities			
Advances from other funds	430,000	-	-
Compensated absences	43,029	-	62,616
Net pension liability	176,862	-	326,514
Noncurrent portion of long-term obligations	6,895,427	-	-
Total noncurrent liabilities	<u>7,545,318</u>	<u>-</u>	<u>389,130</u>
Total liabilities	<u>9,521,720</u>	<u>240,247</u>	<u>542,439</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow related to TMRS	6,824	-	5,840
NET POSITION			
Net investment in capital assets	9,299,218	-	718,780
Unrestricted net position	(1,113,018)	58,560	89,746
Total net position	<u>\$ 8,186,200</u>	<u>\$ 58,560</u>	<u>\$ 808,526</u>

The accompanying notes are an integral part of this statement.

Business-type Activities

Civic Center	Airport	Total
\$ 41,371	\$ 71,419	\$ 812,663
54,095	42,933	769,411
47,421	7,906	1,892,789
1,911	50,000	55,108
-	49,416	129,996
<u>144,798</u>	<u>221,674</u>	<u>3,659,967</u>
44,682	49,200	926,924
<u>1,400,121</u>	<u>4,442,016</u>	<u>20,774,220</u>
<u>1,444,803</u>	<u>4,491,216</u>	<u>21,701,144</u>
<u>1,444,803</u>	<u>4,491,216</u>	<u>21,701,144</u>
<u>1,589,601</u>	<u>4,712,890</u>	<u>25,361,111</u>
1,260	23,646	34,509
<u>27,738</u>	-	<u>329,871</u>
<u>28,998</u>	<u>23,646</u>	<u>364,380</u>
10,809	36,095	375,692
3,722	2,885	83,878
-	-	8,515
13,285	300	230,004
2,260	7,248	92,261
164,400	79,014	1,252,804
236	48	12,280
<u>40,186</u>	<u>39,873</u>	<u>714,885</u>
<u>234,898</u>	<u>165,463</u>	<u>2,770,319</u>
-	-	430,000
2,123	427	108,195
40,814	-	544,190
<u>275,101</u>	<u>641,482</u>	<u>7,812,010</u>
<u>318,038</u>	<u>641,909</u>	<u>8,894,395</u>
<u>552,936</u>	<u>807,372</u>	<u>11,664,714</u>
4,098	-	16,762
1,150,841	3,840,281	15,009,120
(89,276)	88,883	(965,105)
<u>\$ 1,061,565</u>	<u>\$ 3,929,164</u>	<u>\$ 14,044,015</u>

CITY OF WHARTON, TEXAS

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

PROPRIETARY FUNDS

For the year ended September 30, 2017

	Business-type Activities		
	Water and Sewer	Solid Waste	Emergency Medical Services
OPERATING REVENUES			
Charges for services	\$ 3,742,104	\$ 1,475,518	\$ 774,356
Total operating revenues	<u>3,742,104</u>	<u>1,475,518</u>	<u>774,356</u>
OPERATING EXPENSES			
Personnel	1,016,490	41,193	1,760,108
Materials and supplies	115,045	55	130,418
Repairs and maintenance	254,543	-	83,186
Other services and charges	798,872	1,456,819	144,136
Depreciation and amortization	566,454	-	143,085
Total operating expenses	<u>2,751,404</u>	<u>1,498,067</u>	<u>2,260,933</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	990,700	(22,549)	(1,486,577)
NONOPERATING REVENUES (EXPENSES)			
Noncapital grants and contributions	30,000	-	1,371,379
Investment income	686	398	2,742
Interest and fiscal charges	(237,809)	-	-
Total nonoperating revenues (expenses)	<u>(207,123)</u>	<u>398</u>	<u>1,374,121</u>
Income (loss) before transfers and contributions	783,577	(22,151)	(112,456)
Contributions and transfers			
Capital grants and contributions	116,716	-	100,000
Transfers in	-	-	-
Transfers out	(853,735)	(25,000)	(98,412)
Total contributions and transfers	<u>(737,019)</u>	<u>(25,000)</u>	<u>1,588</u>
Change in net position	46,558	(47,151)	(110,868)
Net position at beginning of year	<u>8,139,642</u>	<u>105,711</u>	<u>919,394</u>
Net position at end of year	<u>\$ 8,186,200</u>	<u>\$ 58,560</u>	<u>\$ 808,526</u>

The accompanying notes are an integral part of this statement.

Business-type Activities

<u>Civic Center</u>	<u>Airport</u>	<u>Total</u>
\$ 84,736	\$ 210,464	\$ 6,287,178
<u>84,736</u>	<u>210,464</u>	<u>6,287,178</u>
152,557	95,578	3,065,926
7,655	4,601	257,774
7,085	40,509	385,323
31,913	37,524	2,469,264
56,998	120,710	887,247
<u>256,208</u>	<u>298,922</u>	<u>7,065,534</u>
(171,472)	(88,458)	(778,356)
-	50,000	1,451,379
38	290	4,154
<u>(7,313)</u>	<u>(20,177)</u>	<u>(265,299)</u>
<u>(7,275)</u>	<u>30,113</u>	<u>1,190,234</u>
(178,747)	(58,345)	411,878
-	-	216,716
173,399	-	173,399
<u>-</u>	<u>-</u>	<u>(977,147)</u>
<u>173,399</u>	<u>-</u>	<u>(587,032)</u>
(5,348)	(58,345)	(175,154)
<u>1,066,913</u>	<u>3,987,509</u>	<u>14,219,169</u>
<u>\$ 1,061,565</u>	<u>\$ 3,929,164</u>	<u>\$ 14,044,015</u>

CITY OF WHARTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2017

	Business-type Activities		
	Water and Sewer	Solid Waste	Emergency Medical Services
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers and users	\$ 3,770,032	\$ 1,450,625	\$ 744,781
Cash paid to suppliers for goods and services	(1,249,975)	(1,328,234)	(327,545)
Cash paid to employees for services	(969,998)	(40,840)	(1,685,355)
Net cash provided (used) by operating activities	<u>1,550,059</u>	<u>81,551</u>	<u>(1,268,119)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Borrowing (repayments) to other funds	759,455	(11,633)	13,039
Transfers in from other funds	-	-	-
Transfers out to other funds	(853,735)	(25,000)	(98,412)
Grants and contributions	30,000	-	1,371,379
Net cash provided (used) by noncapital financing activities	<u>(64,280)</u>	<u>(36,633)</u>	<u>1,286,006</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(705,027)	-	(191,123)
Proceeds from capital grants and contributions	-	-	100,000
Proceeds from issuance of debt	120,728	-	-
Principal paid on long-term debt	(588,710)	-	-
Interest paid on long-term debt	(266,942)	-	-
Net cash provided (used) by capital and related financing activities	<u>(1,439,951)</u>	<u>-</u>	<u>(91,123)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	686	398	2,742
Net cash provided (used) by investing activities	<u>686</u>	<u>398</u>	<u>2,742</u>
Net increase (decrease) in cash and cash equivalents	46,514	45,316	(70,494)
Cash and cash equivalents at beginning of year	195,645	52,215	430,677
Cash and cash equivalents at end of year	<u>\$ 242,159</u>	<u>\$ 97,531</u>	<u>\$ 360,183</u>

Business-type Activities

<u>Civic Center</u>	<u>Airport</u>	<u>Total</u>
\$ 73,221	\$ 179,753	\$ 6,218,412
(39,285)	(73,154)	(3,018,193)
<u>(145,435)</u>	<u>(95,512)</u>	<u>(2,937,140)</u>
(111,499)	11,087	263,079
59,810	395,656	1,216,327
173,399	-	173,399
-	-	(977,147)
-	75,780	1,477,159
<u>233,209</u>	<u>471,436</u>	<u>1,889,738</u>
(51,021)	(396,689)	(1,343,860)
-	-	100,000
6,380	-	127,108
(38,232)	(38,797)	(665,739)
<u>(8,497)</u>	<u>(22,207)</u>	<u>(297,646)</u>
<u>(91,370)</u>	<u>(457,693)</u>	<u>(2,080,137)</u>
38	290	4,154
<u>38</u>	<u>290</u>	<u>4,154</u>
30,378	25,120	76,834
10,993	46,299	735,829
<u>\$ 41,371</u>	<u>\$ 71,419</u>	<u>\$ 812,663</u>

(continued)

CITY OF WHARTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2017

	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)	\$ 990,700	\$ (22,549)	\$ (1,486,577)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation and amortization	566,454	-	143,085
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	23,403	(25,179)	(29,575)
(Increase) decrease in inventory	(25,927)	-	-
(Increase) decrease in deferred outflow related to TMRS	25,475	-	47,030
Increase (decrease) in accounts payable	(55,588)	128,640	30,195
Increase (decrease) in accrued expenses	8,406	95	11,974
Increase (decrease) in deposits	4,525	-	-
Increase (decrease) in due to other governments	-	286	-
Increase (decrease) in compensated absences	14,043	258	18,394
Increase (decrease) in net pension liability	4,230	-	7,808
Increase (decrease) in deferred inflow related to TMRS	(5,662)	-	(10,453)
Total adjustments	<u>559,359</u>	<u>104,100</u>	<u>218,458</u>
Net cash provided (used) by operating activities	<u>\$ 1,550,059</u>	<u>\$ 81,551</u>	<u>\$ (1,268,119)</u>

The accompanying notes are an integral part of this statement.

Business-type Activities

<u>Civic Center</u>	<u>Airport</u>	<u>Total</u>
\$ (171,472)	\$ (88,458)	\$ (778,356)
56,998	120,710	887,247
(14,750)	(30,711)	(76,812)
-	(24,159)	(50,086)
5,878	-	78,383
7,368	33,639	144,254
159	324	20,958
3,235	-	7,760
-	-	286
1,416	(258)	33,853
976	-	13,014
<u>(1,307)</u>	<u>-</u>	<u>(17,422)</u>
<u>59,973</u>	<u>99,545</u>	<u>1,041,435</u>
<u>\$ (111,499)</u>	<u>\$ 11,087</u>	<u>\$ 263,079</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 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 Fund, one of which is reported as a major fund. The Disaster Relief Fund accounts for the activities of the City associated with disasters such as floods, hurricanes, etc.

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 five Capital Project Funds, two of which have been reported as major funds. 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. The 2015 Bond Construction Fund accounts for the use of the proceeds from the City's 2015 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 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, 2017, 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 to the employee.

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

The statement of net position reports a separate section for deferred outflows of resources which follows the asset section. 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 two items that qualify for reporting in this category. One is the deferred amount on refunding reported in the government-wide statement of net position. A deferred amount 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. The other item is the deferred amount calculated in the actuarial pension study required by GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" (GASB No. 68) and the current year pension payments reported in the government-wide statement of net position.

In addition to liabilities, the statement of net position also reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two items that are considered deferred inflows of resources. One of the items arises only under a modified accrual basis of accounting and this item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from a variety of sources and are further defined in Note 4. The other item that qualifies for reporting as a deferred inflow of resources is calculated in the actuarial pension study required by GASB No. 68. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

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

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 2017. 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 several situations of expenditures exceeding the amounts appropriated during the fiscal year 2016-2017.

<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
Capital outlay	\$ 346,800	\$ 483,891	\$ (137,091)
Debt Service Fund			
Principal retirement	707,702	718,170	(10,468)
Interest and fiscal charges	405,376	407,918	(2,542)

B. Deficit Fund Equity

As of September 30, 2017, the following funds had deficit equity balances:

<u>Fund</u>	<u>Fund Balance/ Net Position</u>
2015 Bond Construction	\$ 49,472
Disaster Relief	491,491
Nonmajor Governmental	
Municipal Court Technology	3,008
Railroad Depot Restoration	2,201
2013 Bond Construction	120,863

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

NOTE 3: DEPOSITS AND INVESTMENTS

As of September 30, 2017, 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	\$ 318,399	34

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. The City also held deposits in a bank other than the depository bank during fiscal year 2017 and at year-end. These deposits were either insured by the FDIC or honored by an irrevocable standby letter of credit that became effective on September 21, 2017 and expires on March 21, 2018. The City's deposits are therefore subject to custodial credit risk at September 30, 2017.

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, 2017, and for the year then ended, the City was not exposed to any custodial credit risk.

Please see Note 16 for discussions relative to the investments of the City's component unit.

NOTE 4: RECEIVABLES

Receivables at September 30, 2017, 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	\$ 377,451	\$ -	\$ 425,013	\$ 181,009	\$ 3,543,591	\$ 54,095	\$ 42,933	\$ 76,005	\$ 4,700,097
Ad valorem taxes	218,533	147,031	-	-	-	-	-	-	365,564
Franchise taxes	119,884	-	-	-	-	-	-	-	119,884
Fines	264,743	-	-	-	-	-	-	-	264,743
Other	38,984	-	-	-	-	-	-	-	38,984
Total gross receivables	1,019,595	147,031	425,013	181,009	3,543,591	54,095	42,933	76,005	5,489,272
Less: Allowances	598,244	37,838	-	-	3,477,230	-	-	-	4,113,312
Total net receivables	<u>\$ 421,351</u>	<u>\$ 109,193</u>	<u>\$ 425,013</u>	<u>\$ 181,009</u>	<u>\$ 66,361</u>	<u>\$ 54,095</u>	<u>\$ 42,933</u>	<u>\$ 76,005</u>	<u>\$ 1,375,960</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	\$ 152,837	\$ -	\$ 152,837
Fines	105,897	-	105,897
Other	3,198	-	3,198
Debt Service Fund			
Ad valorem receivable	109,193	-	109,193
Disaster Relief Fund			
Grants	475,360	-	475,360
	<u>\$ 846,485</u>	<u>\$ -</u>	<u>\$ 846,485</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 \$0.42450 per \$100 of assessed valuation, which were prorated between operations and debt service in the amounts of \$0.17437 and \$0.25013, respectively. The resulting adjusted total tax levy was \$1,959,950 on the total adjusted taxable valuation of \$461,707,904 for the 2016 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, 2017, are summarized as follows:

	<u>General</u>	<u>Disaster Relief</u>	<u>Debt Service</u>	<u>2015 Bond Const.</u>	<u>Water and Sewer</u>	<u>Civic Center</u>	<u>Airport</u>	<u>Total</u>
Sales taxes	\$ 246,134	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 246,134
Federal and state grants	40,316	475,360	-	269,663	3,197	1,911	50,000	840,447
Property taxes	2,527	-	2,461	-	-	-	-	4,988
Other	3,000	-	-	-	-	-	-	3,000
	<u>\$ 291,977</u>	<u>\$ 475,360</u>	<u>\$ 2,461</u>	<u>\$ 269,663</u>	<u>\$ 3,197</u>	<u>\$ 1,911</u>	<u>\$ 50,000</u>	<u>\$ 1,094,569</u>

NOTE 6: CAPITAL ASSETS

The City's capital asset activity for the year ended September 30, 2017, 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	730,422	3,160	471,427	262,155
Total capital assets not being depreciated	<u>1,903,707</u>	<u>3,160</u>	<u>471,427</u>	<u>1,435,440</u>
Capital assets, being depreciated				
Machinery and equipment	6,402,580	458,175	83,490	6,777,265
Buildings and improvements	4,845,850	15,000	-	4,860,850
Infrastructure	13,385,035	1,404,960	-	14,789,995
Total capital assets being depreciated	<u>24,633,465</u>	<u>1,878,135</u>	<u>83,490</u>	<u>26,428,110</u>
Less accumulated depreciation for				
Machinery and equipment	4,050,871	457,885	78,282	4,430,474
Buildings and improvements	1,932,097	130,890	-	2,062,987
Infrastructure	6,541,301	358,233	-	6,899,534
Total accumulated depreciation	<u>12,524,269</u>	<u>947,008</u>	<u>78,282</u>	<u>13,392,995</u>
Total capital assets being depreciated, net	<u>12,109,196</u>	<u>931,127</u>	<u>5,208</u>	<u>13,035,115</u>
Governmental activities capital assets, net	<u>\$ 14,012,903</u>	<u>\$ 934,287</u>	<u>\$ 476,635</u>	<u>\$ 14,470,555</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 319,093	\$ -	\$ -	\$ 319,093
Construction in progress	2,811,407	182,294	2,385,870	607,831
Total capital assets not being depreciated	<u>3,130,500</u>	<u>182,294</u>	<u>2,385,870</u>	<u>926,924</u>
Capital assets, being depreciated				
Machinery and equipment	3,672,832	323,361	14,700	3,981,493
Land improvements	1,153,850	-	-	1,153,850
Buildings and improvements	6,148,423	524,221	-	6,672,644
Water and sewer system	21,845,591	2,699,855	-	24,545,446
Total capital assets being depreciated	<u>32,820,696</u>	<u>3,547,437</u>	<u>14,700</u>	<u>36,353,433</u>
Less accumulated depreciation for				
Machinery and equipment	2,589,135	241,868	14,700	2,816,303
Land improvements	110,540	23,077	-	133,617
Buildings and improvements	1,777,565	130,258	-	1,907,823
Water and sewer system	10,235,624	485,846	-	10,721,470
Total accumulated depreciation	<u>14,712,864</u>	<u>881,049</u>	<u>14,700</u>	<u>15,579,213</u>
Total capital assets being depreciated, net	<u>18,107,832</u>	<u>2,666,388</u>	<u>-</u>	<u>20,774,220</u>
Business-type activities capital assets, net	<u>\$ 21,238,332</u>	<u>\$ 2,848,682</u>	<u>\$ 2,385,870</u>	<u>\$ 21,701,144</u>

NOTE 6: CAPITAL ASSETS - (Continued)

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

Governmental activities	
General government	\$ 47,350
Public safety	359,863
Public works	464,034
Cultural and recreation	<u>75,761</u>
Total depreciation expense - governmental activities	<u>\$ 947,008</u>
Business-type activities	
Water and sewer	\$ 563,065
Emergency medical services	143,086
Civic center	56,553
Airport	<u>118,345</u>
Total depreciation expense - business-type activities	<u>\$ 881,049</u>

At September 30, 2017, the City had temporarily impaired idle assets in the business-type activities (the Airport Fund) that amounted to \$86,081. The assets relate to costs incurred on the airport terminal building project that has been temporarily suspended.

NOTE 7: DEFINED BENEFIT PENSION PLAN

Plan Description

The City participates as one of 866 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, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	37
Inactive employees entitled to but not yet receiving benefits	51
Active employees	<u>105</u>
	<u>193</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 6.05% and 6.17% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2017 were \$327,765, 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, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

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

Inflation	2.5%
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, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. 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 2017 are summarized in the following table:

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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2015	\$ 14,341,712	\$ 13,013,771	\$ 1,327,941
Changes for the year:			
Service cost	486,516	-	486,516
Interest	964,799	-	964,799
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(3,204)	-	(3,204)
Change of assumptions	-	-	-
Contributions - Employer	-	299,573	(299,573)
Contributions - Employee	-	247,717	(247,717)
Net investment income	-	878,757	(878,757)
Benefit payments, including refunds of employee contributions	(583,296)	(583,296)	-
Administrative expense	-	(9,933)	9,933
Other changes	-	(536)	536
Net changes	<u>864,815</u>	<u>832,282</u>	<u>32,533</u>
Balance at 12/31/2016	<u>\$ 15,206,527</u>	<u>\$ 13,846,053</u>	<u>\$ 1,360,474</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:	\$3,462,626	\$1,360,474	\$(363,362)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2017 the City recognized pension expense of \$514,656.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 97,551
Changes in actuarial assumptions	49,528	-
Difference between projected and actual investment earnings	590,075	-
Contributions subsequent to the measurement date	243,782	-
Total	\$ 883,385	\$ 97,551

\$243,782 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2017	\$ 179,019
2018	185,634
2019	177,732
2020	(336)
2021	-
Thereafter	-

NOTE 8: SUPPLEMENTAL DEATH BENEFIT PLAN

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

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

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.

The City's contributions to the TMRS SDBF for the years ended 2017, 2016, and 2015 were \$1,602, \$1,445, and \$1,852, respectively, which equaled the required contributions each year.

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, 2017, was as follows:

	Beginning			Ending	Due Within
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
Governmental activities					
Bonds and certificates payable					
Certificates of obligation	\$ 8,440,842	\$ -	\$ 391,714	\$ 8,049,128	\$ 394,152
General obligation bonds	2,555,482	-	301,200	2,254,282	304,600
Qualified energy					
cons. bonds	421,767	-	25,256	396,511	25,638
Plus deferred amounts:					
Issuance premiums	285,714	-	22,721	262,993	-
Total bonds and					
certificates payable	<u>11,703,805</u>	<u>-</u>	<u>740,891</u>	<u>10,962,914</u>	<u>724,390</u>
Capital leases payable	<u>60,200</u>	<u>237,211</u>	<u>19,407</u>	<u>278,004</u>	<u>64,300</u>
Net pension liability	<u>796,765</u>	<u>19,519</u>	<u>-</u>	<u>816,284</u>	<u>-</u>
Compensated absences	<u>290,996</u>	<u>222,918</u>	<u>187,963</u>	<u>325,951</u>	<u>32,595</u>
Total governmental activity					
long-term liabilities	<u>\$ 12,851,766</u>	<u>\$ 479,648</u>	<u>\$ 948,261</u>	<u>\$ 12,383,153</u>	<u>\$ 821,285</u>
Business-type activities					
Bonds and certificates payable					
Certificates of obligation	\$ 6,274,158	\$ -	\$ 368,286	\$ 5,905,872	\$ 380,848
General obligation bonds	1,434,518	-	223,800	1,210,718	235,400
Qualified energy					
cons. bonds	1,081,322	-	64,749	1,016,573	65,730
Plus deferred amounts:					
Issuance premiums	<u>270,559</u>	<u>-</u>	<u>22,651</u>	<u>247,908</u>	<u>-</u>
Total bonds and					
certificates payable	<u>9,060,557</u>	<u>-</u>	<u>679,486</u>	<u>8,381,071</u>	<u>681,978</u>
Capital leases payable	<u>27,621</u>	<u>127,108</u>	<u>8,905</u>	<u>145,824</u>	<u>32,907</u>
Net pension liability	<u>531,176</u>	<u>13,014</u>	<u>-</u>	<u>544,190</u>	<u>-</u>
Compensated absences	<u>86,622</u>	<u>112,913</u>	<u>79,060</u>	<u>120,475</u>	<u>12,280</u>
Total business-type activity					
long-term liabilities	<u>\$ 9,705,976</u>	<u>\$ 253,035</u>	<u>\$ 767,451</u>	<u>\$ 9,191,560</u>	<u>\$ 727,165</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, 2017, \$3,530,000 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>	
2018	\$ 304,600	\$ 69,940	\$ 235,400	\$ 44,285	\$ 654,225
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
2023-2027	813,400	81,900	166,600	16,775	1,078,675
	<u>\$ 2,254,282</u>	<u>\$ 335,321</u>	<u>\$ 1,210,718</u>	<u>\$ 145,129</u>	<u>\$ 3,945,450</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:

Year	<u>Governmental Activities</u>		<u>Business-type Activities</u>		Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2018	\$ 394,152	\$ 306,628	\$ 380,848	\$ 214,347	\$ 1,295,975
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
2023-2027	3,029,680	905,772	1,900,320	663,669	6,499,441
2028-2032	2,540,494	275,045	1,994,506	269,905	5,079,950
2033	215,404	7,578	354,596	11,066	588,644
	<u>\$ 8,069,128</u>	<u>\$ 2,580,311</u>	<u>\$ 5,905,872</u>	<u>\$ 1,904,487</u>	<u>\$ 18,459,798</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	
2018	\$ 25,638	\$ 6,007	\$ 65,730	\$ 15,401	\$ 112,776
2019	26,026	5,619	66,727	14,405	112,777
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
2023-2027	142,450	15,775	365,214	40,445	563,884
2028-2031	121,928	4,653	312,597	11,929	451,107
	<u>\$ 396,511</u>	<u>\$ 46,520</u>	<u>\$ 1,016,573</u>	<u>\$ 119,268</u>	<u>\$ 1,578,872</u>

E. 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%. \$ 59,509

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%. 364,319

\$ 423,828

The present value of the capital leases after deduction of imputed interest is \$423,828.

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2018	\$ 64,300	\$ 9,172	\$ 32,907	\$ 4,818	\$ 111,197
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>\$ 278,004</u>	<u>\$ 25,222</u>	<u>\$ 145,824</u>	<u>\$ 13,377</u>	<u>\$ 462,427</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, 2017, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Debt Service	\$ 2,008
	Disaster Relief	284,201
	Nonmajor Governmental	82,609
	Water and Sewer	703,900
	Solid Waste	4,528
	Emergency Medical Services	23,062
	Civic Center	51,938
	Airport	110
		<u>1,152,356</u>
Debt Service	Water and Sewer	158,699
	Civic Center	83,118
		<u>241,817</u>
2011 Bond Construction	General	<u>331,060</u>
2015 Bond Construction	General	2,070
	Airport	78,904
		<u>80,974</u>
Nonmajor Governmental	General	85,267
	2015 Bond Construction	27,907
	Water and Sewer	88,965
	Civic Center	29,343
		<u>231,482</u>

NOTE 11: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Interfund Receivables and Payables - (Continued)

Due To/From Other Funds - (Continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water and Sewer	Disaster Relief	\$ 25,664
	2015 Bond Construction	772,239
	Nonmajor Governmental	1,011,859
		<u>1,809,762</u>
Solid Waste	General	11,724
	Disaster Relief	882
	Water and Sewer	7,661
		<u>20,267</u>
Emergency Medical Services	Disaster Relief	<u>7,433</u>
Civic Center	Disaster Relief	4,781
	Nonmajor Governmental	20,065
	Emergency Medical Services	22,575
		<u>47,421</u>
Airport	General	175
	Disaster Relief	957
	Nonmajor Governmental	6,774
		<u>7,906</u>
		<u>\$ 3,930,478</u>

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.

NOTE 11: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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	\$ -	\$ 173,399	\$ -	\$ 173,399
Water and Sewer	803,735	-	50,000	853,735
Solid Waste	-	-	25,000	25,000
Emergency Medical Services	98,412	-	-	98,412
	<u>\$ 902,147</u>	<u>\$ 173,399</u>	<u>\$ 75,000</u>	<u>\$ 1,150,546</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, 2017, 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.

Construction and Acquisition Commitments

As of September 30, 2017, 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>
Sidewalk enhancement project	\$ 2,613
FM 1301 extension to US 59 and overpass project	69,186
Sanitary sewer line improvements	249,939
Energy savings project	<u>811,416</u>
Total	<u>\$ 1,133,154</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, 2017:

	Governmental Fund Balances				Total
	Nonspendable	Restricted	Committed	Unassigned	
General					
Prepaid items	\$ 15,648	\$ -	\$ -	\$ -	\$ 15,648
Long-term interfund advances	430,000	-	-	-	430,000
Unassigned	-	-	-	1,251,623	1,251,623
Debt Service					
Long-term debt	-	440,904	-	-	440,904
2011 Bond Construction					
Various capital projects	-	2,446,906	-	-	2,446,906
Disaster Relief					
Unassigned	-	-	-	(491,491)	(491,491)
2015 Bond Construction					
Unassigned	-	-	-	(49,472)	(49,472)
Nonmajor Governmental					
Various capital projects	-	85,514	38,087	-	123,601
Arts and tourism	-	123,710	-	-	123,710
Municipal court security and technology	-	33,046	-	-	33,046
Law enforcement	-	28,249	-	-	28,249
Fire department	-	21,097	-	-	21,097
Unassigned	-	-	-	(126,072)	(126,072)
	<u>\$ 445,648</u>	<u>\$ 3,179,426</u>	<u>\$ 38,087</u>	<u>\$ 584,588</u>	<u>\$ 4,247,749</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, 2017, tax rebate expenditures of \$170,831 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: 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, 2017, the final budget anticipated \$940,877 more in expenditures than revenues. WEDC expended \$150 more than the budgeted amount for board meetings/director expenses.

Deposits and Investments

WEDC's cash and cash equivalents are considered to be cash on hand, short-term certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

NOTE 16: 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's inventory, which consists 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, 2017.

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 16: WHARTON ECONOMIC DEVELOPMENT CORPORATION - (Continued)

C. Deposits and Investments

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

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>
Public Funds Investment Pool		
TexPool	\$ 1,655	34
Certificate of Deposit	248,126	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, the investments are reported 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.

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, 2017, WEDC had deposits in six financial institutions and the deposits were FDIC insured at each institution up to \$250,000. Because WEDC had no bank deposits exceeding \$250,000, it did not have a pledged collateral agreement in place during the year. As of September 30, 2017, and for the year then ended, WEDC was not exposed to any custodial credit risk.

NOTE 16: WHARTON ECONOMIC DEVELOPMENT CORPORATION - (Continued)

C. Deposits and Investments - (Continued)

Custodial Credit Risk - Deposits - (Continued)

It is managements' recent understanding that WEDC and any other 4A and 4B economic development entity is not considered a "political subdivision" as defined by Section 330.15 of the FDIC's regulation and, therefore, WEDC's bank deposits may not be insured above \$250,000.

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, 2017, 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-half cent 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, 2017, was \$123,067. 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, 2017, tax rebate expenditures of \$83,420 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, 2017, tax rebate expenditures of \$9,122 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 16: WHARTON ECONOMIC DEVELOPMENT CORPORATION - (Continued)F. Capital Assets

WEDC's capital asset activity for the year ended September 30, 2017, 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	\$ 385,335	\$ -	\$ -	\$ 385,335
Total capital assets not being depreciated	<u>385,335</u>	<u>-</u>	<u>-</u>	<u>385,335</u>
Capital assets, being depreciated				
Leasehold improvements	8,975	-	-	8,975
Furniture and fixtures	<u>30,555</u>	<u>6,447</u>	<u>-</u>	<u>37,002</u>
Total capital assets being depreciated	<u>39,530</u>	<u>6,447</u>	<u>-</u>	<u>45,977</u>
Less accumulated depreciation for				
Furniture and fixtures	<u>34,415</u>	<u>1,881</u>	<u>-</u>	<u>36,296</u>
Total accumulated depreciation	<u>34,415</u>	<u>1,881</u>	<u>-</u>	<u>36,296</u>
Total capital assets being depreciated, net	<u>5,115</u>	<u>4,566</u>	<u>-</u>	<u>9,681</u>
Governmental activities capital assets, net	<u>\$ 390,450</u>	<u>\$ 4,566</u>	<u>\$ -</u>	<u>\$ 395,016</u>

NOTE 16: 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, 2017, \$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, 2017. 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.

WEDC entered into a one-year lease of a signboard effective January 24, 2008. During the fiscal year 2017, WEDC received \$3,105 from the lease, which covers the lease for the last two fiscal years. The lease is automatically renewed each year unless one party terminates the lease with 30 days notice.

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, 2017, WEDC owed the City \$47,114 for wages and benefits previously paid by the City.

I. Commitments

As of September 30, 2017, WEDC had approved but not yet paid \$389,624 for business restoration grants and other various construction projects. WEDC has committed to paying \$114,624 in business restoration grants and \$275,000 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, 2017

With comparative totals for the year ended September 30, 2016

	2017			Variance Positive (Negative)	2016
	Original Budget	Final Budget	Actual		Actual
REVENUES					
Taxes	\$ 3,400,218	\$ 3,281,419	\$ 3,211,953	\$ (69,466)	\$ 3,393,846
Licenses and permits	81,157	101,157	107,737	6,580	72,173
Intergovernmental	319,750	467,750	295,634	(172,116)	409,727
Charges for services	9,750	9,750	7,736	(2,014)	14,671
Fines and forfeitures	275,950	302,950	309,722	6,772	276,532
Investment income	1,500	1,500	4,101	2,601	1,570
Industrial district fee	1,059,353	1,059,353	1,059,353	-	830,603
Miscellaneous	29,546	39,546	39,002	(544)	11,276
Total revenues	5,177,224	5,263,425	5,035,238	(228,187)	5,010,398
EXPENDITURES					
Current					
General government	1,003,459	951,705	940,095	11,610	973,007
Public safety	3,480,746	3,534,958	3,524,462	10,496	3,376,348
Public works	1,201,632	1,192,062	1,184,220	7,842	1,212,877
Cultural and recreation	73,027	115,877	113,367	2,510	98,532
Capital outlay	217,600	346,800	483,891	(137,091)	135,966
Debt service	102,237	23,500	21,346	2,154	21,345
Total expenditures	6,078,701	6,164,902	6,267,381	(102,479)	5,818,075
Excess (deficiency) of revenues over expenditures	(901,477)	(901,477)	(1,232,143)	(330,666)	(807,677)
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	35,000	35,000	28,084	(6,916)	22,400
Capital lease proceeds	-	-	237,211	237,211	-
Transfers in	866,477	866,477	902,147	35,670	819,616
Total other financing sources (uses)	901,477	901,477	1,167,442	265,965	842,016
Net change in fund balance	-	-	(64,701)	(64,701)	34,339
Fund balance at beginning of year	1,761,972	1,761,972	1,761,972	-	1,727,633
Fund balance at end of year	\$ 1,761,972	\$ 1,761,972	\$ 1,697,271	\$ (64,701)	\$ 1,761,972

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

Last ten years

	<u>2014</u>	<u>2015</u>	<u>2016</u>
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 Employee Payroll	\$ 4,483,820	\$ 4,832,168	\$ 4,954,339
Net Pension Liability as a Percentage of Covered Employee Payroll	10.62%	27.48%	27.46%

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

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

CITY OF WHARTON, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last ten fiscal years

	<u>2015</u>	<u>2016</u>	<u>2017</u>
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 seven fiscal years was not readily available. The City will compile the respective information over the next seven fiscal years.

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

CITY OF WHARTON, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2017

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.

The Required Supplementary Information does not include a budgetary comparison schedule for the Major Special Revenue Fund, Disaster Relief. The activity of the fund is funded by the federal government, thereby no local control over appropriating funds is possible. Therefore, there is no requirement of presenting a budgetary comparison schedule.

NOTE 2: BUDGETARY LEGAL COMPLIANCE

For the year ended September 30, 2017, the City complied with budgetary restrictions at all departmental levels except the following:

<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
Capital outlay	\$ 346,800	\$ 483,891	\$ (137,091)

NOTE 3: TEXAS MUNICIPAL RETIREMENT SYSTEM

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	29 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.

Combining and Individual Fund Statements and Schedules

CITY OF WHARTON, TEXAS
 ALL NONMAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET
 September 30, 2017

	Total Nonmajor Special Revenue Funds	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
ASSETS			
Current assets			
Cash and cash equivalents	\$ 97,579	\$ 1,011,072	\$ 1,108,651
Receivables, net	76,005	-	76,005
Due from other funds	37,618	193,864	231,482
Total assets	<u>\$ 211,202</u>	<u>\$ 1,204,936</u>	<u>\$ 1,416,138</u>
LIABILITIES			
Accounts payable	\$ 269	\$ 89,861	\$ 90,130
Accrued expenditures	-	1,070	1,070
Due to other funds	10,040	1,111,267	1,121,307
Total liabilities	<u>10,309</u>	<u>1,202,198</u>	<u>1,212,507</u>
FUND BALANCES			
Restricted			
Cultural and recreation	123,710	-	123,710
Municipal court	33,046	-	33,046
Public safety	49,346	-	49,346
Committed			
Various capital projects	-	123,601	123,601
Unassigned	(5,209)	(120,863)	(126,072)
Total fund balances	<u>200,893</u>	<u>2,738</u>	<u>203,631</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 211,202</u>	<u>\$ 1,204,936</u>	<u>\$ 1,416,138</u>

CITY OF WHARTON, TEXAS

ALL NONMAJOR GOVERNMENTAL FUNDS

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

For the year ended September 30, 2017

	Total Nonmajor Special Revenue Funds	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
REVENUES			
Taxes	\$ 279,726	\$ -	\$ 279,726
Fines and forfeitures	25,544	-	25,544
Investment income	439	5,512	5,951
Miscellaneous	23,123	-	23,123
Total revenues	<u>328,832</u>	<u>5,512</u>	<u>334,344</u>
EXPENDITURES			
Current			
General government	21,282	-	21,282
Public safety	24,060	-	24,060
Public works	-	85,631	85,631
Cultural and recreation	71,687	-	71,687
Capital outlay	-	96,701	96,701
Total expenditures	<u>117,029</u>	<u>182,332</u>	<u>299,361</u>
Excess (deficiency) of revenues over expenditures	211,803	(176,820)	34,983
OTHER FINANCING SOURCES (USES)			
Transfers in	-	75,000	75,000
Transfers out	(173,399)	-	(173,399)
Total other financing sources (uses)	<u>(173,399)</u>	<u>75,000</u>	<u>(98,399)</u>
Net change in fund balances	38,404	(101,820)	(63,416)
Fund balances at beginning of year	<u>162,489</u>	<u>104,558</u>	<u>267,047</u>
Fund balances at end of year	<u>\$ 200,893</u>	<u>\$ 2,738</u>	<u>\$ 203,631</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, 2017

	Hotel/Motel Tax	Municipal Court Technology	Narcotics Control	Fire Department Special
ASSETS				
Current assets				
Cash and cash equivalents	\$ 18,492	\$ 627	\$ 27,229	\$ 21,097
Receivables, net				
Accounts	76,005	-	-	-
Due from other funds	29,343	4,229	1,020	-
Total assets	<u>\$ 123,840</u>	<u>\$ 4,856</u>	<u>\$ 28,249</u>	<u>\$ 21,097</u>
LIABILITIES				
Accounts payable	\$ 130	\$ -	\$ -	\$ -
Due to other funds	-	7,864	-	-
Total liabilities	<u>130</u>	<u>7,864</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted				
Cultural and recreation	123,710	-	-	-
Municipal court	-	-	-	-
Public safety	-	-	28,249	21,097
Unassigned	-	(3,008)	-	-
Total fund balances	<u>123,710</u>	<u>(3,008)</u>	<u>28,249</u>	<u>21,097</u>
Total liabilities and fund balances	<u>\$ 123,840</u>	<u>\$ 4,856</u>	<u>\$ 28,249</u>	<u>\$ 21,097</u>

<u>Municipal Court Building Security</u>	<u>Railroad Depot Restoration</u>	<u>Total</u>
\$ 30,020	\$ 114	\$ 97,579
-	-	76,005
<u>3,026</u>	<u>-</u>	<u>37,618</u>
<u>\$ 33,046</u>	<u>\$ 114</u>	<u>\$ 211,202</u>
\$ -	\$ 139	\$ 269
-	<u>2,176</u>	<u>10,040</u>
<u>-</u>	<u>2,315</u>	<u>10,309</u>
-	-	123,710
33,046	-	33,046
-	-	49,346
<u>-</u>	<u>(2,201)</u>	<u>(5,209)</u>
<u>33,046</u>	<u>(2,201)</u>	<u>200,893</u>
<u>\$ 33,046</u>	<u>\$ 114</u>	<u>\$ 211,202</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, 2017

	Hotel/Motel Tax	Municipal Court Technology	Narcotics Control	Fire Department Special
REVENUES				
Taxes	\$ 279,726	\$ -	\$ -	\$ -
Fines and forfeitures	-	10,142	8,297	-
Investment income	184	8	107	28
Miscellaneous	-	-	8,639	13,635
Total revenues	<u>279,910</u>	<u>10,150</u>	<u>17,043</u>	<u>13,663</u>
EXPENDITURES				
Current				
General government	-	15,123	-	-
Public safety	-	-	24,060	-
Cultural and recreation	68,487	-	-	-
Total expenditures	<u>68,487</u>	<u>15,123</u>	<u>24,060</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	211,423	(4,973)	(7,017)	13,663
OTHER FINANCING SOURCES (USES)				
Transfers out	(173,399)	-	-	-
Total other financing sources (uses)	<u>(173,399)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	38,024	(4,973)	(7,017)	13,663
Fund balances at beginning of year	85,686	1,965	35,266	7,434
Fund balances at end of year	<u>\$ 123,710</u>	<u>\$ (3,008)</u>	<u>\$ 28,249</u>	<u>\$ 21,097</u>

Municipal Court Building Security	Railroad Depot Restoration	Total
\$ -	\$ -	\$ 279,726
7,105	-	25,544
111	1	439
-	849	23,123
<u>7,216</u>	<u>850</u>	<u>328,832</u>
6,159	-	21,282
-	-	24,060
-	3,200	71,687
<u>6,159</u>	<u>3,200</u>	<u>117,029</u>
1,057	(2,350)	211,803
-	-	(173,399)
-	-	(173,399)
1,057	(2,350)	38,404
<u>31,989</u>	<u>149</u>	<u>162,489</u>
<u>\$ 33,046</u>	<u>\$ (2,201)</u>	<u>\$ 200,893</u>

CAPITAL PROJECT FUNDS

The City maintains five Capital Project Funds: 2011 Bond Construction Fund, the 2013 Bond Construction Fund, the Qualified Energy Conservation Bonds Fund, the Capital Improvement Fund, and the 2015 Bond Construction 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 and the 2015 Bond Construction Fund are reported as major funds.

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.

CITY OF WHARTON, TEXAS

NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS

COMBINING BALANCE SHEET

September 30, 2017

	<u>Capital Improvement</u>	<u>2013 Bond Construction</u>	<u>Qualified Energy Cons. Bonds</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 45,853	\$ 142,056	\$ 823,163	\$ 1,011,072
Due from other funds	<u>50,000</u>	<u>143,864</u>	<u>-</u>	<u>193,864</u>
Total assets	<u>\$ 95,853</u>	<u>\$ 285,920</u>	<u>\$ 823,163</u>	<u>\$ 1,204,936</u>
LIABILITIES				
Accounts payable	\$ 2,428	\$ 3,692	\$ 83,741	\$ 89,861
Accrued expenditures	-	1,070	-	1,070
Due to other funds	<u>55,338</u>	<u>402,021</u>	<u>653,908</u>	<u>1,111,267</u>
Total liabilities	<u>57,766</u>	<u>406,783</u>	<u>737,649</u>	<u>1,202,198</u>
FUND BALANCES				
Committed				
Various capital projects	38,087	-	85,514	123,601
Unassigned	<u>-</u>	<u>(120,863)</u>	<u>-</u>	<u>(120,863)</u>
Total fund balances	<u>38,087</u>	<u>(120,863)</u>	<u>85,514</u>	<u>2,738</u>
Total liabilities and fund balances	<u>\$ 95,853</u>	<u>\$ 285,920</u>	<u>\$ 823,163</u>	<u>\$ 1,204,936</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, 2017

	<u>Capital Improvement</u>	<u>2013 Bond Construction</u>	<u>Qualified Energy Cons. Bonds</u>	<u>Total</u>
REVENUES				
Investment income	\$ 95	\$ 474	\$ 4,943	\$ 5,512
Total revenues	<u>95</u>	<u>474</u>	<u>4,943</u>	<u>5,512</u>
EXPENDITURES				
Current				
Public works	60,995	24,636	-	85,631
Capital outlay	-	96,701	-	96,701
Total expenditures	<u>60,995</u>	<u>121,337</u>	<u>-</u>	<u>182,332</u>
Excess (deficiency) of revenues over expenditures	(60,900)	(120,863)	4,943	(176,820)
OTHER FINANCING SOURCES (USES)				
Transfers in	75,000	-	-	75,000
Total other financing sources (uses)	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>75,000</u>
Net change in fund balances	14,100	(120,863)	4,943	(101,820)
Fund balances at beginning of year	23,987	-	80,571	104,558
Fund balances at end of year	<u>\$ 38,087</u>	<u>\$ (120,863)</u>	<u>\$ 85,514</u>	<u>\$ 2,738</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***BALANCE SHEET***September 30, 2017**With comparative totals for September 30, 2016*

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 525,966	\$ 617,744
Receivables, net		
Taxes	271,186	200,098
Fines	105,897	91,810
Other	44,268	42,784
Due from other funds	1,152,356	596,152
Due from component unit	53,384	20,851
Due from other governments	291,977	352,693
Advances to other funds	430,000	430,000
Prepaid items	15,648	11,767
Total assets	<u>\$ 2,890,682</u>	<u>\$ 2,363,899</u>
LIABILITIES		
Accounts payable	\$ 351,979	\$ 138,386
Accrued expenditures	117,495	93,646
Due to other governments	31,399	34,798
Due to other funds	430,296	77,107
Deposits	310	190
Total liabilities	<u>931,479</u>	<u>344,127</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	261,932	257,800
Total deferred inflows of resources	<u>261,932</u>	<u>257,800</u>
FUND BALANCE		
Nonspendable		
Prepaid items	15,648	11,767
Long-term receivables	430,000	430,000
Unassigned	1,251,623	1,320,205
Total fund balance	<u>1,697,271</u>	<u>1,761,972</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 2,890,682</u>	<u>\$ 2,363,899</u>

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, 2017

With comparative totals for the year ended September 30, 2016

	2017		Variance	2016
	Final Budget	Actual	Positive (Negative)	Actual
REVENUES				
Taxes				
Ad valorem	\$ 805,000	\$ 805,754	\$ 754	\$ 900,908
Sales	1,340,763	1,283,407	(57,356)	1,391,868
Franchise	1,135,656	1,122,792	(12,864)	1,101,070
Licenses and permits	101,157	107,737	6,580	72,173
Intergovernmental	467,750	295,634	(172,116)	409,727
Charges for services	9,750	7,736	(2,014)	14,671
Fines and forfeitures	302,950	309,722	6,772	276,532
Investment income	1,500	4,101	2,601	1,570
Industrial district fee	1,059,353	1,059,353	-	830,603
Miscellaneous	39,546	39,002	(544)	11,276
Total revenues	5,263,425	5,035,238	(228,187)	5,010,398
EXPENDITURES				
Current				
General government				
Mayor and council	27,525	27,054	471	30,952
City manager	263,894	261,022	2,872	263,869
City secretary	107,001	105,935	1,066	101,822
Legal and professional	76,000	75,510	490	82,337
Finance	262,768	260,609	2,159	281,559
Municipal court	135,117	134,413	704	141,195
Central services	79,400	75,552	3,848	71,273
Total general government	951,705	940,095	11,610	973,007
Public safety				
Police	2,229,432	2,227,378	2,054	2,099,031
Fire	370,635	369,400	1,235	318,755
Code enforcement	267,745	265,628	2,117	286,368
Emergency management	101,218	100,559	659	124,312
Animal control	61,168	58,585	2,583	61,916
Communications	504,760	502,912	1,848	485,966
Total public safety	3,534,958	3,524,462	10,496	3,376,348
Public works				
Streets and drainage	791,693	786,994	4,699	790,419
Garage	162,207	160,337	1,870	178,151
Facilities maintenance	238,162	236,889	1,273	244,307
Total public works	1,192,062	1,184,220	7,842	1,212,877

(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, 2017

With comparative totals for the year ended September 30, 2016

	2017		Variance Positive (Negative)	2016
	Final Budget	Actual		Actual
EXPENDITURES - (Continued)				
Current - (continued)				
Cultural and recreation				
Community services	\$ -	\$ -	\$ -	\$ 9,950
Recreation	66,950	64,543	2,407	40,523
Community pool	48,927	48,824	103	48,059
Total cultural and recreation	115,877	113,367	2,510	98,532
Capital outlay	346,800	483,891	(137,091)	135,966
Debt service				
Principal retirement	21,000	19,407	1,593	18,745
Interest and fiscal charges	2,500	1,939	561	2,600
Total debt service	23,500	21,346	2,154	21,345
Total expenditures	6,164,902	6,267,381	(102,479)	5,818,075
Excess (deficiency) of revenues over expenditures	(901,477)	(1,232,143)	(330,666)	(807,677)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	35,000	28,084	(6,916)	22,400
Capital lease proceeds	-	237,211	237,211	-
Transfers in	866,477	902,147	35,670	819,616
Total other financing sources (uses)	901,477	1,167,442	265,965	842,016
Net change in fund balance	\$ -	(64,701)	\$ (64,701)	34,339
Fund balance at beginning of year		1,761,972		1,727,633
Fund balance at end of year		\$ 1,697,271		\$ 1,761,972

(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

BALANCE SHEET

September 30, 2017

With comparative totals for September 30, 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 199,134	\$ 376,508
Receivables, net		
Taxes	109,193	106,824
Due from other funds	241,817	41,230
Due from other governments	<u>2,461</u>	<u>8,454</u>
Total assets	<u>\$ 552,605</u>	<u>\$ 533,016</u>
LIABILITIES		
Accounts payable	\$ 500	\$ -
Due to other funds	<u>2,008</u>	<u>-</u>
Total liabilities	<u>2,508</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	<u>109,193</u>	<u>106,824</u>
Total deferred inflows of resources	<u>109,193</u>	<u>106,824</u>
FUND BALANCE		
Restricted		
Long-term debt	<u>440,904</u>	<u>426,192</u>
Total fund balance	<u>440,904</u>	<u>426,192</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 552,605</u>	<u>\$ 533,016</u>

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, 2017

With comparative totals for the year ended September 30, 2016

	2017		Variance Positive (Negative)	2016
	Final Budget	Actual		Actual
REVENUES				
Ad valorem taxes	\$ 1,112,078	\$ 1,138,900	\$ 26,822	\$ 1,022,617
Investment income	1,000	1,900	900	869
Total revenues	<u>1,113,078</u>	<u>1,140,800</u>	<u>27,722</u>	<u>1,023,486</u>
EXPENDITURES				
Debt service				
Principal retirement	707,702	718,170	(10,468)	653,578
Interest and fiscal charges	405,376	407,918	(2,542)	410,434
Bond issuance costs	-	-	-	2,125
Total expenditures	<u>1,113,078</u>	<u>1,126,088</u>	<u>(13,010)</u>	<u>1,066,137</u>
Excess (deficiency) of revenues over expenditures	-	14,712	14,712	(42,651)
OTHER FINANCING SOURCES (USES)	-	-	-	-
Net change in fund balance	-	14,712	14,712	(42,651)
Fund balance at beginning of year	<u>426,192</u>	<u>426,192</u>	-	<u>468,843</u>
Fund balance at end of year	<u>\$ 426,192</u>	<u>\$ 440,904</u>	<u>\$ 14,712</u>	<u>\$ 426,192</u>

ENTERPRISE FUNDS

Enterprise Funds account for the acquisition, operations, and maintenance of the City's facilities and services which are entirely or predominantly supported by user charges or those for which the City has decided that periodic determination of the revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. All activities necessary to provide services are accounted for in this fund, including, but not limited to, administration, operations, and maintenance. Debt service amounts are also included.

Water and Sewer Fund - Accounts for the activities of the City related to its sewage treatment plant and water distribution system.

Solid Waste Fund - Accounts for the operations of the solid waste removal services provided to the residents of the City through a private company.

Emergency Medical Services Fund - Accounts for the emergency medical services provided to the residents of the City.

Civic Center Fund - Accounts for the operation of the City's civic center.

Airport Fund - Accounts for the operation of the City's airport.

CITY OF WHARTON, TEXAS*MAJOR ENTERPRISE FUND - WATER AND SEWER**BALANCE SHEET**September 30, 2017**With comparative totals for September 30, 2016*

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 242,159	\$ 195,645
Receivables, net		
Accounts	425,013	448,416
Due from other funds	1,809,762	2,045,252
Due from other governments	3,197	3,197
Inventory	80,580	54,653
Total current assets	<u>2,560,711</u>	<u>2,747,163</u>
Noncurrent assets		
Capital assets		
Machinery and equipment	1,457,753	1,351,725
Buildings and improvements	28,739	28,739
Water and sewer system	24,545,446	21,845,591
Total capital assets	<u>26,031,938</u>	<u>23,226,055</u>
Accumulated depreciation	<u>(11,818,635)</u>	<u>(11,270,270)</u>
Subtotal	14,213,303	11,955,785
Land	276,750	276,750
Construction in progress	545,717	2,661,273
Net capital assets	<u>15,035,770</u>	<u>14,893,808</u>
Total noncurrent assets	<u>15,035,770</u>	<u>14,893,808</u>
Total assets	<u>17,596,481</u>	<u>17,640,971</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	9,603	12,993
Deferred outflow related to TMRS	108,660	134,135
Total deferred outflows of resources	<u>118,263</u>	<u>147,128</u>

	<u>2017</u>	<u>2016</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 49,676	\$ 105,264
Accrued expenses	28,797	20,391
Deposits	216,344	211,819
Accrued interest payable	82,753	91,740
Due to other funds	959,225	551,976
Compensated absences	4,781	3,377
Current portion of noncurrent liabilities		
Capital lease	29,558	6,817
Certificates of obligation	353,052	349,150
General obligation bonds	201,050	190,100
Qualified energy conservation bonds	51,166	50,403
Total current liabilities	<u>1,976,402</u>	<u>1,581,037</u>
Noncurrent liabilities		
Advances from other funds	430,000	430,000
Compensated absences	43,029	30,390
Net pension liability	176,862	172,632
Capital lease	105,500	14,330
Bonds and certificates (net of unamortized deferred amounts)	6,789,927	7,407,582
Total noncurrent liabilities	<u>7,545,318</u>	<u>8,054,934</u>
Total liabilities	<u>9,521,720</u>	<u>9,635,971</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow related to TMRS	<u>6,824</u>	<u>12,486</u>
NET POSITION		
Net investment in capital assets	9,299,218	8,933,671
Unrestricted net position	<u>(1,113,018)</u>	<u>(794,029)</u>
Total net position	<u>\$ 8,186,200</u>	<u>\$ 8,139,642</u>

CITY OF WHARTON, TEXAS

MAJOR ENTERPRISE FUND - WATER AND SEWER

SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN FUND NET POSITION

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2017

With comparative totals for the year ended September 30, 2016

	2017		Variance Positive (Negative)	2016
	Final Budget	Actual		Actual
OPERATING REVENUES				
Water	\$ 1,928,000	\$ 1,868,045	\$ (59,955)	\$ 1,759,634
Sewer	1,823,000	1,760,990	(62,010)	1,704,599
Penalties	44,184	44,750	566	44,715
Connection and installation fees	43,000	45,450	2,450	70,410
Other	23,669	22,869	(800)	6,107
Total operating revenues	<u>3,861,853</u>	<u>3,742,104</u>	<u>(119,749)</u>	<u>3,585,465</u>
OPERATING EXPENSES				
Water and sewer operations				
Personnel	1,006,428	1,016,490	(10,062)	968,087
Materials and supplies	127,200	115,045	12,155	99,959
Repairs and maintenance	237,500	254,543	(17,043)	232,616
Other services and charges	834,144	798,872	35,272	721,637
Depreciation and amortization	520,000	566,454	(46,454)	528,348
Total operating expenses	<u>2,725,272</u>	<u>2,751,404</u>	<u>(26,132)</u>	<u>2,550,647</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	1,136,581	990,700	(145,881)	1,034,818
NONOPERATING REVENUES (EXPENSES)				
Noncapital grants and contributions	30,000	30,000	-	3,197
Investment income	419	686	267	566
Interest and fiscal charges	(274,000)	(237,809)	36,191	(335,535)
Total nonoperating revenues (expenses)	<u>(243,581)</u>	<u>(207,123)</u>	<u>36,458</u>	<u>(331,772)</u>
Income (loss) before contributions and transfers	893,000	783,577	(109,423)	703,046
Contributions and transfers				
Capital grants and contributions	-	116,716	116,716	99,446
Transfers out	(893,000)	(853,735)	39,265	(746,204)
Total contributions and transfers	<u>(893,000)</u>	<u>(737,019)</u>	<u>155,981</u>	<u>(646,758)</u>
Change in net position	\$ -	46,558	\$ 46,558	56,288
Net position at beginning of year		8,139,642		8,083,354
Net position at end of year		<u>\$ 8,186,200</u>		<u>\$ 8,139,642</u>

CITY OF WHARTON, TEXAS

MAJOR ENTERPRISE FUND - SOLID WASTE

BALANCE SHEET

September 30, 2017

With comparative totals for September 30, 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 97,531	\$ 52,215
Receivables, net		
Accounts	181,009	155,830
Due from other funds	<u>20,267</u>	<u>4,106</u>
Total assets	<u>298,807</u>	<u>212,151</u>
LIABILITIES		
Current liabilities		
Accounts payable	225,874	97,234
Accrued expenses	997	902
Due to other governments	8,515	8,229
Deposits	75	75
Due to other funds	4,528	-
Compensated absences	<u>258</u>	<u>-</u>
Total liabilities	<u>240,247</u>	<u>106,440</u>
NET POSITION		
Unrestricted net position	<u>58,560</u>	<u>105,711</u>
Total net position	<u>\$ 58,560</u>	<u>\$ 105,711</u>

CITY OF WHARTON, TEXAS

MAJOR ENTERPRISE FUND - SOLID WASTE

SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN FUND NET POSITION

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2017

With comparative totals for the year ended September 30, 2016

	2017		Variance Positive (Negative)	2016
	Final Budget	Actual		Actual
OPERATING REVENUES				
Solid waste fees	\$ 1,372,664	\$ 1,378,085	\$ 5,421	\$ 1,292,658
Garbage collection fee	106,016	96,893	(9,123)	108,267
Other	500	540	40	553
Total operating revenues	<u>1,479,180</u>	<u>1,475,518</u>	<u>(3,662)</u>	<u>1,401,478</u>
OPERATING EXPENSES				
Solid waste operations				
Personnel	41,987	41,193	794	44,229
Materials and supplies	100	55	45	208
Other services and charges	1,412,193	1,456,819	(44,626)	1,288,548
Total operating expenses	<u>1,454,280</u>	<u>1,498,067</u>	<u>(43,787)</u>	<u>1,332,985</u>
Operating income (loss) before nonoperating revenues (expenses) and transfers	24,900	(22,549)	(47,449)	68,493
NONOPERATING REVENUES (EXPENSES)				
Investment income	100	398	298	117
Total nonoperating revenues (expenses)	<u>100</u>	<u>398</u>	<u>298</u>	<u>117</u>
Income (loss) before contributions and transfers	25,000	(22,151)	(47,151)	68,610
Transfers				
Transfers out	(25,000)	(25,000)	-	(25,000)
Total transfers	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>	<u>(25,000)</u>
Change in net position	<u>\$ -</u>	<u>(47,151)</u>	<u>\$ (47,151)</u>	43,610
Net position at beginning of year		<u>105,711</u>		<u>62,101</u>
Net position at end of year		<u>\$ 58,560</u>		<u>\$ 105,711</u>

CITY OF WHARTON, TEXAS**MAJOR ENTERPRISE FUND - EMERGENCY MEDICAL SERVICES****BALANCE SHEET**

September 30, 2017

With comparative totals for September 30, 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 360,183	\$ 430,677
Receivables, net		
Accounts	66,361	36,786
Due from other funds	7,433	-
Total current assets	<u>433,977</u>	<u>467,463</u>
Noncurrent assets		
Capital assets		
Machinery and equipment	2,081,241	1,890,118
Buildings and improvements	113,607	113,607
Total capital assets	2,194,848	2,003,725
Less accumulated depreciation	<u>(1,476,068)</u>	<u>(1,332,982)</u>
Subtotal	718,780	670,743
Construction in progress	10,575	10,575
Net capital assets	<u>729,355</u>	<u>681,318</u>
Total noncurrent assets	<u>729,355</u>	<u>681,318</u>
Total assets	<u>1,163,332</u>	<u>1,148,781</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow related to TMRS	<u>193,473</u>	<u>240,503</u>
LIABILITIES		
Current liabilities		
Accounts payable	53,238	23,043
Accrued expenses	47,477	35,503
Due to other funds	45,637	25,166
Compensated absences	6,957	5,118
Total current liabilities	<u>153,309</u>	<u>88,830</u>
Noncurrent liabilities		
Compensated absences	62,616	46,061
Net pension liability	326,514	318,706
Total noncurrent liabilities	<u>389,130</u>	<u>364,767</u>
Total liabilities	<u>542,439</u>	<u>453,597</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow related to TMRS	<u>5,840</u>	<u>16,293</u>
NET POSITION		
Net investment in capital assets	718,780	670,743
Unrestricted net position	<u>89,746</u>	<u>248,651</u>
Total net position	<u>\$ 808,526</u>	<u>\$ 919,394</u>

CITY OF WHARTON, TEXAS

MAJOR ENTERPRISE FUND - EMERGENCY MEDICAL SERVICES
 SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN FUND NET POSITION
 BUDGET (GAAP BASIS) AND ACTUAL
 For the year ended September 30, 2017
 With comparative totals for the year ended September 30, 2016

	2017		Variance Positive (Negative)	2016
	Final Budget	Actual		Actual
OPERATING REVENUES				
Ambulance services	\$ 741,000	\$ 774,129	\$ 33,129	\$ 825,885
Other	-	227	227	-
Total operating revenues	<u>741,000</u>	<u>774,356</u>	<u>33,356</u>	<u>825,885</u>
OPERATING EXPENSES				
Emergency medical services				
Personnel	1,649,773	1,760,108	(110,335)	1,600,208
Materials and supplies	139,066	130,418	8,648	114,104
Repairs and maintenance	67,300	83,186	(15,886)	71,265
Other services and charges	138,178	144,136	(5,958)	145,920
Depreciation	120,000	143,085	(23,085)	135,580
Total operating expenses	<u>2,114,317</u>	<u>2,260,933</u>	<u>(146,616)</u>	<u>2,067,077</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	(1,373,317)	(1,486,577)	(113,260)	(1,241,192)
NONOPERATING REVENUES (EXPENSES)				
Noncapital grants and contributions	1,371,429	1,371,379	(50)	955,281
Investment income	300	2,742	2,442	995
Total nonoperating revenues (expenses)	<u>1,371,729</u>	<u>1,374,121</u>	<u>2,392</u>	<u>956,276</u>
Income (loss) before contributions and transfers	(1,588)	(112,456)	(110,868)	(284,916)
Contributions and transfers				
Capital grants and contributions	100,000	100,000	-	-
Transfers out	(98,412)	(98,412)	-	(98,412)
Total contributions and transfers	<u>1,588</u>	<u>1,588</u>	<u>-</u>	<u>(98,412)</u>
Change in net position	\$ -	(110,868)	\$ (110,868)	(383,328)
Net position at beginning of year		919,394		1,302,722
Net position at end of year		<u>\$ 808,526</u>		<u>\$ 919,394</u>

CITY OF WHARTON, TEXAS

MAJOR ENTERPRISE FUND - CIVIC CENTER

BALANCE SHEET

September 30, 2017

With comparative totals for September 30, 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 41,371	\$ 10,993
Receivables, net		
Accounts	54,095	39,345
Due from other funds	47,421	42,640
Due from other governments	1,911	1,911
Total current assets	<u>144,798</u>	<u>94,889</u>
Noncurrent assets		
Capital assets		
Machinery and equipment	239,884	228,375
Buildings and improvements	<u>2,117,951</u>	<u>2,078,439</u>
Total capital assets	2,357,835	2,306,814
Less accumulated depreciation	<u>(957,714)</u>	<u>(901,162)</u>
Subtotal	1,400,121	1,405,652
Construction in progress	<u>44,682</u>	<u>44,682</u>
Net capital assets	<u>1,444,803</u>	<u>1,450,334</u>
Total noncurrent assets	<u>1,444,803</u>	<u>1,450,334</u>
Total assets	<u>1,589,601</u>	<u>1,545,223</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	1,260	1,705
Deferred outflow related to TMRS	<u>27,738</u>	<u>33,616</u>
Total deferred outflows of resources	<u>28,998</u>	<u>35,321</u>

CITY OF WHARTON, TEXAS

MAJOR ENTERPRISE FUND - CIVIC CENTER

BALANCE SHEET

September 30, 2017

With comparative totals for September 30, 2016

	<u>2017</u>	<u>2016</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 10,809	\$ 3,441
Accrued expenses	3,722	3,563
Deposits	13,285	10,050
Accrued interest payable	2,260	2,629
Due to other funds	164,400	99,809
Compensated absences	236	94
Current portion of noncurrent liabilities		
Capital leases	3,349	2,086
General obligation bonds	24,000	23,500
Qualified energy conservation bonds	12,837	12,646
Total current liabilities	<u>234,898</u>	<u>157,818</u>
Noncurrent liabilities		
Compensated absences	2,123	850
Net pension liability	40,814	39,838
Capital leases	7,418	4,388
Bonds and certificates (net of unamortized deferred amounts)	267,683	305,332
Total noncurrent liabilities	<u>318,038</u>	<u>350,408</u>
Total liabilities	<u>552,936</u>	<u>508,226</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow related to TMRS	<u>4,098</u>	<u>5,405</u>
NET POSITION		
Net investment in capital assets	1,150,841	1,124,152
Unrestricted net position	(89,276)	(57,239)
Total net position	<u>\$ 1,061,565</u>	<u>\$ 1,066,913</u>

CITY OF WHARTON, TEXAS

MAJOR ENTERPRISE FUND - CIVIC CENTER

SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN FUND NET POSITION

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2017

With comparative totals for the year ended September 30, 2016

	2017			2016
	Final Budget	Actual	Variance Positive (Negative)	Actual
OPERATING REVENUES				
Civic center fees	\$ 55,000	\$ 60,066	\$ 5,066	\$ 61,431
Other	23,851	24,670	819	14,851
Total operating revenues	<u>78,851</u>	<u>84,736</u>	<u>5,885</u>	<u>76,282</u>
OPERATING EXPENSES				
Civic center operations				
Personnel	144,050	152,557	(8,507)	157,305
Materials and supplies	7,150	7,655	(505)	7,109
Repairs and maintenance	26,750	7,085	19,665	21,942
Other services and charges	31,715	31,913	(198)	46,557
Depreciation and amortization	48,000	56,998	(8,998)	42,754
Total operating expenses	<u>257,665</u>	<u>256,208</u>	<u>1,457</u>	<u>275,667</u>
Operating income (loss) before nonoperating revenues (expenses) and transfers	(178,814)	(171,472)	7,342	(199,385)
NONOPERATING REVENUES (EXPENSES)				
Noncapital grants and contributions	-	-	-	1,911
Investment income	75	38	(37)	7
Interest and fiscal charges	(8,687)	(7,313)	1,374	(9,479)
Total nonoperating revenues (expenses)	<u>(8,612)</u>	<u>(7,275)</u>	<u>1,337</u>	<u>(7,561)</u>
Income (loss) before transfers	(187,426)	(178,747)	8,679	(206,946)
Transfers				
Transfers in	173,399	173,399	-	168,724
Total transfers	<u>173,399</u>	<u>173,399</u>	<u>-</u>	<u>168,724</u>
Change in net position	\$ (14,027)	(5,348)	\$ 8,679	(38,222)
Net position at beginning of year		1,066,913		1,105,135
Net position at end of year		<u>\$ 1,061,565</u>		<u>\$ 1,066,913</u>

CITY OF WHARTON, TEXAS**MAJOR ENTERPRISE FUND - AIRPORT
BALANCE SHEET**

September 30, 2017

With comparative totals for September 30, 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 71,419	\$ 46,299
Receivables, net		
Accounts	42,933	12,222
Due from other funds	7,906	324,560
Due from other governments	50,000	75,780
Inventory	49,416	25,257
Total current assets	<u>221,674</u>	<u>484,118</u>
Noncurrent assets		
Capital assets		
Machinery and equipment	202,615	202,615
Land improvements	1,153,850	1,153,850
Buildings and improvements	4,412,345	3,927,636
Total capital assets	5,768,810	5,284,101
Less accumulated depreciation	<u>(1,326,794)</u>	<u>(1,208,449)</u>
Subtotal	4,442,016	4,075,652
Land	42,343	42,343
Construction in progress	6,857	94,877
Net capital assets	<u>4,491,216</u>	<u>4,212,872</u>
Total assets	<u>4,712,890</u>	<u>4,696,990</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	23,646	26,010
Total deferred outflows of resources	<u>23,646</u>	<u>26,010</u>
LIABILITIES		
Current liabilities		
Accounts payable	36,095	2,457
Accrued expenses	2,885	2,561
Deposits	300	300
Accrued interest payable	7,248	7,585
Due to other funds	79,014	12
Compensated absences	48	73
Current portion of noncurrent liabilities		
Certificates of obligation	38,146	37,096
Qualified energy conservation bonds	1,727	1,701
Total current liabilities	<u>165,463</u>	<u>51,785</u>
Noncurrent liabilities		
Compensated absences	427	659
Bonds and certificates (net of unamortized deferred amounts)	641,482	683,047
Total noncurrent liabilities	<u>641,909</u>	<u>683,706</u>
Total liabilities	<u>807,372</u>	<u>735,491</u>
NET POSITION		
Net investment in capital assets	3,840,281	3,841,598
Unrestricted net position	88,883	145,911
Total net position	<u>\$ 3,929,164</u>	<u>\$ 3,987,509</u>

CITY OF WHARTON, TEXAS

MAJOR ENTERPRISE FUND - AIRPORT

SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN FUND NET POSITION

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2017

With comparative totals for the year ended September 30, 2016

	2017			2016
	Final Budget	Actual	Variance Positive (Negative)	Actual
OPERATING REVENUES				
Airport fees	\$ 233,400	\$ 210,464	\$ (22,936)	\$ 211,211
Other	500	-	(500)	-
Total operating revenues	<u>233,900</u>	<u>210,464</u>	<u>(23,436)</u>	<u>211,211</u>
OPERATING EXPENSES				
Airport operations				
Personnel	83,856	95,578	(11,722)	80,307
Materials and supplies	4,600	4,601	(1)	3,436
Repairs and maintenance	20,000	40,509	(20,509)	21,615
Other services and charges	43,850	37,524	6,326	39,958
Depreciation and amortization	108,548	120,710	(12,162)	114,092
Total operating expenses	<u>260,854</u>	<u>298,922</u>	<u>(38,068)</u>	<u>259,408</u>
Operating income (loss) before nonoperating revenues (expenses)	(26,954)	(88,458)	(61,504)	(48,197)
NONOPERATING REVENUES (EXPENSES)				
Noncapital grants and contributions	50,000	50,000	-	75,780
Investment income	150	290	140	94
Interest and fiscal charges	(23,196)	(20,177)	3,019	(37,067)
Total nonoperating revenues (expenses)	<u>26,954</u>	<u>30,113</u>	<u>3,159</u>	<u>38,807</u>
Change in net position	\$ -	(58,345)	\$ (58,345)	(9,390)
Net position at beginning of year		<u>3,987,509</u>		<u>3,996,899</u>
Net position at end of year		<u>\$ 3,929,164</u>		<u>\$ 3,987,509</u>

SINGLE AUDIT SECTION



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**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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 3, 2018. 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 2017-1 and 2017-2, 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, LLP

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

October 3, 2018



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**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, 2017. 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, 2017.

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, LLP

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

October 3, 2018

CITY OF WHARTON, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended September 30, 2017

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
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	M1713WHRT
Highway Planning and Construction	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	DJ14-PY17
Total U.S. Department of Justice		
U. S. Department of Agriculture		
<i>Passed Through the Texas USDA Rural</i>		
<i>Development State Office</i>		
Water and Waste Disposal Systems for Rural Communities	10.760	N/A
Total U.S. Department of Agriculture		
U. S. Department of Homeland Security		
<i>Passed Through the Office of the Governor</i>		
<i>Division of Emergency Management</i>		
Homeland Security Grant Program	97.067	3050701
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			
\$ 116,716	\$ -	\$ 116,716	\$ -		
<u>116,716</u>	<u>-</u>	<u>116,716</u>	<u>-</u>		
50,000	-	50,000	-		
<u>523,565</u>	<u>-</u>	<u>523,565</u>	<u>-</u>	<i>Highway Planning and Construction Cluster</i>	
<u>523,565</u>	<u>-</u>	<u>523,565</u>	<u>-</u>		
<u>573,565</u>	<u>-</u>	<u>573,565</u>	<u>-</u>		
4,700	-	4,700	-		
<u>63,455</u>	<u>-</u>	<u>63,455</u>	<u>-</u>		
<u>68,155</u>	<u>-</u>	<u>68,155</u>	<u>-</u>		
30,000	-	30,000	-		
<u>30,000</u>	<u>-</u>	<u>30,000</u>	<u>-</u>		
56,530	-	56,530	-		
<u>56,530</u>	<u>-</u>	<u>56,530</u>	<u>-</u>		
<u>\$ 844,966</u>	<u>\$ -</u>	<u>\$ 844,966</u>	<u>\$ -</u>		

CITY OF WHARTON, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended September 30, 2017

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, 2017 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.

CITY OF WHARTON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended September 30, 2017

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>
20.205	Highway Planning and Construction

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 2017-1

Condition: Cash was not reconciled at year end and at various times during the year.

Criteria: Good internal controls must include reconciling cash accounts every month and in a timely manner.

Effect: Material errors were noted in the general ledger.

Recommendation: Cash reconciliations should be a priority every month and prepared in a timely manner. If unable to complete, assistance should be sought immediately before moving to the next month reconciliation.

Section II - Financial Statement Findings - (Continued)

Finding 2017-2

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 2017-1 in which timely bank reconciliations were not performed. Good internal controls must include reconciling cash accounts in a timely manner.

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, 2017

The City will implement procedures to insure that all bank reconciliations are completed in a timely manner to provide management with accurate financial data. As a result of timely bank 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, 2017

Not Applicable